

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT

Hugo, Oklahoma

**Financial Statements and Report
of Independent Auditor**

**As of and For the Year Ending
June 30, 2017**

**SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
Hugo, Oklahoma**

June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southeast 3 Circuit Engineering District
Hugo, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund of the Southeast 3 Circuit Engineering District, (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District'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 as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the 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 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities and each major fund of the District, as of June 30, 2017, and the respective changes in financial position-modified cash basis for the year then ended in accordance with the modified cash basis of accounting as 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 issue our report dated December 21, 2017 on our consideration of the District'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 District's internal control over financial reporting and compliance.



Joe Bob Smith CPA, PC
Certified Public Accountant

Broken Bow, Oklahoma
December 21, 2017

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT

Hugo, Oklahoma

June 30, 2017

BASIC FINANCIAL STATEMENTS

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
HUGO, OKLAHOMA

STATEMENT OF NET POSITION

MODIFIED CASH BASIS

JUNE 30, 2017

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
CURRENT ASSETS:	
CASH AND CASH EQUIVALENTS	\$ 481,842
TOTAL CURRENT ASSETS	<u>481,842</u>
NON-CURRENT ASSETS:	
PROPERTY & EQUIPMENT (NET OF RELATED DEPRECIATION)	<u>294,317</u>
TOTAL ASSETS	<u><u>776,159</u></u>
LIABILITIES:	
CURRENT LIABILITIES:	
PAYROLL TAXES PAYABLE	7,540
TOTAL CURRENT LIABILITIES	<u>7,540</u>
NON-CURRENT LIABILITIES:	
TOTAL NON-CURRENT LIABILITIES	<u>0</u>
TOTAL LIABILITIES	<u>7,540</u>
NET POSITION:	
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	294,617
UNRESTRICTED	<u>474,002</u>
TOTAL NET POSITION	<u><u>\$ 768,619</u></u>

SEE THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
HUGO, OKLAHOMA

STATEMENT OF ACTIVITIES

MODIFIED CASH BASIS

FOR THE YEAR ENDED

JUNE 30, 2017

	<u>GOVERNMENTAL ACTIVITIES</u>
FUNCTIONS/PROGRAMS	
PUBLIC SERVICES:	
PERSONAL SERVICES	\$ 727,982
TRAVEL	1,200
MAINTENANCE AND OPERATIONS	814,114
DEPRECIATION EXPENSE-UNALLOCATED	<u>51,197</u>
 TOTAL PROGRAM EXPENSES	 <u>1,594,493</u>
 PROGRAM REVENUES	
CONSTRUCTION INSPECTION	653,672
PRELIMINARY ENGINEERING	291,629
MATERIALS TESTING	0
PROGRAM MANAGEMENT	21,794
 TOTAL PROGRAM REVENUES	 <u>967,095</u>
 GENERAL REVENUES:	
STATE GASOLINE EXCISE TAX	467,420
STATE EQUIPMENT AUCTIONS	0
GAIN (LOSS) ON SALE OF ASSETS	0
REIMBURSEMENTS	0
MISCELLANEOUS	0
INTEREST INCOME	238
 TOTAL GENERAL REVENUES	 <u>467,658</u>
 INCREASE (DECREASE) IN NET POSITION	 (159,740)
 NET POSITION:	
BEGINNING OF YEAR	928,359
 END OF YEAR	 <u>\$ 768,619</u>

SEE THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
HUGO, OKLAHOMA

STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCE-GOVERNMENTAL FUNDS

MODIFIED CASH BASIS

JUNE 30, 2017

GENERAL
FUND

ASSETS:

CASH AND CASH EQUIVALENTS

\$ 481,842

TOTAL ASSETS

481,842

NON-CURRENT ASSETS:

0

TOTAL ASSETS

481,842

LIABILITIES:

PAYROLL TAXES PAYABLE

7,540

TOTAL LIABILITIES

7,540

FUND BALANCE:

UNASSIGNED

474,302

TOTAL LIABILITIES AND FUND BALANCE

\$ 481,842

SEE THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
HUGO, OKLAHOMA

RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCE
TO THE STATEMENT OF NET POSITION
MODIFIED CASH BASIS

JUNE 30, 2017

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$	474,302
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:		
CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES ARE NOT CURRENT FINANCIAL RESOURCES AND THEREFORE ARE NOT REPORTED IN THE FUND FINANCIAL STATEMENTS:		
CAPITAL ASSETS		709,118
ACCUMULATED DEPRECIATION		(414,801)
LIABILITIES THAT ARE NOT PAYABLE IN THE CURRENT PERIOD AND NOT REPORTED IN THE FUND FINANCIAL STATEMENTS:		
CAPITAL LEASES PAYABLE		<u>0</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u><u>768,619</u></u>

