

Independent Auditor's Report

Norge Water & Sewer Co., Inc.

Chickasha, Oklahoma

Year Ending September 30, 2012

NORGE WATER AND SEWER CO., INC.
Chickasha, Oklahoma
September 30, 2012

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INDEPENDENT AUDITOR'S REPORT

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

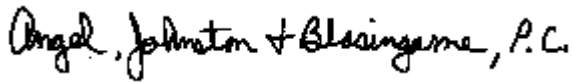
We have audited the accompanying modified cash basis financial statements of the business-type activities of the **Norge Water and Sewer Co., Inc.**, Chickasha, Oklahoma, as of and for the year ended September 30, 2012, which collectively comprise the Company's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express opinions 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 of the Norge Water and Sewer Co., Inc. as of September 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 8, 2013 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.

A handwritten signature in black ink that reads "Angel, Johnston & Blasingame, P.C." in a cursive, slightly stylized font.

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

Chickasha, Oklahoma
January 8, 2013

NORGE WATER AND SEWER CO., INC.
CHICKASHA, OKLAHOMA
STATEMENT OF NET ASSETS
-Modified Cash Basis-
For the Year Ended September 30, 2012

<u>ASSETS</u>	<u>September 30, 2012</u>
Current Assets	
Cash and Cash Equivalents	\$ 296,958
Investments	150,635
<i>Total Current Assets</i>	<u>447,593</u>
Fixed Assets	
Equipment	4,424
Land	5,000
Water System	66,930
Construction in Progress	97,346
<i>Total</i>	<u>173,700</u>
Less Accumulated Depreciation	<u>(9,454)</u>
<i>Total Fixed Assets</i>	<u>164,246</u>
<i>Total Assets</i>	<u><u>611,839</u></u>
 <u>LIABILITIES</u>	
Current Liabilities	
Meter Deposit Liability	16,213
<i>Total Current Liabilities</i>	<u>16,213</u>
Non Current Liabilities	
Non Current Liabilities	-
<i>Total Liabilities</i>	<u>16,213</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	164,246
Restricted	16,213
Unrestricted	415,167
<i>Total Net Assets</i>	<u>595,626</u>
<i>Total Liabilities and Net Assets</i>	<u><u>\$ 611,839</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, 2012

	<u>September 30, 2012</u>
Operating Revenue	
Water Sales	\$ 135,190
Rent	1,200
Refunds	724
Fees and Miscellaneous	6,509
Line Extension Repayment	6,218
<i>Total Operating Revenue</i>	<u>149,841</u>
Cost of Goods Sold	
Water Purchased	49,777
<i>Total Gross Income</i>	<u>100,064</u>
Operating Expenses	
Bank Service Charges	166
Bookkeeping	23,000
Dues, Fees and Permits	464
Environmental Quality	688
Insurance	2,100
Meter Reading	1,584
Mileage	1,224
Miscellaneous	134
Office Expense	6,188
Professional Fees	4,603
Repairs and Maintenance	18,332
Salaries and Payroll Tax	11,118
Telephone	791
Utilities	10,932
Worker's Compensation	1,539
Depreciation Expense	2,312
<i>Total Operating Expenses</i>	<u>85,175</u>
<i>Net Operating Income (Loss)</i>	14,889
Non-Operating Revenue (Expense)	
Interest Income	3,972
<i>Total Non-Operating Revenue (Expense)</i>	<u>3,972</u>
<i>Net Income (Loss)</i>	18,861
<i>Net Assets - Beginning of Year</i>	576,765
<i>Net Assets - End of Year</i>	<u><u>\$ 595,626</u></u>

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, 2012

	<u>September 30, 2012</u>
Cash flows from operating activities	
Cash received from customers	\$ 149,840
Cash paid to employees	(11,118)
Cash paid to vendors	<u>(121,521)</u>
<i>Net cash provided (used) by operating activities</i>	17,201
 Cash flows from capital and related financing activities	
Interest Expense	-
Purchase of capital assets	(100,346)
Net Increase (Decrease) in liabilities	<u>325</u>
<i>Net cash provided (used) for capital and related financing activities</i>	(100,021)
 Cash flows from investing activities	
Interest Income	<u>3,973</u>
<i>Net cash provided (used) by investing activities</i>	3,973
 <i>Net increase (decrease) in cash and cash equivalents</i>	(78,847)
<i>Cash and cash equivalents at beginning of year</i>	<u>526,440</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 447,593</u></u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	14,889
Adjustment to reconcile operating income to net cash provided	
Depreciation Expense	<u>2,312</u>
<i>Net cash provided (used) by operating activities</i>	<u><u>\$ 17,201</u></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, 2012

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 Company 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, 2012

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, 2012

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, 2012

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 expenses 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.

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.

NORGE WATER AND SEWER CO., INC.
CHICKASHA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
September 30, 2012

Note 2 – Stewardship, Compliance and Accountability (continued)

A. Deposits and Investment Laws and Regulations (continued)

Cash and Investments at September 30, 2012 were:

Chickasha Bank and Trust, Cash	\$ 54,267
Stillwater National Bank, Cash	242,691
Various Banks, Certificates of Deposit	<u>150,635</u>
Total	\$ 447,593

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 Company on the balance sheet are comprised of amounts held by the Company for utility deposits (refunded upon termination of service or applied to final bill). The restricted assets as of September 30, 2012 were as follows:

Type of Restricted Asset

	<u>9-30-2012</u>
Customers Utility Deposits	<u>\$16,213</u>
Total	<u>\$16,213</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, 2012

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>
Construction in Progress	0	97,346	97,346
Equipment	1,424	3,000	4,424
Land	5,000	0	5,000
Water System	<u>66,930</u>	<u>0</u>	<u>66,930</u>
Total Capital Assets	<u>\$ 73,354</u>	<u>\$ 100,346</u>	<u>\$ 173,700</u>
Less:			
Accumulated Depreciation			\$ 9,454
Net Total Capital Assets			<u>\$ 164,246</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 \$2,312.24 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, 2012

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.

