

*Independent Auditor's Report*  
***Norge Water & Sewer Co., Inc.***  
*Chickasha, Oklahoma*  
*Year Ending September 30, 2011*

**NORGE WATER AND SEWER CO., INC.**  
**Chickasha, Oklahoma**  
September 30, 2011

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Norge Water & Sewer Co., Inc.  
Chickasha, Oklahoma 73018

We have audited the accompanying financial statements of the business-type activities and major fund of the **Norge Water and Sewer Co., Inc.**, as of and for the year ended September 30, 2011, which collectively comprise the Company's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 opinions.

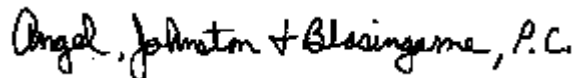
As discussed in Note 1, the Norge Water and Sewer Co., Inc. prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the business-type activities and major fund of Norge Water and Sewer Co., Inc. as of September 30, 2011, and the respective changes in financial position-modified cash basis and cash flows, thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1.

Norge Water and Sewer Co., Inc.  
December 6, 2011

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2011 on our consideration of the Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Norge Water and Sewer Co., Inc. has not presented the Management's Discussion and Analysis and budgetary information which the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of the basic financial statements.



Angel, Johnston & Blasingame, P.C.  
Certified Public Accountants

Chickasha, Oklahoma  
December 6, 2011

**NORGE WATER AND SEWER CO., INC.**  
**CHICKASHA, OKLAHOMA**  
**STATEMENT OF NET ASSETS**  
**-Modified Cash Basis-**  
**For the Year Ended September 30, 2011**

<u><b>ASSETS</b></u>	<u><b>September 30, 2011</b></u>
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 86,129
Investments	440,311
<i>Total Current Assets</i>	<u>526,440</u>
<b>Fixed Assets</b>	
Land	5,000
Water System	66,930
Equipment	1,424
<i>Total</i>	<u>73,354</u>
Less Accumulated Depreciation	<u>(7,141)</u>
<i>Total Fixed Assets</i>	<u>66,213</u>
 <i>Total Assets</i>	 <u><u>592,653</u></u>
 <b><u>LIABILITIES</u></b>	
<b>Current Liabilities</b>	
Meter Deposit Liability	15,888
<i>Total Current Liabilities</i>	<u>15,888</u>
<b>Non Current Liabilities</b>	
Non Current Liabilities	-
<i>Total Liabilities</i>	<u>15,888</u>
 <b><u>NET ASSETS</u></b>	
Invested in Capital Assets, Net of Related Debt	66,213
Restricted	15,888
Unrestricted	494,664
<i>Total Net Assets</i>	<u>576,765</u>
 <i>Total Liabilities and Net Assets</i>	 <u><u>\$ 592,653</u></u>

The accompanying notes are an integral part of the financial statements.

**NORGE WATER AND SEWER CO., INC.**  
**CHICKASHA, OKLAHOMA**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**- Modified Cash Basis -**  
**For the Year Ended September 30, 2011**

	<b>September 30, 2011</b>
<b>Operating Revenue</b>	
Water Sales	\$ 135,130
Rent	1,200
Refunds	557
Fees and Miscellaneous	5,406
Line Extension Repayment (Bailey)	16,448
<i>Total Operating Revenue</i>	158,741
<b>Cost of Goods Sold</b>	
Water Purchased	52,485
<i>Total Gross Income</i>	106,256
<b>Operating Expenses</b>	
Bank Service Charges	41
Dues, Fees and Permits	793
Insufficient Checks	317
Insurance	3,518
Mileage	2,699
Miscellaneous	27
Office Expense	4,061
Professional Fees	7,006
Repairs and Maintenance	19,953
Salaries and Payroll Tax	30,934
Telephone	808
Utilities	10,169
Depreciation Expense	1,625
<i>Total Operating Expenses</i>	81,951
<i>Net Operating Income (Loss)</i>	24,305
<b>Non-Operating Revenue (Expense)</b>	
Interest Income	6,105
<i>Total Non-Operating Revenue (Expense)</i>	6,105
<i>Net Income (Loss)</i>	30,410
<i>Net Assets - Beginning of Year</i>	546,355
<i>Net Assets - End of Year</i>	\$ 576,765

The accompanying notes are an integral part of the financial statements.

