



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE _____

January 22, 2003

Contact: Andy Nielsen
515/281-5515

The Office of Auditor of State today released an audit report on the Cascade Municipal Utilities, Cascade, Iowa.

The Utilities' receipts totaled \$1,875,192, for the year ended June 30, 2002. The receipts included \$1,721,240 in charges for service and \$25,737 in interest on investments. The Cascade Municipal Utilities also had note proceeds of \$962,810 that are reported as an other financing source.

Disbursements for the year totaled \$2,550,306, which included \$1,139,197 for electric operations and \$629,292 for gas operations.

A copy of the audit report is available for review in the office of the Auditor of State and the Utilities' office.

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CASCADE MUNICIPAL UTILITIES
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2002

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Cascade Municipal Utilities

Officials

<u>Term Name</u>	<u>Title</u>	<u>Expires</u>
(Before April 2002)		
Clay Gavin	Trustee/Chairman	Apr 2006
F. Roland Greenwood	Trustee	Apr 2002
Larry Volk	Trustee	Apr 2004
(After April 2002)		
Clay Gavin	Trustee/Chairman	Apr 2006
Larry Volk	Trustee	Apr 2004
Ronald Benke	Trustee	Apr 2008
Fred Kremer	Superintendent of Operations	Indefinite
Randy Lansing	Utility Manager	Indefinite
William G. Blum	Attorney	Indefinite

Cascade Municipal Utilities



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Independent Auditor's Report

To the Board of Trustees of the
Cascade Municipal Utilities:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the Cascade Municipal Utilities, Cascade, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of Utilities' officials. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in note 1, the financial statements of the Cascade Municipal Utilities are intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Cascade that is attributable to the transactions of the Utilities. Also, as permitted by the Code of Iowa, the accounting records of the Utility have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2001, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the Cascade Municipal Utilities as of and for the year ended June 30, 2002, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2002 on our consideration of the Cascade Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of an audit.

Our audit was made for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 1, 2002

Cascade Municipal Utilities

Financial Statements

Exhibit A

Cascade Municipal Utilities
Combined Statement of Cash Transactions
All Fund Types
Year ended June 30, 2002

	<u>Proprietary Fund Type Enterprise</u>
Receipts:	
Use of money and property	\$ 28,619
Charges for service	1,721,240
Miscellaneous	<u>125,333</u>
Total receipts	1,875,192
Disbursements:	
Home and Community Environment Program	<u>2,550,306</u>
Deficiency of receipts under disbursements	<u>(675,114)</u>
Other financing sources (uses):	
Note proceeds, net of \$17,190 discount	962,810
Operating transfers in	195,223
Operating transfers out	<u>(195,223)</u>
Total other financing sources (uses)	<u>962,810</u>
Excess of receipts and other financing sources over disbursements and other financing uses	287,696
Balance beginning of year	<u>580,388</u>
Balance end of year	<u>\$ 868,084</u>

See notes to financial statements.

Cascade Municipal Utilities

Comparison of Receipts, Disbursements and Changes in Balances -
Actual to Budget

Year ended June 30, 2002

	Actual	Budget	Variance Favorable (Unfavorable)	Net as % of Budget
Receipts:				
Use of money and property	\$ 28,619	28,500	119	100%
Charges for service	1,721,240	1,764,500	(43,260)	97%
Miscellaneous	125,333	46,500	78,833	269%
Total receipts	<u>1,875,192</u>	<u>1,839,500</u>	35,692	101%
Disbursements:				
Home and Community Environment Program	<u>2,550,306</u>	<u>2,688,212</u>	137,906	95%
Deficiency of receipts under disbursements	(675,114)	(848,712)		
Other financing sources, net	<u>962,810</u>	<u>850,000</u>		
Excess of receipts and other financing sources over disbursements and other financing uses	287,696	1,288		
Balance beginning of year	<u>580,388</u>	<u>600,000</u>		
Balance end of year	<u><u>\$ 868,084</u></u>	<u><u>601,288</u></u>		

See notes to financial statements.

Cascade Municipal Utilities
Statement of Indebtedness
Year ended June 30, 2002

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue notes: Electric	Dec 1, 2001	3.50 -5.00%	\$ 980,000

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
-	980,000	55,000	925,000	21,847

Cascade Municipal Utilities
Notes to Financial Statements
June 30, 2002

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Cascade Municipal Utilities is a component unit of the City of Cascade, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utilities is governed by a three-member board of trustees appointed by the City Council, which exercises oversight responsibility under this criteria.

B. Fund Accounting

The accounts of the Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balance. The various funds are classified as Enterprise Funds in the financial statements. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

C. Basis of Accounting

The Cascade Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

The Cascade Municipal Utilities prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

(2) Cash and Pooled Investments

The Utilities' deposits in banks at June 30, 2002 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of

the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3.

