

**NORGE WATER AND SEWER CO., INC.**  
**Chickasha, Oklahoma**  
September 30, 2016

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the **Norge Water and Sewer Co., Inc.**, Chickasha, Oklahoma, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also 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.

### Auditor's Responsibility

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 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. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

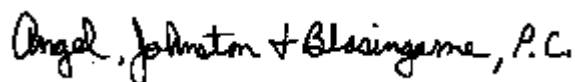
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Norge Water & Sewer Co., Inc. as of September 30, 2016, and the respective changes in financial position-modified cash basis and where applicable cash flows-modified cash basis, thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016, on our consideration of the Company'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. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.



Angel, Johnston & Blasingame, P.C.

Chickasha, Oklahoma

December 6, 2016

**NORGE WATER AND SEWER CO., INC.**  
**Statement of Net Position**  
**Modified Cash Basis**  
**September 30, 2016**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 305,986
Restricted cash and cash equivalents	16,987
<i>Total Current Assets</i>	<u>322,973</u>

**Non Current Assets**

Land and other non-depreciable assets	5,000
Water System	446,316
Equipment	5,750
<i>Total Non Current Assets</i>	<u>457,066</u>
Less: Accumulated Depreciation	<u>(50,879)</u>
<i>Total Non Current Assets, net of depreciation</i>	<u>406,187</u>
 <i>Total Assets</i>	 <u><u>729,160</u></u>

**LIABILITIES**

**Current Liabilities**

Meter Deposit Liability	16,987
Payroll Liability	-
<i>Total Current Liabilities</i>	<u>16,987</u>

**Non Current Liabilities**

Non Current Liabilities	-
<i>Total Non Current Liabilities</i>	<u>-</u>
 <i>Total Liabilities</i>	 <u><u>16,987</u></u>

**NET POSITION**

Net Investment in Capital Assets	406,187
Restricted	16,987
Unrestricted	<u>288,999</u>
 <i>Total Net Position</i>	 <u><u>\$ 712,173</u></u>

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

**NORGE WATER AND SEWER CO., INC.**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Modified Cash Basis**  
**For the Year Ended September 30, 2016**

**Operating Revenues**

Water Sales	201,242
Rent	-
Refunds	1,057
Fees and Miscellaneous	7,407
Line Extension Repayment	3,025
<i>Total Operating Revenues</i>	<u>212,731</u>

**Operating Expenses**

Cost of water purchased	30,542
Bank Service Charges and Return Checks	53
Dues, Fees and Permits	792
Environmental Quality	3,071
Insurance	3,356
Meals & Entertainment	300
Misc	417
Office Expense	4,513
Professional Fees	5,137
Repairs and Maintenance	52,126
Salaries and Payroll Tax	42,340
Telephone	634
Utilities	3,713
Worker's Compensation	2,157
Depreciation	11,903
<i>Total Operating Expenses</i>	<u>161,053</u>

<i>Operating Income (Loss)</i>	<u>51,678</u>
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**Non Operating Revenues (Expenses)**

Interest income	290
<i>Total Non Operating Revenues (Expenses)</i>	<u>290</u>

<i>Change in Net Position</i>	51,968
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<i>Net Position - Beginning of Year</i>	<u>660,204</u>
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<i>Net Position - End of Year</i>	<u><u>\$ 712,172</u></u>
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The accompanying notes are an integral part of the financial statements.

**NORGE WATER AND SEWER CO., INC.**  
**Statement of Cash Flows**  
**Modified Cash Basis**  
**For the Year Ended September 30, 2016**

**Cash flows from operating activities**

Cash received from customers	\$ 212,731
Cash paid to suppliers	(149,150)
Other receipts (payments)	(1,087)
<i>Net cash provided (used) by operating activities</i>	<u>62,494</u>

**Cash flows from capital and related financing activities**

Purchase of capital assets	(1,326)
<i>Net cash provided (used) by capital and related financing activities</i>	<u>(1,326)</u>

**Cash flows from investing activities**

Interest received	290
<i>Net cash provided (used) by investing activities</i>	<u>290</u>

<i>Net increase (decrease) in cash and cash equivalents</i>	61,458
<i>Cash and cash equivalents at beginning of year</i>	261,516
<i>Cash and cash equivalents at end of year</i>	<u>\$ 322,974</u>

**Reconciliation of operating income (loss) to net cash provided (used) by operating activities**

Operating income (loss)	51,678
Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	11,903
Change in payroll liabilities	(1,237)
Change in Customer Meter Deposit Liability	150
<i>Net cash provided (used for) by operating activities</i>	<u>\$ 62,494</u>

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

**NORGE WATER AND SEWER CO., INC.**  
**Notes to Financial Statements**  
**September 30, 2016**

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

**A. 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 governing body consists of five members with one acting as the Chairman. 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 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.