SEE THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
HUGO, OKLAHOMA

STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
MODIFIED CASH BASIS

FOR THE YEAR ENDED
JUNE 30, 2017

	<u>GENERAL FUND</u>
REVENUES:	
STATE GASOLINE EXCISE TAX	\$ 467,420
CONSTRUCTION INSPECTION	653,672
ENGINEERING FEES	291,629
PROGRAM MANAGEMENT	21,794
INTEREST INCOME	238
TOTAL REVENUES	<u>1,434,753</u>
EXPENDITURES:	
PERSONAL SERVICES	674,226
PAYROLL TAXES	53,756
EMPLOYEE BENEFITS AND RETIREMENT	242,150
MAINTENANCE AND OPERATIONS	217,367
VEHICLE AND TRAVEL EXPENSES	41,957
TELEPHONE AND UTILITIES	6,441
OFFICE SUPPLIES AND EXPENSE	7,046
RENT EXPENSES	1,375
PROFESSIONAL FEES	298,978
CAPITAL EXPENDITURES	<u>11,890</u>
TOTAL EXPENDITURES	<u>1,555,186</u>
REVENUES OVER (UNDER) EXPENDITURES	(120,433)
FUND BALANCES:	
BEGINNING OF YEAR	594,735
END OF YEAR	<u>\$ 474,302</u>

SEE THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
HUGO, OKLAHOMA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS

FOR THE YEAR ENDED JUNE 30, 2017

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	(120,433)
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:		
GOVERNMENTAL FUNDS REPORT CAPITAL OUTLAY AS EXPENDITURES. HOWEVER, IN THE STATEMENT OF ACTIVITIES, THE COST OF THOSE ASSETS IS ALLOCATED OVER THEIR ESTIMATED USEFUL LIVES AS DEPRECIATION EXPENSE.		
CAPITAL ASSETS CAPITALIZED		11,890
DEPRECIATION EXPENSE		(51,197)
DEBT PROCEEDS PROVIDE CURRENT FINANCIAL RESOURCES IN GOVERNMENTAL FUNDS & REPAYMENT IS AN EXPENDITURE.		
ISSUING & REPAYING DEBT INCREASES & DECREASES LONG TERM LIABILITIES IN THE STATEMENT OF NET ASSETS.		
CAPITAL LEASE PRINCIPAL PAYMENTS		0
ROUNDING		0
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>(159,740)</u>

SEE THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
Hugo, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Southeast 3 Circuit Engineering District, (the “District”), was organized under the Interlocal Cooperation Act and Title 69, Oklahoma Statutes which allows counties to come together as a cooperative and provide efficiencies that are not available to an individual county. The District acts as a subdivision of the ten counties in Southeastern Oklahoma it serves.

The Circuit Engineering District Revolving Fund was created under Title 69, Oklahoma Statutes, as a revolving fund to receive a portion of the State's gasoline excise taxes. The monies are managed by the Oklahoma Cooperative Circuit Engineering Districts Board and help fund eight circuit engineering districts within the State.

The District is governed by a Board of Directors comprised of ten individuals, each appointed by a majority of the Board of County Commissioners of each county represented.

The Board of Directors annually elects the Chairperson of the Board from existing board members. The Chair responsibilities are to preside at all meetings of the Board, be the chief officer of the District, perform all duties commonly incident to the position of presiding officer of a board, commission or business organization, and exercise supervision over the business of the District, its officers, and employees.

The accompanying financial statements comply with the provisions of GASB Cod. Sec. 2100 “*Defining the Financial Reporting Entity*”, and include all organizations, activities, and functions that comprise the District. There were no component units to include in the reporting entity.

The District’s financial statements include activity from July 1, 2016, through June 30, 2017, and are prepared in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
Hugo, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position-Modified Cash Basis and the Statement of Activities-Modified Cash Basis) report information on all of the activities of the District.

The Statement of Activities-Modified Cash Basis demonstrates the degree to which the expenses are offset by revenues. Program revenues include 1) charges for construction inspection, 2) grants and contributions that are restricted to meeting the operational or capital requirements of the District, and 3) all other revenues that are generated from the program itself. Other items not properly included among program revenues (i.e., funds received from the Circuit Engineering District Revolving Fund) are reported instead as general revenues. Fiduciary funds and fiduciary type component units (if any) are omitted from the government wide financial statements.

Fund financial statements for governmental activities tell how these activities were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's significant funds.