(3) Notes Payable

Annual debt service requirements to maturity for revenue notes are as follows:

Year Ending une 30,	Interest Rate	Electric Revenue Notes	
		Principal	Interest
2003	3.75%	\$ 65,000	41,925
2004	4.00	70,000	39,487
2005	4.15	75,000	36,687
2006	4.40	75,000	33,575
2007	4.50	80,000	30,275
2008	4.50	85,000	26,675
2009	4.60	85,000	22,850
2010	4.70	90,000	18,940
2011	4.80	95,000	14,710
2012	4.90	100,000	10,150
2013	5.00	105,000	5,250
Total		<u>\$ 925,000</u>	<u>280,524</u>

The resolution providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the electric utility and the note holders hold a lien on the future earnings of the utility.
- (b) Sufficient monthly transfers shall be made to an electric revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) Additionally \$98,000 has been set aside from the note proceeds to create a principal and interest reserve account. These funds are set aside for the purpose of making principal and interest payments when funds are not sufficient in the sinking account.

The Utilities has established the sinking and reserve accounts required by the note resolution and has complied with the related provisions.

(4) Intergovernmental Loan to the City of Cascade

On March 8, 1993, the Cascade Municipal Utilities loaned \$150,000 to the City. The loan is to be repaid in ten annual installments of \$15,000 beginning March 1, 1994. The loan bears no interest and shall be repaid in full by March 1, 2003. The unpaid balance at June 30, 2002 is \$15,000.

(5) Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utilities' contribution to IPERS for the year ended June 30, 2002 was \$11,584, equal to the required contributions for the year.

(6) Compensated Absences

Utilities' employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utilities until used or paid. The Utilities' approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2002, totaled \$15,000. This liability has been computed based on rates of pay in effect at June 30, 2002.

(7) Risk Management

The Cascade Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks had not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Construction Commitments

The Cascade Municipal Utilities entered into construction contracts totaling \$952,984 for switchgear construction and installation. During the year ended June 30, 2002, the utility paid \$542,048 on the contracts, leaving an unpaid balance of \$410,936. The balance will be paid as work on the project progresses.

Supplemental Information

Cascade Municipal Utilities
 Combining Schedule of Cash Transactions
 Enterprise Funds
 Year ended June 30, 2002

	Electric
Receipts:	
Use of money and property:	
Interest on investments	\$ 24,265
Rent	2,882
	27,147
Charges for service:	
Electric sales	1,124,618
Gas sales	-
Work done for others	13,371
Penalty	1,765
	1,139,754
Miscellaneous:	
Refunds and reimbursements	23,100
Accrued interest on sale of revenue notes	485
City loan repayment	15,000
Miscellaneous	21,478
	60,063
Total receipts	1,226,964
Disbursements:	
Home and Community Environment Program:	
Administration:	
Personal services	176,202
Contractual services	56,141
Commodities	5,879
Capital outlay	73,633
	311,855
Plant operation and transmission:	
Personal services	6,064
Purchased power	690,435
Commodities	85,784
Capital outlay	2,554
	784,837

Gas	Payroll	Electric Sinking	Electric Reserve	Switchgear Project	Total
1,472	-	-	-	-	25,737
-	-	-	-	-	2,882
1,472	-	-	-	-	28,619
-	-	-	-	-	1,124,618
578,818	-	-	-	-	578,818
1,738	-	-	-	-	15,109
930	-	-	-	-	2,695
581,486	-	-	-	-	1,721,240
-	-	-	-	-	23,100
-	-	-	-	-	485
-	-	-	-	-	15,000
12,082	53,188	-	-	-	86,748
12,082	53,188	-	-	-	125,333
595,040	53,188	-	-	-	1,875,192
80,228	56,606	-	-	-	313,036
33,039	-	-	-	-	89,180
1,485	-	-	-	-	7,364
22,722	-	-	-	-	96,355
137,474	56,606	-	-	-	505,935
-	-	-	-	-	6,064
-	-	-	-	-	690,435
-	-	-	-	-	85,784
-	-	-	-	-	2,554
-	-	-	-	-	784,837

Cascade Municipal Utilities
 Combining Schedule of Cash Transactions
 Enterprise Funds
 Year ended June 30, 2002

	Electric
Disbursements (continued):	
Home and Community Environment Program:	
Distribution:	
Contractual services	31,049
Capital outlay	11,456
	42,505
Debt service:	
Principal redeemed	-
Interest payments	-
Administrative fee	-
	-
Total disbursements	1,139,197
Excess (deficiency) of receipts over (under) disbursements	87,767
Other financing sources (uses):	
Proceeds from the sale of revenue notes (net of \$17,190 discount)	-
Transfers in (out):	
Enterprise:	
Electric	-
Electric Sinking	(97,223)
Electric Reserve	(98,000)
Total other financing sources (uses)	(195,223)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(107,456)
Balance beginning of year	490,783
Balance end of year	\$ 383,327

See accompanying independent auditor's report.

