

Cascade Municipal Utilities

Communications Letter

June 30, 2023



**Cascade Municipal Utilities
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Report on Matters Identified as a Result of the Audit of the Basic Financial Statements

The Board of Trustees
Cascade Municipal Utilities
Cascade, Iowa

In planning and performing our audit of the basic financial statements of the Cascade Municipal Utilities as of and for the year ended June 30, 2023, 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, we considered the Utility's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

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 have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the Utility's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. The significant deficiency identified is stated within this letter.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated December 13, 2023, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for the he Board of Trustees and management and others within the Utility and state oversight agencies the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

BerganKDV, Ltd.

Minneapolis, Minnesota
December 13, 2023

Cascade Municipal Utilities Significant Deficiency

Lack of Segregation of Accounting Duties

During the year ended June 30, 2023, Cascade Municipal Utilities had a lack of segregation of accounting duties due to a limited number of office employees. The lack of segregation of accounting duties could adversely affect Cascade Municipal Utilities ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements. Adequate segregation of accounting duties is in place when the following four areas of a transaction have been separated: authorization, custody, recording, and reconciliation. Examples of functions within Cascade Municipal Utilities that demonstrate this lack of segregation of accounting duties include, but are not limited to, the following:

- Cash Disbursements – The Utility Manager inputs the purchases into the system, prints the checks, and reconciles the bank account.
- Cash Receipts – The Utility Manager is responsible for collecting receipts, recording receipts, making bank deposits, and preparing the bank reconciliations.
- Utility Billing Process – The Utility Manager imports the meter readings in customer accounts, creates, sends, and tracks the bills, and receives payments. The Utility Manager also has access to make adjustments to the billing system.
- Payroll – The Utility Manager is responsible for entering the time and pay rate information into the payroll system and processes payroll. The Utility Manager is also responsible for the bank reconciliation and making the related payroll deduction payments.
- Financial Reporting – The Utility Manager is responsible for month-end and year-end reconciliations and reporting and has full access to the accounting system including the ability to make adjustments.

Management and the Board of Trustees are aware of this condition and have taken certain steps to compensate for the lack of segregation. However, due to the number of staff needed to properly segregate all of the accounting duties, the costs of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. However, management and the Board of Trustees must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

Cascade Municipal Utilities Required Communication

We have audited the cash basis basic financial statements of the Utility as of and for the year ended June 30, 2023. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Basic Financial Statement Audit

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the basic financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the basic financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the basic financial statements are free of material misstatement. An audit of the basic financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Utility solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Our responsibility for the supplementary information accompanying the basic financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the basic financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Our responsibility with respect to the other information in documents containing the audited basic financial statements and auditor's report does not extend beyond the basic financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information was not audited, and we do not express an opinion or provide any assurance on it.

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the Utility 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 basic financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions

Cascade Municipal Utilities Required Communication

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We have identified the following significant risks of material misstatement:

- Management Override of Controls – Overall Financial Statements – Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.
- Improper Revenue Recognition – Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the governments operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources including property taxes, charges for services, and state aid.
- Risk of Misappropriation of Assets – If accounting duties cannot be appropriately segregated, there is a risk of unauthorized disbursements being made from the Utility.

Qualitative Aspects of the Utility's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Utility is included in the notes to basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimate affecting the basic financial statements relate to:

Expense Allocation – The Utility is currently allocating salaries among the Electric Fund and Gas Fund. The costs are allocated based on management's estimates.

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Cascade Municipal Utilities Required Communication

Qualitative Aspects of the Utility's Significant Accounting Practices (Continued)

Financial Statement Disclosures

Certain basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the basic financial statements as a whole, and each applicable opinion unit. Management did not identify, and we did not notify them of any uncorrected financial statement misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the basic financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Utility's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Utility, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating, and regulatory conditions affecting the Utility, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Utility's auditor.

