

**Public Utility District No. 1  
of Jefferson County, Washington  
December 31, 2019**  
Report to the Board of Commissioners

The Board of Commissioners  
Public Utility District No. 1 of Jefferson County, Washington  
Port Townsend, Washington

We are pleased to present this report related to our audit of the financial statements and compliance of Public Utility District No. 1 of Jefferson County, Washington (the District) for the year ended December 31, 2019. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for Public Utility District No. 1 of Jefferson County, Washington's financial reporting and compliance process.

This report is intended solely for the information and use of the Board of Commissioners and management, and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to you.

*Jackson Thornton & Co. PC*

Franklin, Tennessee  
March 18, 2020

## Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance*) require the auditor to promote effective two way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process and compliance process.

### **Our Responsibilities with Regard to the Financial Statement Audit**

Our responsibility under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States of America has been described to you in our engagement letter (Exhibit A). Our audit of the financial statements does not relieve management of those charged with governance of their responsibilities, which are also described in that letter.

### **Overview of the Planned Scope and Timing of the Financial Statement Audit**

We have issued a separate communication dated December 31, 2019 regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.

### **Accounting Policies and Practices**

#### **Preferability of Accounting Policies and Practices**

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

#### **Adoption of, or Change in, Accounting Policies**

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District. The District did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period.

#### **Significant or Unusual Transactions**

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### **Management's Judgments and Accounting Estimates**

Management has informed us that there are no particularly sensitive accounting estimates.

### **Accounting Principles Generally Accepted in the United States of America**

The financial statements were prepared on the assumption that the District will continue as a going concern.

### **Audit Adjustments**

There were no audit adjustments made to the original trial balance presented to us to begin our audit.

### **Uncorrected Misstatements**

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

### **Disagreements with Management**

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

**Consultations with Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

**Significant Issues Discussed with Management**

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

**Significant Difficulties Encountered in Performing the Audit**

We did not encounter any significant difficulties in dealing with management during the audit.

**Significant Written Communications between Management and our Firm**

Copies of significant written communications between our Firm and the management of the District, including the representation letter provided to us by management, are attached (Exhibit B).

# Exhibit A

# JACKSON THORNTON

Certified Public Accountants  
& Consultants

December 5, 2019

Jefferson County Public Utility District  
Mr. Kevin Streett, General Manager  
310 Four Corners Road  
Port Townsend, Washington 98368

Re: Engagement arrangements for audit services  
as of and for the year ending December 31,  
2019

Dear Mr. Streett:

## **The Objective and Scope of the Audit of the Financial Statements**

You have requested that we audit the basic financial statements of Jefferson County Public Utility District (the District), for the period indicated above. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

Our audit will be conducted with the objective of our expressing an opinion on the basic financial statements and, if applicable, an opinion on supplementary information other than required supplementary information in relation to the financial statements as a whole.

## **The Responsibilities of the Auditor**

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards* issued by the Comptroller General of the United States (GAS). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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. 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.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. The determination of abuse is subjective; therefore, GAS does not expect us to provide reasonable assurance of detecting abuse.

In making our risk assessments, we consider 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. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

We will also communicate to the audit committee or its equivalent (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements that becomes known to us during the audit, and (b) any instances of noncompliance with laws and regulations that we become aware of during the audit (unless they are clearly inconsequential).

The funds that you have told us are maintained by the District and that are to be included as part of our audit are listed here:

Electric Division  
Water Division  
Administrative Division

There are no component units whose financial statements you have told us will be omitted from the basic financial statements.

Our report on internal control will include any significant deficiencies and material weaknesses in controls of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with requirements of the standards identified above. Our report on compliance matters will address material errors, fraud, abuse, violations of compliance obligations, and other responsibilities imposed by state and federal statutes and regulations or assumed by contracts of which we become aware, consistent with requirements of the standards identified above.