**B. Basis of Presentation**

The Company's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity only has one general operating fund that comprises the Company's enterprise funds.

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

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recognized and recorded in the financial statements regardless of the measurement focus applied.

The Company's financial statements use the economic resources measurement focus and are presented on the modified cash basis of accounting. Revenues are recognized when they are received and expenses are recorded when paid with the following modifications:

- Capital assets are recorded when purchased and related depreciation is recorded.
- Payroll taxes due are recorded as liabilities.

This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the Company utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

**NORGE WATER AND SEWER CO., INC.**  
**Notes to Financial Statements**  
**September 30, 2016**

**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 to be cash and cash equivalents.

Restricted Assets - Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to utility customer deposits.

Capital Assets - Capital assets acquired are capitalized and stated at historical cost or estimated historical cost, if actual historical cost is not available.

Donated capital assets, if any, are recorded at their fair market values as of the date received. Interest incurred, if any, during the construction phase of capital assets is reflected in the capitalization value of the asset constructed. The Company currently has not established a capitalization threshold and therefore capitalizes all capital assets purchased.

Depreciation of exhaustible capital assets is recorded as an expense over the estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is generally as follows:

Buildings, Water Systems and Improvements	40 Years
Furniture and Fixtures	10 Years
Equipment and Vehicles	5-10 Years

Current Liabilities – Refundable 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.

Net Position - Net position is divided into three components:

- a. *Net Investment in Capital Assets* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.



**NORGE WATER AND SEWER CO., INC.**

**Notes to Financial Statements**

**September 30, 2016**

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

- c. *Unrestricted net position* – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

It is the Company’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

**E. Revenues 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.

Expenses - The Company reports expenses relating to the use of economic resources.

**F. Use of Estimates**

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgments and may vary from actual results.

**Note 2 – Detailed Notes on Transaction Classes/Accounts**

**A. Deposits, Investments, and Collateral**

Deposits and Investments - The Company does not have a written investment policy that limits its investment choices. Investments are usually bank Certificates of Deposit. The Company currently does not have any investments.

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, but *Oklahoma Statutes* requires collateral for all uninsured deposits of municipal funds and other political subdivisions. As of September 30, 2016, the Company’s First National Bank balance of \$322,973.54 exceeded the \$250,000 FDIC insurance level and is exposed to custodial credit risk.

**B. Capital Assets**

Capital asset activity for the fiscal year ended September 30, 2016 was as follows:

**NORGE WATER AND SEWER CO., INC.**  
**Notes to Financial Statements**  
**September 30, 2016**

**B. Capital Assets, (continued)**

	Balance 9/30/14	Additions	Disposals	Balance 9/30/15
Non-depreciable assets:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Construction in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-depreciable assets	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
Depreciable assets:				
Equipment	4,424	1,326	-	5,750
Water System	<u>446,316</u>	<u>-</u>	<u>-</u>	<u>446,316</u>
Total depreciable assets	<u>450,740</u>	<u>-</u>	<u>-</u>	<u>452,066</u>
Less accumulated depreciation:	<u>38,976</u>	<u>11,903</u>	<u>-</u>	<u>50,879</u>
Net depreciable assets	<u>411,764</u>	<u>11,903</u>	<u>-</u>	<u>401,187</u>
Net Capital Assets	<u>\$ 416,764</u>	<u>\$ 11,903</u>	<u>\$ -</u>	<u>\$ 406,187</u>

Depreciation expense for the year was \$11,903.17

**C. Restricted Assets**

Restricted assets as of September 30, 2016 are as follows:

	<b>Restricted</b>
	<b><u>Cash</u></b>
Meter Deposits	<u>\$16,988</u>

**D. Liabilities**

Meter Deposits - The Company collects deposits from customers which are to be refunded or credited to the customer upon termination of the utility service and payment of all charges due and connected with the service. Meter deposit liability at September 30, 2016 was \$16,987.80.

