

**Circuit Engineering District No. 4**  
**Shawnee, Oklahoma**

*Financial Statements*

June 30, 2017  
(With Independent Auditors' Report Thereon)



**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**FINANCIAL STATEMENTS**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Circuit Engineering District No. 4

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Circuit Engineering District No. 4 (the "District"), which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes 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.

### **Auditors' 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 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 from 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 auditors' 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 auditors consider internal control relevant to the District'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 District'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.

(Continued)

## **INDEPENDENT AUDITORS' REPORT, CONTINUED**

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

### **Emphasis of Matter**

#### *Correction of Errors*

As described in Note 2, the July 1, 2016, net position has been restated to correct errors in reporting prepaid expenses, salary-related expenses, and pension expense associated with a pension plan.

### **Other Matters**

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-7 and the required supplementary information on pages 20 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2018, 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.

*Finley & Cook, PLLC*

Shawnee, Oklahoma  
February 5, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Circuit Engineering District No. 4 (the "District") is a multi-county governmental entity voluntarily comprised of member-counties: Coal, Hughes, Johnston, Lincoln, Okfuskee, Pontotoc, Pottawatomie, and Seminole. The District became active on January 1, 2003, with the primary objective to employ professional and technical personnel to provide value-based service and analysis of information in order to maximize the economic benefit of the resources available for the maintenance and construction of their road and bridge inventories.

This section of the District's annual financial report presents a discussion and analysis of its financial performance for the year ended June 30, 2017. Please read it in conjunction with the financial statements which follow this section. The following tables summarize the net position and changes in net position of the District as of and for the year ended June 30, 2017:

### **Statement of Net Position**

Assets:	
Current assets	\$ 697,569
Capital assets, net	<u>267,885</u>
Total assets	<u>965,454</u>
Deferred outflows of resources related to the pension plan	<u>373,834</u>
Liabilities:	
Current liabilities	116,042
Net pension liability	<u>319,812</u>
Total liabilities	<u>435,854</u>
Deferred inflows of resources related to the pension plan	<u>112,919</u>
Net position:	
Invested in capital assets, net	267,885
Unrestricted	<u>522,630</u>
Total net position	<u><u>\$ 790,515</u></u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

**Statement of Revenues, Expenses and  
Changes in Net Position**

Operating revenues:		
Construction, engineering, and inspection	\$	880,527
Sign design and production		83,190
Other		<u>267,856</u>
Total operating revenues		<u>1,231,573</u>
Operating expenses:		
Project construction, engineering, and inspection		186,552
Salaries and benefits		796,176
Other operating expenses		<u>200,793</u>
Total operating expenses		<u>1,183,521</u>
Operating income		<u>48,052</u>
Change in net position		48,052
Net position, beginning of year, as restated		<u>742,463</u>
Net position, end of year	\$	<u><u>790,515</u></u>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

### **Overview of the Financial Statements**

The three financial statements are as follows:

- **Statement of Net Position**—This statement presents information reflecting the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents the amount of total assets, deferred outflows of resources, less total deferred inflows of resources, and liabilities. The statement of net position is categorized as to current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement date.
- **Statement of Revenues, Expenses, and Changes in Net Position**—This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses, during the fiscal year. Major sources of operating revenues are from bridge inspections, construction, and engineering services; and major sources of operating expenses are salaries and benefits, and project design expenses. The change in net position for an enterprise fund is the equivalent of net profit or loss for any other business enterprise.
- **Statement of Cash Flows**—The statement of cash flows is presented using the direct method of reporting which reflects cash flows from operating, capital and related financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### **Financial Highlights**

Circuit Engineering District 4 is operated to function as an independent engineering department for the eight member-counties.