#### **The Responsibilities of Management and Identification of the Applicable Financial Reporting Framework**

Our audit will be conducted on the basis that management and when appropriate those charged with governance, acknowledge and understand that they have responsibility:

1. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP);
2. To evaluate subsequent events through the date the financial statements are issued or available to be issued, and to disclose the date through which subsequent events were evaluated in the financial statements. Management also agrees that it will not evaluate subsequent events earlier than the date of the management representation letter referred to below;
3. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;

4. For establishing and maintaining effective internal control over financial reporting and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge;
5. For report distribution; and
6. To provide us with:
  - a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
  - b. Additional information that we may request from management for the purpose of the audit.
  - c. Unrestricted access to persons within the District from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management and when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit including among other items:

1. That management has fulfilled its responsibilities as set out in the terms of this letter; and
2. That it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management and when appropriate, those charged with governance are responsible for identifying and ensuring that the District complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud or abuse, and for informing us about all known or suspected fraud or abuse affecting the District involving management, employees who have significant roles in internal control, and others where the fraud or abuse could have a material effect on the financial statements or compliance. Management is also responsible for informing us of its knowledge of any allegations of fraud or abuse, or suspected fraud or abuse, affecting the District received in communications from employees, former employees, analysts, regulators or others.

If supplementary information is presented management is responsible for the preparation in accordance with GAAP. Management agrees to include the auditor's report on the supplementary information in any document that contains the supplementary information and that indicates that the auditor has reported on such supplementary information. Management also agrees to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

The audit committee or its equivalent is responsible for informing us of its views about the risks of fraud or abuse within the District, and its knowledge of any fraud or abuse or suspected fraud or abuse affecting the District.

Our association with an official statement is a matter for which a separate engagement will be necessary. The District agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when the District seeks such consent, we will be under no obligation to grant such consent or approval.

The District agrees that it will not associate us with any public or private securities offering without first obtaining our consent. Therefore, the District agrees to contact us before it includes our reports or otherwise makes reference to us, in any public or private securities offering.

Because Jackson Thornton & Co., P.C. will rely on the District and its management and audit committee to discharge the foregoing responsibilities, the District agrees to hold Jackson Thornton & Co., P.C., and its principals, shareholders, officers, and employees harmless and to release, indemnify, and defend us from any and all claims, liabilities, losses, and costs, including attorney fees, arising in circumstances where there has been a knowing misrepresentation or withholding of information by a member of the District's management regardless of whether such person was acting in the District's interest. This indemnification will survive the termination of the engagement for services.

#### **Records and Assistance**

If circumstances arise relating to the condition of the District's records, the availability of appropriate audit evidence, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment, prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion, issue a report, or withdraw from the engagement.

During the course of our engagement, we may accumulate records containing data that should be reflected in the District's books and records. The District will determine that all such data, if necessary, will be so reflected. Accordingly the District will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by the District's personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with Mike Bailey, Financial Services Manager. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

In connection with our audit, you have requested us to perform certain non-audit services necessary for the preparation of the financial statements, including (e.g. maintaining depreciation schedules, computing the provision for income taxes, cash to accrual conversions or other accounting adjustments, reconciliations, drafting the financial statements, etc.). The GAS independence standards require that the auditor maintain independence so that opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by reasonable and informed third-parties. Before we agree to provide a non-audit service to the District, we determine whether providing such a service would create a significant threat to our independence for GAS audit purposes, either by itself or in aggregate with other non-audit services provided. A critical component of our determination is consideration of management's ability to effectively oversee the non-audit service to be performed. The District has agreed that Mike Bailey, Financial Services Manager, possesses suitable skill, knowledge, or experience and that the individual understands the non-audit services to be performed sufficiently to oversee them.

Accordingly, the management of the District agrees to the following:

1. The District has designated Mike Bailey, Financial Services Manager, a senior member of management, who possesses suitable skill, knowledge, and experience to oversee the services.

2. Mike Bailey, Financial Services Manager, will assume all management responsibilities for subject matter and scope of the non-audit services.
3. The District will evaluate the adequacy and results of the services performed.
4. The District accepts responsibility for the results and ultimate use of the services.

GAS further requires we establish an understanding with the management and those charged with governance of the District of the objectives of the non-audit service, the services to be performed, the District's acceptance of its responsibilities, the auditor's responsibilities, and any limitations of the non-audit service. We believe this letter documents that understanding.