Cascade Municipal Utilities Required Communication

Noncompliance with Laws and Regulations, Violations of Contract Provisions or Grant Agreements

- The Utility's expenditures were over budgeted amounts for the Business-type activities disbursements.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the Utility's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

We were not engaged to report on the other information accompanying the basic financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

Cascade Municipal Utilities Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the Utility for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance. We suggest you review each graph and document if our analysis is consistent with yours.

Enterprise Funds

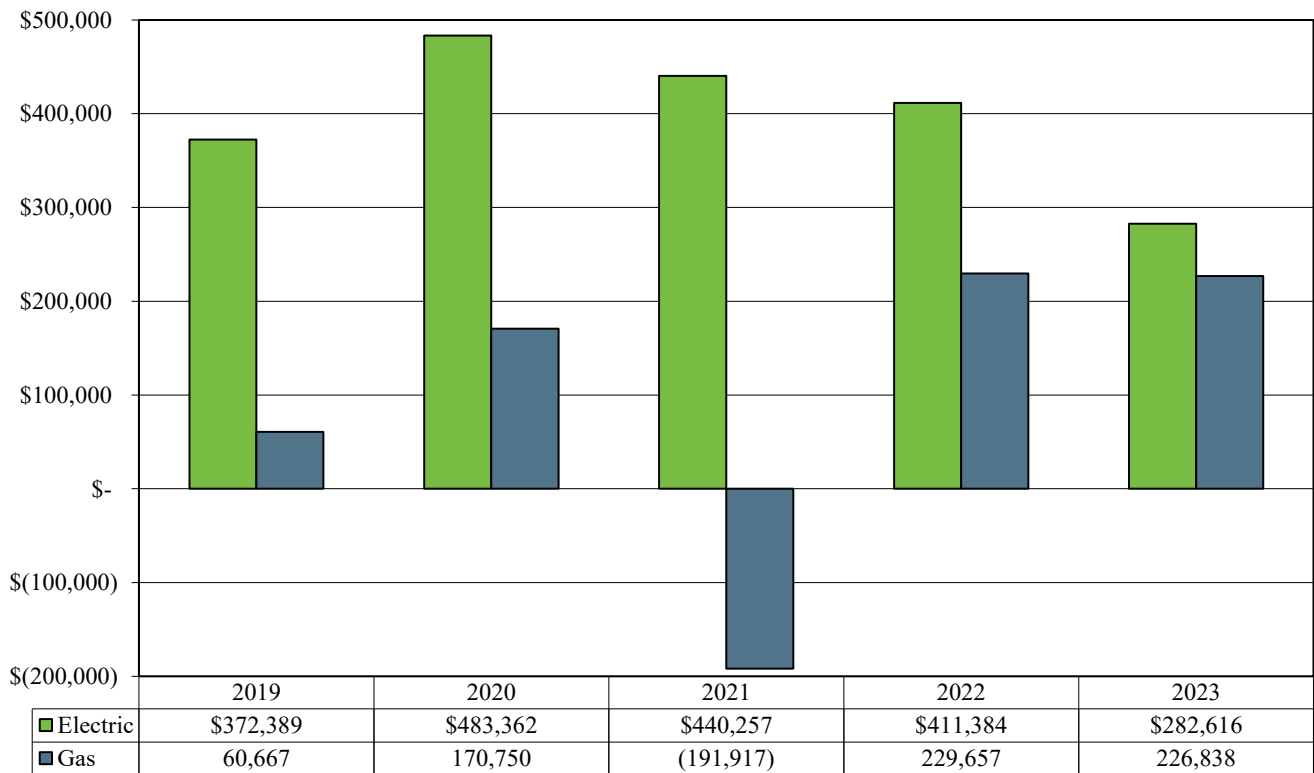
The following graph shows the operating income for the Enterprise Funds for the last five years.

In 2023, the Electric Fund had an operating income of \$282,616, which is a decrease of \$128,768 from 2022. This decrease in operating income was due to increased purchased power costs while revenues stayed consistent with 2022.

In 2023, the Gas Fund had an operating income of \$226,838, which is a decrease of \$2,819 from 2022.