Gas	Payroll	Electric Sinking	Electric Reserve	Switchgear Project	Total
481,833	-	-	-	648,214	1,161,096
9,985	-	-	-	-	21,441
491,818	-	-	-	648,214	1,182,537
-	-	55,000	-	-	55,000
-	-	21,847	-	-	21,847
-	-	150	-	-	150
-	-	76,997	-	-	76,997
629,292	56,606	76,997	-	648,214	2,550,306
(34,252)	(3,418)	(76,997)	-	(648,214)	(675,114)
-	-	-	-	962,810	962,810
-	-	97,223	98,000	-	195,223
-	-	-	-	-	(97,223)
-	-	-	-	-	(98,000)
-	-	97,223	98,000	962,810	962,810
(34,252)	(3,418)	20,226	98,000	314,596	287,696
84,613	4,992	-	-	-	580,388
50,361	1,574	20,226	98,000	314,596	868,084

Cascade Municipal Utilities



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**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Board of Trustees of the
Cascade Municipal Utilities:

We have audited the financial statements of the Cascade Municipal Utilities, Cascade, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 1, 2002. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Cascade Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance 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 non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2002 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior audit statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cascade Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our

judgment, could adversely affect the Cascade Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that reportable condition (A) described above is a material weakness. Prior audit reportable conditions have been resolved except for item (A).

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Cascade Municipal Utilities and other parties to whom the Cascade Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Cascade Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 1, 2002

Cascade Municipal Utilities

Schedule of Findings

Year ended June 30, 2002

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas:

- (1) Receipts - Collecting, depositing, journalizing, posting and reconciling.
- (2) Disbursements - check writing, signing, posting and reconciling.
- (3) Payroll - preparation, check writing, posting and distribution.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will review control procedures to obtain maximum internal control with our small administrative staff. One thought on this issue is to have a Board member and the Utility Manager meet once a month and review the deposits, disbursements, and payroll.

Conclusion - Response accepted.

- (B) Information System - During our review of internal control, the existing control activities in the Utilities computer-based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the Utilities computer based systems were noted:

The Utilities does not have written policies for:

- Requiring password changes every 60 to 90 days or to maintain password privacy and confidentiality.
- Requiring a time out and/or log off function or a screen saver password to protect a terminal if left unattended.
- Usage of the internet.

Cascade Municipal Utilities

Schedule of Findings

Year ended June 30, 2002

- Requiring the use of an anti-virus program.

Also, the Utilities does not have a disaster recovery plan.

Recommendation - The Utilities should develop written policies addressing the above items in order to improve the Utilities control over its information systems. A screen saver password or automatic log off function should be utilized. Also, a disaster recovery plan should be developed.

Response - We will adopt a written policy and incorporate a computer program that requires the Utilities' computer users to change their passwords every 60 to 90 days and also require the user to re-enter their password if their computer terminal has been inactive for more than 10 minutes. The Utility shall also install an anti-virus detection program on each computer terminal. The Utility shall also develop and adopt an Internet user policy and data disaster recovery policy.

Conclusion - Response accepted.

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories - A resolution naming official depositories has been approved by the Utilities. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2002.

Recommendation - The Utilities should approve a written depository resolution in sufficient amounts to cover deposits at the approved depositories as required by Chapter 12C.2 of the Code of Iowa.

Response - We will approve a written depository resolution in an amount sufficient to cover the Utilities deposits at its approved depositories.

Conclusion - Response accepted.

- (2) Certified Budget - Disbursements during the year ended June 30, 2002 did not exceed the amount budgeted.
- (3) Questionable Disbursements - No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (4) Travel Expense - No disbursements of Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.
- (5) Business Transactions - No business transactions between the Utilities and Utilities' officials or employees were noted.

Cascade Municipal Utilities

Schedule of Findings

Year ended June 30, 2002

- (6) Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (7) Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- (8) Deposits and Investments - Except as noted above, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- (9) Electric Revenue Notes - The Utilities posted accrued interest received from the sale of notes to the Enterprise Fund, Electric Operating account. Section 5 of the resolution providing for the issuance of the Electric Revenue Notes requires that the accrued interest on the note sale be posted to the Enterprise Fund, Electric Sinking account.

Recommendation - The Utilities should make a corrective transfer of \$485 from the Enterprise Fund, Electric operating account to the Enterprise Fund, Electric Sinking account to correct this error.

Response - We will make a corrective transfer of \$485 from the Electric Enterprise Fund to the Electric Sinking Fund.

Conclusion - Response accepted.

Cascade Municipal Utilities

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Jodi L. Simon, Staff Auditor
Kristen E. Harang, CPA, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State