**Other Relevant Information**

Jackson Thornton & Co., P.C. may mention the District's name and provide a general description of the engagement in Jackson Thornton's client lists and marketing materials.

From time to time and depending upon the circumstances, we may use third-party service providers to assist us in providing professional services to you. In such circumstances, it may be necessary for us to disclose confidential client information to them. We enter into confidentiality agreements with all third-party service providers and we are satisfied that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others.

George F. Lynch is the engagement partner and is responsible for supervising the engagement and authorizing the signing of the report by the Firm.

In accordance with GAS, a copy of our most recent peer review report is attached for your information.

**Fees, Costs, and Access to Workpapers**

Our fees for these services will be billed periodically as the work progresses. Such bills are payable on presentation and a late charge of 1½ % per month will be imposed for any portion of the billed amount not paid within 30 days of the bill date. We reserve the right to suspend our work and/or to terminate our engagement if any bill is not paid in full within 30 days of the bill date. In the event of suspension of our work or termination of our engagement, such work shall not be resumed and such engagement shall not be reinstated, as the case may be, until the account balance and all late charges are paid in full. The District agrees to pay our attorneys' fees and costs incurred in connection with any lawsuit, arbitration or other effort to recover fees due from you on this engagement.

Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever a principal or professional employee leaves the Firm and is subsequently employed by or associated with a client in a key position. Accordingly, the District agrees it will compensate Jackson Thornton & Co., P.C. for any additional costs incurred as a result of the District's employment of a principal or professional employee of Jackson Thornton & Co., P.C.

If the District desires to employ one of our current employees or one of our previous employees whose termination date is within three months of the date services were provided to you by us, you agree that we have the option to receive a reasonable placement fee from you, in an amount determined by us not exceeding 40% of the employee's annual compensation.

This engagement letter and any dispute or claim arising out of or relating thereto will be governed by and construed in accordance with the laws of the State of Alabama without regard to provisions concerning conflicts of laws. All litigation or other legal proceedings must be brought in either the Montgomery County, Alabama Circuit Court or the United States District Court for the Middle District of Alabama, Northern Division. The parties agree to this choice of law, jurisdiction, and venue, and waive any defense of an inconvenient forum. The parties also waive trial by jury and agree that any dispute or claim should be resolved by a judge without a jury.

In the event we are requested or authorized by the District or are required by government regulation, subpoena, or other legal process to produce documents or our personnel as witnesses with respect to or arising out of our engagements for the District, the District will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our legal counsel, incurred in responding to such requests, subpoena, deposition notice, or other legal process.

The documentation for this engagement is the property of Jackson Thornton & Co., P.C. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit documentation upon their request and that we shall maintain the audit documentation for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested documentation will be provided under the supervision of Jackson Thornton & Co., P.C.'s audit personnel and at a location designated by our Firm.

#### **Claim Resolution**

It is agreed by the District and Jackson Thornton & Co., P.C. or any successors in interest that no claim by or on behalf of either party arising out of services rendered pursuant to this agreement by or on behalf of the District shall be asserted more than two years after the date of the last report of the District issued by Jackson Thornton & Co., P.C.

Jackson Thornton & Co., P.C.'s liability for all claims, damages, and costs of the District arising from this engagement is limited to the amount of fees paid by the District to Jackson Thornton & Co., P.C. for the services rendered under this engagement letter. The District agrees that in no event shall Jackson Thornton & Co., P.C. be liable for any incidental, consequential, special, indirect, punitive or third-party damages or claims, regardless of whether the form of action is based upon breach of warranty, breach of contract, negligence, strict liability and tort or any other legal theory.

We and the District each acknowledge that there are risks involved with communicating and storing data via electronic means. Accordingly, to the fullest extent permitted by law, we and the District each waive and acknowledge that neither party shall have any claim against the other based upon, relating to, or arising from the use of electronic systems (including, but not limited to, email and cloud computing systems). Without limiting the generality of the foregoing, neither party shall be liable for any damages arising from any and all data breaches, the delivery of communications, data, or documents to unintended recipients, or the interception or viewing of communications, data, or documents by unintended or unauthorized individuals or entities.