We recommend the Utility continue to monitor operating costs in the Enterprise Funds to ensure rates are sufficient to provide continued operating income and to cover capital needs.

Operating Income (Loss) - Enterprise Funds

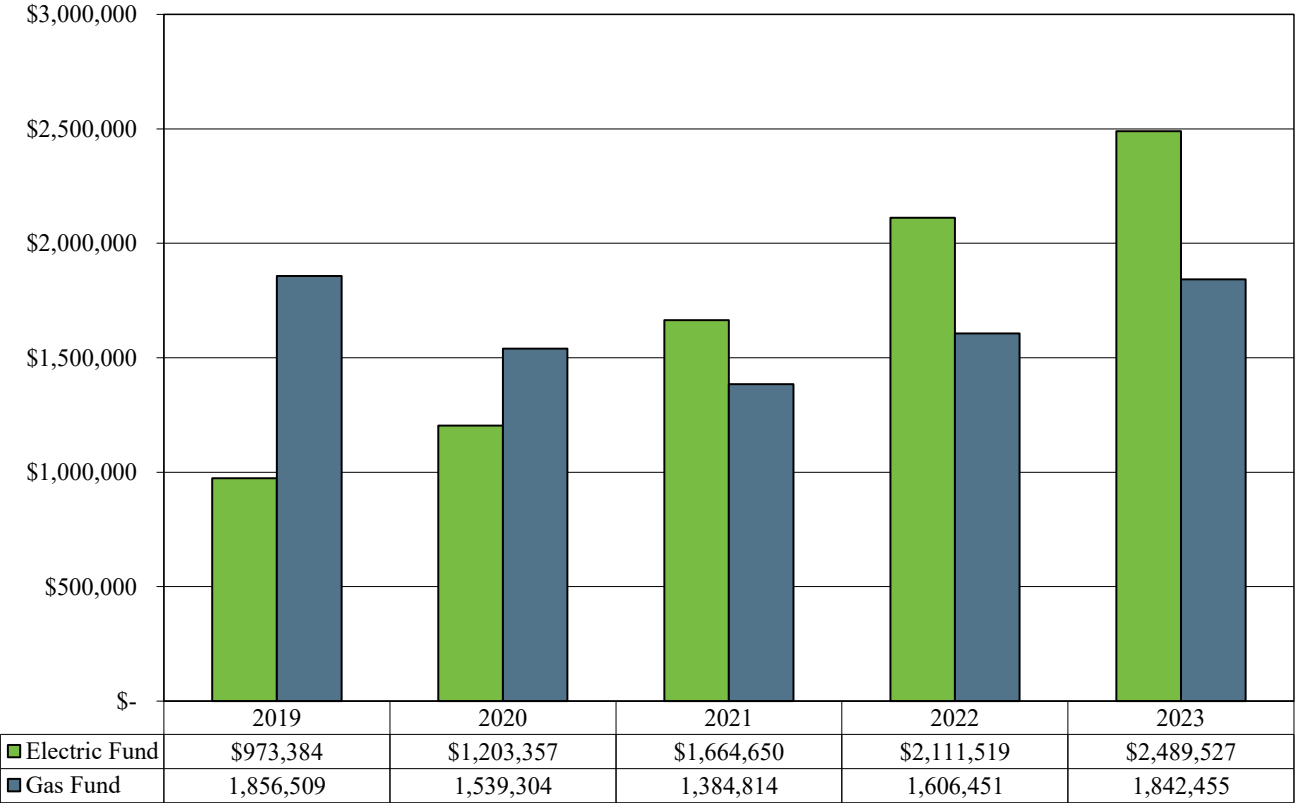


**Cascade Municipal Utilities
Financial Analysis**

Enterprise Funds (Continued)

The following graph illustrates the total cash and cash equivalents for the Enterprise Funds for the last five years.

Enterprise Fund Cash Position



Cash balances for the Electric Fund increased for all years presented due to overall operations in 2023. Cash balances for the Gas Fund increased during the year due to increased usage and positive operations.