E. 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). This potentially could be considered a related party transaction if the Company manager is an employee of the Company.

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**

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

We have audited the accompanying modified cash basis financial statements of the business-type activities of the **Norge Water and Sewer Co., Inc.**, Chickasha, Oklahoma, as of and for the year ended September 30, 2012, which collectively comprise the Company's basic financial statements and have issued our report thereon dated January 8, 2013. 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. 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

Management of Norge Water and Sewer Co., Inc., Chickasha, Oklahoma, is responsible for establishing and maintaining effective 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 opinion on the financial statements, 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies 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 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 recommendations to be material weaknesses. 12-01.

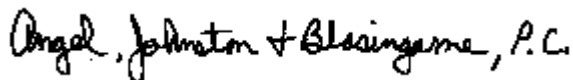
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying schedule of findings and recommendations to be significant deficiencies in internal control over financial reporting: 12-01, 12-02, 12-03, 12-04, 12-05, 12-06, and 12-07.

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*.

Norge Water and Sewer Co., Inc.'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, others within the entity, 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
January 8, 2013

Norge Water and Sewer Co., Inc.
Schedule of Findings
For the Year Ended September 30, 2012

12-01 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.

12-02 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.

Norge Water and Sewer Co., Inc.
Schedule of Findings
For the Year Ended September 30, 2012

12-03 Criteria – The Company is exempt from sales tax on purchases.

Condition – We noted that the Company is paying sales tax when goods/services are purchased by an employee and the employee is reimbursed by the Company.

Cause and Effect – Employees purchasing goods/service for the Company without submitting proper sales tax documentation to the retailer to request exemption from sales tax. This results in an overpayment of sales tax when the Company reimburses the employee for the purchase.

Recommendation – We recommend goods/services be purchased by the Company and sales tax exemption documentation be submitted to avoid paying sales tax.

Management's Response – Management agrees.

12-04 Criteria – Mileage reimbursements to employees should be (1) run through the payroll process if it is a flat rate reimbursement or (2) supported by a signed approved mileage log and reimbursed at the standard mileage rate. Reimbursements to contractors for mileage should be supported by an original itemized invoice, just as all other payments are required to have.

Condition – During expenditure testing, we noted that mileage reimbursements are paid at a flat rate. No documentation is being obtained to support the mileage reimbursements.

Cause and Effect – Lack of understanding of the process for reimbursement of mileage expenses. This results in improper reimbursement and/or documentation for mileage reimbursements. If a flat rate allowance is to an employee, the Company would be understating its payroll tax liability if not run through the payroll process.

Recommendation – We recommend employees be reimbursed for actual mileage at the standard mileage rate or the flat rate reimbursements be included in the payroll process. We recommend contractors provide an invoice for all claims prior to payment being made.

Management's Response – Management agrees.

Norge Water and Sewer Co., Inc.
Schedule of Findings
For the Year Ended September 30, 2012

12-05 Criteria – The Company should have a control/procedure in place to verify all goods/services were in fact received by the Company prior to payment being made.

Condition – During expenditure testing, we noted 16 of 19 invoices were not signed by the purchasing officer to indicate the goods/services were in fact received by the Company.

Cause and Effect – Lack of establishment of adequate oversight and verification procedures regarding the purchasing process. This increases the risk that goods/services may be ordered and paid for by the Company but not received.

Recommendation – We recommend the purchasing officer initial all invoices or attach shipping documentation to indicate the goods/services were adequately received by the Company.

Management's Response – Management agrees.

12-06 Criteria – All documentation of the Company should be maintained and made readily available for audit review and kept with the permanent records of the Company.

Condition – Documentation for the 4th quarter payroll log, 941 report and December timesheets could not be located for review. Documentation for expenditures for the month of October 2011 could not be located.

Cause and Effect – Lack of safekeeping of documentation. Documents have been misplaced during the employee transition period. Supporting documentation is missing for the Company's permanent records.

Recommendation – We recommend the Company keep all documentation in a safe central location.

Management's Response – Management agrees.

Norge Water and Sewer Co., Inc.
Schedule of Findings
For the Year Ended September 30, 2012

12-07 Criteria – Internal Revenue Code section 3509 requires an employer to properly classify employees and independent contractors in accordance with IRS guidelines.

Condition – Jenny King and Delma Pena are being classified and paid as independent contractors. In substance, they appear to be employees.

Cause and Effect – The Company filed documentation with OESC stating they no longer had employees effective 1-31-12. If the IRS determines the independent contractors are actually employees, the Company may be subject to a liability and penalty for back employment taxes.

Recommendation – We recommend the Board reevaluate the classification of its independent contractors.

Management's Response – Management agrees.

Norge Water and Sewer Co., Inc.
Disposition of Prior Year Audit Exceptions
For the Year Ended September 30, 2012

- 11-01** Finding - A good system of internal control provides for a proper segregation of the accounting functions. The Company has one individual that performs 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.*

- 11-02** Finding – The Company has several Certificates of Deposit that earn interest and mature on varying schedules. Although the Certificates of Deposit are tracked as the year proceeds, there is no final schedule that states total interest earned for the year.

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.

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

- 11-03** 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.*

- 11-04** Finding – 1 employee expense claim did not have a signature indicating that the claim appeared to be correct. This expense claim was duplicated when added. Reimbursement requests were not submitted timely. Mileage claims did not have a supervising signature. Mileage claims were duplicated on monthly mileage claims and monthly expense reimbursements.

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

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