We may terminate our services under this engagement letter immediately in our sole discretion if we determine that continued performance would result in a violation of law, regulatory requirements, applicable professional standards or our client acceptance or retention standards.

You may not assign this engagement letter to any other party without our prior written consent. This engagement letter will be binding on our and your respective successors and permitted assigns. There are no third-party beneficiaries to this engagement letter.

If any term or provision of this agreement is determined to be invalid or unenforceable, such term or provision will be deemed stricken, and all other terms and provisions will remain in full force and effect.

### **Reporting**

We will issue a written report upon completion of our audit of the District's financial statements. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis of matter or other matter paragraphs, or withdraw from the engagement.

In addition to our report on the District's financial statements, we will also issue the following types of reports:

1. Report on internal control related to the financial statements. This report will describe the scope of testing of internal control and the results of our tests of internal controls.
2. Report on compliance with laws, regulations, and the provisions of contracts or grant agreements. We will report on any noncompliance which could have a material effect on the financial statements.

### **Electronic Signatures and Counterparts**

Each party hereto agrees that any electronic signature of a party to this agreement or any electronic signature to a document contemplated hereby (including any representation letter) is intended to authenticate such writing and shall be as valid, and have the same force and effect, as a manual signature. Any such electronically signed document shall be deemed (i) to be "written" or "in writing," (ii) to have been signed and (iii) to constitute a record established and maintained in the ordinary course of business and an original written record when printed from electronic files. Each party hereto also agrees that electronic delivery of a signature to any such document (via email or otherwise) shall be as effective as manual delivery of a manual signature. For purposes hereof, "electronic signature" includes, but is not limited to, (i) a scanned copy (as a "pdf" (portable document format) or other replicating image) of a manual ink signature, (ii) an electronic copy of a traditional signature affixed to a document, (iii) a signature incorporated into a document utilizing touchscreen capabilities or (iv) a digital signature. This agreement may be executed in one or more counterparts, each of which shall be considered an original instrument, but all of which shall be considered one and the same agreement. Paper copies or "printouts," of such documents if introduced as evidence in any judicial, arbitral, mediation or administrative proceeding, will be admissible as between the parties to the same extent and under the same conditions as other original business records created and maintained in documentary form. Neither party shall contest the admissibility of true and accurate copies of electronically signed documents on the basis of the best evidence rule or as not satisfying the business records exception to the hearsay rule, statute of frauds, or any other evidentiary objection or theory premised upon the execution and/or delivery of the document by electronic means.

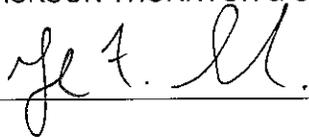
Any and all documents executed by electronic signatures shall be retained in a readily accessible format in accordance with the respective party's document retention policy. In the event that either party shall lose or otherwise be unable to produce its original document, such party may request the other party to produce the original document in whatever format it is currently stored, and reimburse the producing party for its cost and expense incurred in providing such documents.

**Confirmation of Agreement**

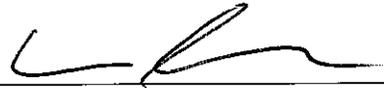
This engagement letter constitutes the complete and exclusive statement of agreement between Jackson Thornton & Co., P.C. and the District, superseding all proposals, oral or written, and all other communications, with respect to the terms of the engagement between the parties.

Please sign and return this engagement letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities. A copy is attached for your records.

JACKSON THORNTON & CO., P.C.

  
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Confirmed on behalf of the addressee:

  
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## REPORT ON THE FIRM'S SYSTEM OF QUALITY CONTROL

To the Shareholders  
Jackson Thornton & Co., P. C.  
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Jackson Thornton & Co., P. C. (the firm) in effect for the year ended February 28, 2018. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### **Firm's Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **Peer Reviewer's Responsibility**

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

### **Required Selections and Considerations**

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans, and an examination of a service organization (Service Organization Control (SOC) 1 engagement).