See the table of contents for a list of the financial statements included in this report.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the current financial resources measurement focus and the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and include the elimination of internal activity between or within funds when applicable. Revenues are recorded when received rather than when earned and expenses are recorded when paid rather than when incurred.

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, inter-fund receivables and payables, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
Hugo, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. Revenues are recognized as received. Expenditures generally are recorded when a liability is paid.

The major governmental fund is the District operating fund, which reports the operating revenues and expenditures of the District.

Cash and Cash Equivalents

The District can invest in demand or time deposits, provided they are insured. FDIC insurance covers deposits of \$250,000 and less.

Checking and savings accounts with banks and any highly liquid investments with original maturities of three months or less are considered cash and cash equivalents. Certificates of deposit with a maturity of twelve months or less are included in cash and equivalents.

Capital Assets

Capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$500. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Capital assets are depreciated using the straight-line method over their estimated useful lives ranging from three to ten years. Depreciation for the year 2016-2017 was \$51,197

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
Hugo, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The range of estimated useful lives by type of asset is as follows

Buildings	40–50 years
Improvements other than buildings	10–25 years
Machinery, furniture, and equipment	3–20 years

Compensated Absences

The District does not accrue a liability for compensated absences.

Net Position

Net position represents the difference between assets and liabilities in the statement of net position. 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 position is reported as restricted when there are legal limitations on its use by legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

Net Position is classified and displayed in three components:

1. 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 attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted. Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, with restriction constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. Unrestricted. Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

**SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
Hugo, Oklahoma**

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

Governmental Funds

The difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as non-spendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. These constraints are defined as follows:

Non-spendable. Amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact.

Restricted. Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.

Committed. Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the District's highest level of decision-making authority.

Assigned. Amounts constrained by the District's intent to be used for specific purposes but that are neither restricted nor committed.

Unassigned. The residual classification of the General Fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.

It is the City's policy to first use restricted fund balances prior to the use of unrestricted fund balances when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also District policy to use committed fund balances before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classifications are available to be used.

The District has no formal minimum fund balance policies or any formal stabilization arrangements in place.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. Any difference in articulating amounts is due to rounding.

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
Hugo, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 2: DEPOSITS

Cash and cash equivalents consist of the following:

	June 30, 2016	June 30, 2017
Petty Cash	0	0
Cash in bank	605,917	481,842
Cash held by County Treasurer	0	0
Certificates of Deposit	0	0
Total Cash and Cash Equivalents	605,917	481,842

All deposits are fully collateralized.

NOTE 3: CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2017 were as follows:
 (Modified cash basis transactions)

	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Land (Not Depreciated)	\$ 27,800	0	0	27,800
Buildings	214,154	0	0	214,154
Office Furniture and Equipment	81,883	11,890	0	93,773
Testing Equipment	97,360	0	0	97,360
Vehicles	276,031	0	0	276,031
Total	697,228	0	0	709,118
Accumulated Depreciation	(363,604)	(51,197)	0	(414,801)
Net Capital Assets	\$ 333,624	(39,307)	0	294,317
Depreciation Expense for 2017- Unallocated	\$	<u>62,564</u>		

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
Hugo, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: CONCENTRATIONS

In 2016, approximately 18% (\$321,396) of total revenues (\$1,749,484) recognized by the District were derived from state gasoline excise tax.

In 2017, approximately 33% (467,420) of total revenues (\$1,434,315) recognized by the District were derived from state gasoline excise tax.

NOTE 5: CONTINGENCIES AND SUBSEQUENT EVENTS

As of June 30, 2017, the District did not have any pending litigation, potential non-disclosed liabilities, or subsequent events that management believes would have a material effect on the financial statements.

NOTE 6: RISK MANAGEMENT

The District is exposed to various risks of loss related to tort; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District manages these various risks of loss through participation in the Association of County Commissioners of Oklahoma Self-Insurance Group. Potential liabilities, resulting from injuries to employees, are mitigated through participation in Comp Source Oklahoma as a member of the Association of County Commissioners of Oklahoma.

NOTE 7: BUDGETARY COMPARISON INFORMATION

The District has no requirement for a legally adopted budget. The District does prepare an annual budget for internal use and management purposes.

NOTE 8: OPERATING LEASES AND RENTAL EXPENDITURES

The District did not have any material operating leases nor any material future lease commitments for 2016.

NOTE 9: EMPLOYEE RETIREMENT SYSTEM AND PLAN

Description of Plan — The County (the primary government) contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Section 901 through 943, as amended, established the provisions of the Plan. OPERS issued a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P. O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008. Contributions during the fiscal year 2016-2017 totaled \$127,958.