**NORGE WATER AND SEWER CO., INC.**  
**CHICKASHA, OKLAHOMA**  
**Statement of Cash Flows**  
**- Modified Cash Basis -**  
**For the Year Ended September 30, 2011**

	<u>September 30, 2011</u>
<b>Cash flows from operating activities</b>	
Cash received from customers	\$ 158,741
Cash paid to employees	(30,934)
Cash paid to vendors	(101,877)
<i>Net cash provided (used) by operating activities</i>	<u>25,930</u>
<b>Cash flows from capital and related financing activities</b>	
Interest Expense	-
Purchase of capital assets	(15,319)
Net Increase (Decrease) in liabilities	(3,499)
<i>Net cash provided (used) for capital and related financing activities</i>	<u>(18,818)</u>
<b>Cash flows from investing activities</b>	
Interest Income	6,105
<i>Net cash provided (used) by investing activities</i>	<u>6,105</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	13,217
<i>Cash and cash equivalents at beginning of year</i>	513,223
<i>Cash and cash equivalents at end of year</i>	<u>\$ 526,440</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>	
Operating income (loss)	24,305
Adjustment to reconcile operating income to net cash provided	
Depreciation Expense	1,625
<i>Net cash provided (used) by operating activities</i>	<u>\$ 25,930</u>

The accompanying notes are an integral part of the financial statements.

**NORGE WATER AND SEWER CO., INC.**  
**CHICKASHA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2011

**Note 1 – Summary of Significant Accounting Policies**

The Norge Water and Sewer Co., Inc. complies with the accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units with a change for the modified cash basis. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent that they are applicable, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statements should include:
  - a. Management Discussion and Analysis (MD&A) section providing an analysis of the Company’s overall financial position and results of operations.
  - b. Financial statements prepared using a full accrual accounting.
2. A change in the fund financial statements to focus on major funds.

However, the District only has a proprietary fund.

**A. Financial Reporting Entity**

Norge Water and Sewer Co., Inc., Chickasha, Oklahoma is incorporated under the laws of the State of Oklahoma and is a nonprofit organization. The purpose of this nonprofit Company is to provide rural customers with water utilities. In accomplishing said purpose, the Company may make financial inducements or take any other necessary action to provide services so long as such actions are consistent with state and federal statutes and constitutional limitations.

The accompanying financial statements include all functions and activities over which the Company exercises financial accountability. The Company is considered a primary government as defined by the Governmental Accounting Standards Board (GASB) and has no other component units within its reporting entity.



**NORGE WATER AND SEWER CO., INC.**  
**CHICKASHA, OKLAHOMA**  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2011

**Note 1 – Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation**

Government Wide Financial Statements

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. All the activities of the Company are business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The only fund of the financial reporting entity is described below:

Enterprise Funds – These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**C. Basis of Accounting and Measurement Focus**

Basis of accounting refers to when revenues and expenditures/expenses are recognized and reported in the financial statements. This relates to the timing of the revenues, expenditures/expenses regardless of the measurement focus applied. Measurement focus identifies which transactions and events should be recorded.

The accompanying statement of net assets and statement of revenue, expense, and changes in net assets are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principals generally accepted in the United States of America.

**NORGE WATER AND SEWER CO., INC.**  
**CHICKASHA, OKLAHOMA**  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2011

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**C. Basis of Accounting and Measurement Focus (continued)**

If the Company used the basis of accounting required by generally accepted accounting principles, the financial statements would use the accrual basis of accounting. Under the accrual basis of accounting, revenues would be recognized when susceptible to accrual (i.e. both measurable and available) and expenditures would be recorded when the current liability is incurred. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

**D. Assets, Liabilities and Equity**

Cash & Cash Equivalents

For the purposes of the statement of cash flows, the Company considers all cash on hand, demand deposits, interest bearing checking accounts and time deposit accounts including certificates of deposit with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Investments

The Company considers all time deposit accounts including certificates of deposit with an original maturity of greater than three months to be an investment.

Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

Fixed Assets

Recorded fixed assets are stated at historical cost or estimated historical cost if actual historical cost is not available. Accumulated depreciation is reported as an offset to fixed assets on the balance sheet. Depreciation of exhaustible fixed assets is charged as an expense against their operations. Depreciation is calculated on the straight line method over the estimated useful lives of the assets, generally as follows:

<u>Asset Class</u>	<u>Years</u>
Water Systems	40
Equipment	5-10

Current Liabilities

Meter deposits represent the funds received from customers for their water utility deposits. These deposits are refunded or credited to the customer upon termination of the utility service and payment of all charges due and connected with the service.

**NORGE WATER AND SEWER CO., INC.**  
**CHICKASHA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2011

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**D. Assets, Liabilities and Equity (continued)**

Equity Classifications

Equity is classified as net assets. Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by legislation or restrictions by creditors, grantors, laws or regulations of other governments.

Inventories

The Company does not maintain inventories. Inventory items are expensed in the year purchased. This method of accounting is not in accordance with generally accepted accounting principles which require inventories to be established and expenses to be incurred only when an inventory item is used.

**E. Revenues, Expenditures and Expenses**

Operating and Non-operating Revenues

Operating revenues are considered those whose cash flows are related to operating activities, while revenues related to financing, capital and investing activities are reported as non-operating.

Expenditures/Expenses

Expenditures/expenses are reported by object or activity. The Company reports expenses relating to the use of economic resources including depreciation.

**F. Differences from GAAP**

Basis of Accounting

As discussed in Note 1.B., the Company uses the modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP.

Management Discussion and Analysis

The Company has not presented the Management's Discussion and Analysis which the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of the basic financial statements.

Budgetary Comparison Schedules

The Company has not presented budgetary information because it is not legally required to do so.

**NORGE WATER AND SEWER CO., INC.**  
**CHICKASHA, OKLAHOMA**  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2011

**NOTE 2 – Stewardship, Compliance and Accountability**

**A. Deposits and Investment Laws and Regulations**

Deposits and Investments

The Company does not have a written investment policy that limits its investment choices. Current investments are bank Certificates of Deposit.

*Cash and Investments at September 30, 2011 were:*

Chickasha Bank and Trust, Cash	\$ 86,128
Various Banks, Certificates of Deposit	<u>440,311</u>
Total	526,439

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Company’s deposits may not be returned to it. The Company does not have a written policy for custodial risk. In accordance with O. S. Title 62, Section 516.3, all uninsured deposits of municipal funds and other political subdivisions in financial institutions must be secured with acceptable collateral valued at the lower of market or par. The Company’s deposits were properly insured by FDIC Insurance carried by the each depository bank due to total deposits being less than \$250,000.

**Note 3 – Detail Notes-Transaction Classes/Accounts**

**A. Restricted Assets**

The amounts reported as restricted assets of the District on the balance sheet are comprised of amounts held by the District for utility deposits (refunded upon termination of service or applied to final bill). The restricted assets as of September 30, 2011 were as follows:

<u>Type of Restricted Asset</u>	<u>9-30-2011</u>
Customers Utility Deposits	<u>\$15,888</u>
Total	<u>\$15,888</u>

**B. Liabilities**

Meter Deposits

The Company collects deposits from customers which are to be returned to customers when they discontinue using the Company’s services and their account is current.

**NORGE WATER AND SEWER CO., INC.**  
**CHICKASHA, OKLAHOMA**  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2011

**Note 3 – Detail Notes-Transaction Classes/Accounts (continued)**

**C. Property, Plant and Equipment**

Fixed assets of the Company were comprised of the following:

	<u>Beginning</u>	<u>Net Additions</u>	<u>Ending</u>
Equipment	1,424	0	1,424
Land	5,000	0	5,000
Water System	<u>51,612</u>	<u>15,318</u>	<u>66,930</u>
Total Capital Assets	<u>\$ 58,036</u>	<u>\$ 15,318</u>	<u>\$ 73,354</u>
Less:			
Accumulated Depreciation			\$ 7,142
Net Total Capital Assets			<u>\$ 66,212</u>

Fixed assets are carried at cost, or in the case of contributed property, at fair market value at the time of acquisition. The Company follows the practice of capitalizing, at cost, all expenditures for fixed assets. Depreciation expense for the year was \$1,625.03 and all was charged to the enterprise fund.