As part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

## Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Jackson Thornton & Co., P. C. for the year ended February 28, 2018, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Jackson Thornton & Co., P. C. has received a peer review rating of *pass*.

*PB Maret, LLP*

Harrisonburg, Virginia  
July 26, 2018

## Exhibit B



Board of Commissioners:

Jeff Randall, District 1  
Kenneth Collins, District 2  
Dan Toepper, District 3

Kevin Streett, General Manager

March 18, 2020

Jackson Thornton & Co., P.C.  
730 Cool Springs Blvd. Suite 100  
Franklin, Tennessee 37067

This representation letter is provided in connection with your audit of the financial statements of the Public Utility District No.1 of Jefferson County (the District) which comprise the statement of net position as of December 31, 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements for the purpose of expressing an opinion on whether the financial statements are prepared fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of the date of this letter:

#### **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated December 5, 2019, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable, and reflect our judgment based on knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of actions we expect to take.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of U.S. GAAP.
8. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.
9. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are subject to the requirements of the Single Audit Act because we have received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit. We are responsible for making arrangements to have the necessary categorical program or organization-wide single audit or audits performed.
10. We have no knowledge of any uncorrected misstatements in the financial statements.
  
11. We have reviewed journal entries proposed by you and understand the nature of the proposed entries and the effect the entries have on the financial statements. The journal entries will be posted to the entity's accounts.

### *Information Provided*

12. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. All minutes of the meetings of the Board of Commissioners or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. All transactions have been recorded in the accounting records and are reflected in the financial statements.
14. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
15. We have no knowledge of allegations of fraud or suspected fraud, affecting the Board's financial statements involving:
  - a. Management.
  - b. Employees who have significant roles in the internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
16. We have no knowledge of any allegations of fraud or suspected fraud affecting the Utilities' financial statements received in communications from employees, former employees, or others.
17. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
18. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.

19. We have disclosed to you the identity of the District's' related parties and all the related-party relationships and transactions of which we are aware.
20. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the District's ability to record, process, summarize, and report financial data.
21. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

### *Supplementary Information*

22. With respect to the schedule of changes in the net pension liability and the schedule of employer contributions, presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:
  - a. We acknowledge our responsibility for the presentation of such required supplementary information.
  - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
23. During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm that management:

1. Is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the auditee.
2. Has identified no instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
3. Has identified no instances that have occurred, or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
4. Has identified no instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
5. Is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
6. Has a process to track the status of audit findings and recommendations.
7. Has identified for the auditor previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
8. Acknowledges its responsibilities as it relates to nonaudit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferable within senior management, who possesses suitable skill,

knowledge, or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.

Public Utility District No. 1 of Jefferson County

A handwritten signature in blue ink, appearing to read 'Kevin Streett', written over a horizontal line.

Kevin Streett, GM

A handwritten signature in blue ink, appearing to read 'Mike Bailey', written over a horizontal line.

Mike Bailey, Financial Services Manager

## Independent Auditor's Report

The Board of Commissioners  
Public Utility District No. 1 of Jefferson County, Washington  
Port Townsend, 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 Jefferson County, Washington (the District), which comprise the statement of net position as of December 31, 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 18, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2020, 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. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service (RUS) Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they related to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they related to accounting matters. In connection with our audit, we noted no matters regarding the District's accounting and records to indicate that the District did not:

- Maintain adequate and effective accounting procedures.
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts.
- Reconcile continuing property records to the controlling general ledger plant accounts.
- Clear construction accounts and accrue depreciation on completed construction.
- Record and properly price the retirement of plant.

- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap.
- Maintain adequate control over materials and supplies.
- Prepare accurate and timely Financial and Operating Reports as described in 7 CFR 1773.33(e)(2)(ii).
- Obtain written RUS approval to enter into any contract, agreement or lease with an affiliate as defined in 7 CFR 1773.33(e)(2)(i).
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles.
- Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the Board of Commissioners, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Jackson Shernton & Co. PC*

Franklin, Tennessee  
March 18, 2020