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
Hugo, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 10: LONG TERM DEBT

LONG TERM DEBT

Capital Lease Obligations:		<u>Principal</u>		
Balance	06/30/2016	\$	0	
Additions			0	
Reductions			<u>(0)</u>	
Balance	06/30/2017	\$	<u>0</u>	
Interest Expense	06/30/2017	\$	<u>0</u>	
Debt Service Requirements:		<u>Total</u>	<u>Interest</u>	<u>Prin</u>
Year Ended June 30,	2018	\$	0	0
	2019		0	0
	2020		0	0
	2021		0	0
	2022		<u>0</u>	<u>0</u>
		\$	<u>0</u>	<u>0</u>

There were not any long-term debt transactions during fiscal year ended June 30, 2017.

NOTE 11: SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 31, 2017, which is the date the financial statements were available to be issued and were released. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

**SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
Hugo, Oklahoma**

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 12: FUND BALANCES:

Fund balances of the City's governmental funds at June 30, 2017, are classified as follows regarding level of constraint:

Fund Balances:		General Fund
Unassigned	\$	474,302
Total	\$	474,302

SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT

Hugo, Oklahoma

June 30, 2017

INTERNAL CONTROL AND COMPLIANCE

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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
Southeast 3 Circuit Engineering District
Hugo, Oklahoma

We have audited the financial statements of the governmental activities and each major fund of Southeast 3 Circuit Engineering District, Hugo, Oklahoma, (the "District"), as of and for the year ended June 30, 2017, which collectively comprise the Districts' basic financial statements and have issued our report thereon dated December 21, 2017. In our report, our opinion was modified because the financial statements were prepared on the modified cash basis of accounting, which is 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

In planning and performing our audit of the financial statements, we considered the District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies (2017-01 and 2017-02).

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District'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 result 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 *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Joe Bob Smith CPA, PC
Certified Public Accountants**

**Broken Bow, Oklahoma
December 21, 2017**

**JOE BOB SMITH CPA, PC
CERTIFIED PUBLIC ACCOUNTANT
P.O. BOX 70
BROKEN BOW, OKLAHOMA 74728
580-584-6840**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2017

**SOUTHEAST 3 CIRCUIT ENGINEERING DISTRICT
HUGO, OKLAHOMA**

2017-01:

CRITERIA:

Internal Control Integrated Framework (COSO), AU Sections 319 and 325.

CONDITION:

There was an absence of segregation of duties consistent with appropriate control objectives.

CAUSES:

Inherent limitations of a small organization due to limited number of employees.

1. A preliminary listing of all receipts is not made by an individual other than the bookkeeper before receipts are turned over to the bookkeeper.
2. Two different people do not reconcile the bank account and make out the deposit slips, due to a limited number of employees.

RECOMMENDATIONS:

1. The board should review all invoices, or other documentation, in support of disbursements.
2. A form should be prepared for all sales of property or equipment. The form should include a complete description of the property sold, to who sold, terms, and other conditions of the sale. A file should be kept on each sale including all pertinent documents.

RESPONSE AND PLANNED CORRECTIVE ACTION:

Management and the Board of Directors will see that the above recommendations are performed and monitored.

**JOE BOB SMITH CPA, PC
CERTIFIED PUBLIC ACCOUNTANT
P.O. BOX 70
BROKEN BOW, OKLAHOMA 74728
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2017-02:

CRITERIA:

The District's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the District's annual financial statements in accordance with the modified cash basis (a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America). The preparation of financial statements in accordance with the modified cash basis requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting fund financial statements, including the related footnotes (i.e., external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot perform any part of management's control activities.

CONDITION:

As is the case with many smaller entities, the District has historically relied extensively on its independent external auditors to provide the needed expertise to provide advise and assistance in the preparation of the financial statements and footnotes.

CONTEXT:

Inability to meet the District's responsibilities for internal controls over financial reporting.

EFFECT:

As a result of this condition, without reliance on its external auditors, the District lacks the necessary internal controls over the preparation of financial statements in accordance with the modified cash basis.

CAUSE:

Lack of financial reporting system to produce required financial reports.

RECOMMENDATION:

The District should consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise, and continuing education to prepare financial statements in accordance with the modified cash basis of accounting without reliance on the external financial statement auditor.

RESPONSE AND PLANNED CORRECTIVE ACTION:

Management's position is that it is not cost effective to remedy this situation at this time.



Joe Bob Smith CPA, PC
Certified Public Accountants
Broken Bow, Oklahoma

December 21, 2017