**D. Note Payable**

The Company has no debt outstanding.

**Note 4 – Other Notes**

**A. Risk Management**

The Company is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets, errors and omissions; and natural disasters. The Company carries liability insurance to manage the various risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Company.

**B. Employee Pension and Other Benefits**

The Company provides no pension, deferred compensation or other post-employment benefits to employees of the Company.

**NORGE WATER AND SEWER CO., INC.**  
**CHICKASHA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2011

**Note 4 – Other Notes (continued)**

**C. Commitments and Contingencies**

The Company is not involved with any legal proceedings, which normally occur in the course of operations at this time. Therefore, the financial statements do not include accruals or provisions for loss contingencies. While legal proceedings cannot be foreseen, the Company feels that any settlement or judgment not covered by insurance would not have a material effect on the financial condition of the Company.

**D. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## *Supplementary Information*

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Norge Water and Sewer Co., Inc.  
Chickasha, Oklahoma 73018

We have audited the accompanying modified cash basis financial statements of the business-type activities and major fund of the **Norge Water and Sewer Co., Inc.** as of and for the year ended September 30, 2011, which collectively comprise the Company's basic financial statements and have issued our report thereon dated December 6, 2011. The report was a special report on the Company's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Management Discussion and Analysis is not presented as required by the Governmental Accounting Standards Board. We conducted our audit 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Norge Water and Sewer Co., Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, and but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis.



Norge Water & Sewer Co., Inc.  
December 6, 2011

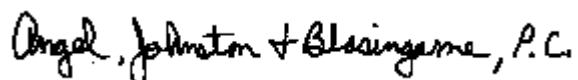
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and recommendations that we consider to be material weaknesses. 11-01 and 11-02. We also identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies in internal control over financial reporting. 11-01, 11-02, 11-03 and 11-04. 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Norge Water and Sewer Co., Inc.'s financial statements are free of material misstatement, we performed tests of its 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 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Company's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. We did not audit the Company's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Angel, Johnston & Blasingame, P.C.  
Certified Public Accountants

Chickasha, Oklahoma  
December 6, 2011

**Norge Water and Sewer Co., Inc.**  
**Schedule of Findings**  
**For the Year Ended September 30, 2011**

**11-01** Criteria - A good system of internal control provides for a proper segregation of the accounting functions.

Condition - The Company has two employees that perform the duties that would normally be divided among a large number of employees.

Cause and Effect – The lack of internal control surrounding the accounting functions could result in more than a low risk that errors or irregularities may occur and not be detected within a timely period.

Recommendation – The Board should assess the advantages of segregating the accounting functions in order to determine whether hiring personnel or outsourcing functions would be cost effective.

Management response – At this time it is not cost effective to hire administrative staff that would be necessary in order to adequately segregate duties.

**11-02** Criteria - All revenue should be entered into the accounting system as earned.

Condition - The Company has several Certificates of Deposit that earn interest and mature on varying schedules. Although the Certificate of Deposits are tracked as the year proceeds, there is no final schedule that states total interest earned for the year.

Cause and Effect – Not recording interest when earned causes revenues to be understated on the financial statements.

Recommendation – We recommend a method be developed to capture interest income as certificates mature or pay interest, and the interest be recorded in the accounting system as interest income in addition to listing the CD balances at year end.

Management Response – Management has started consolidating certificates into a more manageable number, and will record interest as earned to provide total interest earned for the year.

**Norge Water and Sewer Co., Inc.**  
**Schedule of Findings**  
**For the Year Ended September 30, 2011**

**11-03** Criteria – Meter deposits payable should be reconciled on a monthly basis.

Condition – Our testing noted that meter deposits are not being reconciled on a monthly basis to ensure all deposit collections and refunds are properly accounted for within the accounting system. The balance in the accounting system for meter deposits refundable does not agree with the balance in the deposit listing.