**E. Long-Term Debt**

The Company has no debt outstanding.

**Note 3 – Other Notes**

**A. Risk Management**

The Company is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Company participates in a self-insurance pool to cover these risks, including general and auto liability, property damage, directors and officers liability, and blanket bond coverage.

**NORGE WATER AND SEWER CO., INC.**  
**Notes to Financial Statements**  
**September 30, 2016**

They have a policy with the Oklahoma Rural Water Association Assurance Group consisting of the following coverage: General Liability \$1,000,000, Directors and Officers Liability \$1,000,000 and Blanket Bond Coverage \$10,000. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

As a member of the Oklahoma Rural Water Association (ORWA), the Company is covered through the ORWA Worker's Compensation Policy. The ORWA has a policy with CompSource Oklahoma.

**C. Commitments and Contingencies**

The Company is not involved with any legal proceedings, which normally occur in the course of operations at this time. 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. Related Party Transactions**

The Company contracts with Woods Ditching for all water maintenance service. The current Company manager is related to the Woods Ditching owner(s).

**E. Subsequent Events**

Subsequent events were evaluated through December 6, 2016 which is the date the financial statements were available to be issued.

# *Report on Internal Control and Compliance*

**INDEPENDENT AUDITOR'S 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***

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

We have audited, in accordance with the 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 accompanying modified cash basis financial statements of the Norge Water & Sewer Co., Inc., Chickasha, Oklahoma, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements and have issued our report thereon dated, December 6, 2016, 2016. Our report on the financial statements disclosed, that, as described in Note 1 to the financial statements, the Company prepares its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Norge Water and Sewer Co., Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of the 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 were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 16-01.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. 16-02, 16-03.

### **Compliance and Other Matters**

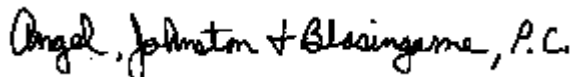
As part of obtaining reasonable assurance about whether Norge Water & Sewer Co., Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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*.

### **Norge Water and Sewer Co., Inc.'s Response to Findings**

Norge Water and Sewer Co., Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Company's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with the *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Angel, Johnston & Blasingame, P.C.  
Chickasha, Oklahoma  
December 6, 2016

**Norge Water and Sewer Co., Inc.**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2016**

**16-01** *Criteria* - A good system of internal control provides for a proper segregation of the Accounting functions.

*Condition* - The Company has one individual 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.

**16-02** *Criteria* – Deposits that exceed FDIC insurance should have pledged collateral to secure the Company's deposits in the event of a bank failure.

*Condition* – The Company did not have adequate collateral pledged to cover monies held at the bank not insured by FDIC. On September 30, 2016, \$72,973.54 was not insured by FDIC or collateralized.

*Cause* – The Board is aware of the uncollateralized monies but has not decided if or how to invest the funds.

*Effect or Potential Effect* – Without sufficient collateral pledged, uncollateralized and uninsured deposits are at risk in the event of a bank failure.

*Recommendation* – Recommend management request a collateral agreement and monitor bank balances to ensure adequate collateral pledged to minimize deposit risk in the event of a bank failure, or deposit monies exceeding FDIC insurance in a second bank.

*Management response* – Management will correct.

**Norge Water and Sewer Co., Inc.**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2016**

**16-03** *Criteria* – According to Fair Labor Standards Act all non-exempt employees must keep records showing information pertaining to that employee including date, hours worked and the wages earned.

*Condition* – During testing of payroll it was noted that employees were not keeping timesheets or having their time worked approved by the Board.

*Cause* – The Board has decided not to have employees maintain time sheets since they are salaried employees.

*Effect or Potential Effect* – Not maintaining timesheets or having them approved by a supervisor could cause over or underpayment of wages or possible non-payment of overtime due.

*Recommendation* – The Board should direct the manager and meter reader to maintain daily timesheets, signed by the employee and approved and signed by the Board.

*Management response* – Management will correct.