Cause and Effect – A lack of proper procedures and controls does not allow for a means to ensure all deposit collections and refunds are properly accounted for within the accounting system. Without sufficient reconciliation procedures in place, the risk significantly increases that errors and fraud related to meter deposits could occur and not be detected timely.

Recommendation – The Company should implement procedures to reconcile beginning and ending meter deposits payable on a monthly basis by using monthly deposits collected, refunds, and deposits applied to billings.

Management Response – Management agrees.

**11-04** Criteria – All employee expense reimbursements, including mileage claims, should have proper supervisor/approving authority signatures to indicate the expenses have been reviewed and appear accurate prior to payment being made.

Condition – Our testing noted that on 1 of 1 employee expense claims examined did not have a signature indicating that the claims appears to be true and correct. In this instance, an expense claim receipt was duplicated on the adding slip and the employee overpaid by \$12.47. Some of the receipts provided for reimbursement were not submitted timely and ranged from 3 to 7 months old. We also noted that 12 of 12 mileage claims tested also did not have a signature indicating that the claims appear to be true and correct. We noted several instances where the employee was paid for mileage on the monthly mileage claim and was also reimbursed for the same mileage on the monthly expense reimbursement claim. These instances totaled \$256.56.

Cause and Effect – A lack of proper procedures and controls does not allow for a means to ensure that all claims are properly calculated and paid. Without sufficient oversight, there is an increased risk that errors or fraud related to employee reimbursements could occur and not be detected on a timely basis.

Recommendation – The Board should review and sign off on all employee expense and mileage claims. Mileage expenses should only be recorded on the mileage claim or expense reimbursement claim, but not both.

Management's Response – Management agrees.

**Norge Water and Sewer Co., Inc.**  
**Disposition of Prior Year Audit Exceptions**  
**For the Year Ended September 30, 2011**

**10-01** Finding - A good system of internal control provides for a proper segregation of the accounting functions. The Company has two employees that perform the duties that would normally be divided among a large number of employees. This precludes the adequate segregation of duties and could result in more than a low risk that errors or irregularities may occur and not be detected within a timely period.

Recommendation – The Board should assess the advantages of segregating the accounting functions in order to determine whether hiring personnel or outsourcing functions would be cost effective.

Disposition – *\*This continues to be a finding.*

**10-02** Finding - The Company has several Certificates of Deposit that earn interest and mature on varying schedules. Interest was not posted to the accounting system when earned.

Recommendation – We recommend a method be developed to capture interest income as certificates mature or pay interest, and the interest be recorded in the accounting system.

Disposition - *\*This continues to be a finding.*

**10-03** Finding – Deposits exceeded FDIC insurance coverage by \$1,469, and no collateral was pledged to cover the uninsured amount.

Recommendation – We recommend checking bank balances against FDIC coverage periodically to prevent funds on deposit from exceeding FDIC insurance, and securing collateral to cover amounts exceeding the insured amount.

Disposition – This appears to have been corrected and is no longer a finding.

**10-04** Finding – Our testing noted that meter deposits are not being reconciled on a monthly basis to ensure all deposit collections and refunds are properly accounted for within the accounting system. The balance in the accounting system for meter deposits refundable does not agree with the balance in the deposit listing.

Recommendation – The Company should implement procedures to reconcile beginning and ending meter deposits payable on a monthly basis by using monthly deposits collected, refunds, and deposits applied to billings.

Disposition – *\*This continues to be a finding.*

**Norge Water and Sewer Co., Inc.**  
**Disposition of Prior Year Audit Exceptions**  
**For the Year Ended September 30, 2011**

**10-05** Finding – While testing purchases we noted six of thirteen invoices/packing slips were not signed or initialed by the person receiving the goods or services.

Recommendation – We recommend individuals responsible for acknowledging satisfactory receipt, sign or initial invoices or delivery tickets.

Disposition – This appears to have been corrected and is no longer a finding.