- The District does not have any structured debt. The District's liabilities are limited to current accounts payable, accrued salaries and benefits, and the pension liability.
- The District's assets, net of cash, are comprised of buildings, machinery and equipment, office equipment, and vehicles related to the construction segment. The building assets are expected to appreciate in value. Due to depreciation, the other assets can be expected to remain functional but, over time, decline in financial value.
- Cash and cash equivalents increased from \$450,315 to \$567,591 (net increase of \$117,276). Management believes the increase is primarily a result of timing of receipt of revenue at year-end and the slight moderation of negative economic conditions in Oklahoma. The cash position reflects consistency with the budgeted financial goal to remain financially constant during the negative economic conditions occurring in Oklahoma.
- The decrease from 2016 in total operating revenues of approximately \$157,000 for the year ended June 30, 2017, was due to budgeted decreases in construction, engineering and inspection services.
- Total operating expenses decreased approximately \$193,000 for the year ended June 30, 2017, due primarily to a decrease in project construction, engineering, and inspection expenses of approximately \$114,000, a decrease in salaries and benefits of approximately \$25,000, and a decrease in maintenance costs of approximately \$50,000.
- At June 30, 2017, the District's current assets increased approximately \$121,000 and its current liabilities increased approximately \$51,000.
- At June 30, 2017, the District's net pension liability approximated \$320,000, deferred outflows of resources approximated \$374,000, and deferred inflows of resources approximated \$113,000.



## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### **Financial Highlights, Continued**

The financial structure of Circuit Engineering Districts are unique in the fact that they receive no direct dedicated funding source; and, the fact that the member-counties (by way of the District's Board of Directors) set salary ranges, approve agreement parameters, review entity performance and determine the overall budget. However, the primary incomes are from non-member sources. It is important to note that as a governmental entity all service incomes are reimbursements of expensed funds. In the FY 2017 reporting period design engineering and related services accounted for approximately 34% of service income. These funds are primarily generated by the use of CIRB Program state funds through agreement with the Oklahoma Department of Transportation. Bridge inspection service performed for the member-counties contributed approximately 21% of service income. Bridge inspection funding is a mix of 80% federal funds and 20% state funds obtained by agreement with the Oklahoma Department of Transportation and Federal Highway Administration. Physical construction and maintenance assistance to the member-counties accounted for approximately 17% of service income. These funds are received from member-county accounts. Seven percent of service income was generated by the sign making department. In FY 2017 the District received \$246,814 in state funds (old state CIRB Program) that are passed through from the state-wide Oklahoma Cooperative Circuit Engineering Board. At the District, these funds are held in a separate account. The use of these funds is determined annually by the District's member-counties.

The District's revenue and expenses were consistent with the budgetary parameter approved by the Board of Directors.

It is significant to note that one of the other revenue sources increased from \$201,463 received in FY 2016 to \$246,814 received in FY 2017. These funds are received from the state-wide Oklahoma Cooperative Circuit Engineering Board. These funds are held in a separate account from other revenue sources.

### **Capital Assets**

As of June 30, 2017, the District had invested approximately \$679,000 in capital assets, including buildings, machinery and equipment, office equipment, and vehicles. Net of accumulated depreciation, the District's net capital assets at June 30, 2017, approximated \$268,000. Additional details concerning the District's capital assets can be found in the notes to the financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### **Financial Outlook**

The financial outlook for the District is positive and on course with the Board of Directors' policy of steady, well-planned maintenance of necessary services. In FY 2018, the District will realize the benefit of the primary services of:

- Project design engineering, planning, and management service. This service provides in-depth expert understanding of the complexities involved in bringing a project from design to actual construction. Subsequently, the District can assist its member-counties in economically maximizing the quality and quantity of projects constructed within its boundaries.
- Safety bridge inspection service. This service provides highly trained and certified bridge inspection personnel to insure the District's local government owned bridges are acceptably safe for the driving public. In addition, the District analyzes the obtained inspection data to provide an in-depth report to each inspected entity. This report is designed to be understandable and useful for planning of long-term construction schedules and short-term maintenance schedules. It is important to note safety bridge inspection is a federally mandated and funded program.
- Small footprint project construction assistance. This service provides seasoned, experienced personnel to assist in the construction of non-typical small construction and maintenance jobs that require limited engineering. The District also provides a large array of tools and construction equipment for the use in these endeavors that are typically not possessed by individual counties. This crew is available, and has been used as a rapid response team for unexpected work that from time to time can occur.
- Sign inventory management. This service is a road sign manufacturing service that is primarily used as an inventory management tool. By consolidating the raw materials needed by the individual member-counties and employing just-in-time output methodology the on-hand sign inventory (of each county) has been greatly reduced at significant savings. In addition, this service provides the ability to quickly manufacture non-typical signage and provide staff knowledgeable in the interpretation of the Manual on Uniform Traffic Control Devices.

The District currently is in the second year of a two-year reimbursement agreement with the Oklahoma Department of Transportation that covers the bulk of project design engineering and bridge inspection. Task order funds are encumbered for the future expected FY 2018 work of these two services. Construction assistance service currently has a normal 6- to 9-month backlog in requested service from the member-counties. The sign making service workload is steady to above normal. The above described primary services are expected to continue to exceed service expectations and remain within fiscal budget boundaries.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

### **Financial Outlook, Continued**

Management believes there is only one area of concern that could cause a negative impact to the continued positive financial outlook of the District. The large reliance on state and federal funding requires diligent monitoring of reimbursement flow from these entities. Currently, reimbursements are steady with an approximate 4-week lag between submittal and receipt. However, a slow-down in repayment can result in the diversion of funds that possess a higher and better use. Management closely monitors the reimbursement schedule for timely intervention should this issue manifest itself.

In conclusion, the District is operated as a provider of value-based asset management services. Following this philosophy, management does not focus on the building of physical capital assets. Instead, management focus is to, when needed, add necessary intellectual-asset value through the careful employment of highly qualified personnel and use of supplementary contract consultation. Management believes that the District will remain in a steady maintenance stage and continue to use funds available to retain needed personnel and the limited capital assets necessary to support the accomplishment of member-county requested services.

### **Contacting the District's Management**

This financial report is designed to provide patrons and interested parties with a general overview of the District's finances and to demonstrate the District's accountability for its finances. If you have questions about this report or need additional financial information, contact:

Matt Goodson, General Manager  
Circuit Engineering District No. 4  
40002 Benson Park Road  
Shawnee, OK 74801  
Telephone: 405-214-0058

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**STATEMENT OF NET POSITION**

*June 30, 2017*

<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 567,591
Accounts receivable	115,957
Inventory	14,021
Total current assets	<u>697,569</u>
Non-current assets:	
Capital assets, net	<u>267,885</u>
Total non-current assets	<u>267,885</u>
Total assets	<u>965,454</u>
<b>Deferred Outflows of Resources</b>	
Deferred amounts related to the pension plan	<u>373,834</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	69,093
Accrued payroll liabilities	31,494
Compensated absences payable	15,455
Total current liabilities	<u>116,042</u>
Noncurrent liabilities:	
Net pension liability	<u>319,812</u>
Total noncurrent liabilities	<u>319,812</u>
Total liabilities	<u>435,854</u>
<b>Deferred Inflows of Resources</b>	
Deferred amounts related to the pension plan	<u>112,919</u>
<b>Net Position</b>	
Invested in capital assets, net	267,885
Unrestricted	<u>522,630</u>
Total net position	<u>\$ 790,515</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

*Year Ended June 30, 2017*

Operating revenues:	
Construction, engineering, and inspection	\$ 880,527
Sign design and production	83,190
Other	<u>267,856</u>
Total operating revenues	<u>1,231,573</u>
Operating expenses:	
Salaries and benefits	796,176
Project engineering and design	146,992
Construction fuel and supplies	39,560
Repairs and maintenance	12,980
Utilities	5,091
Insurance	10,988
Administrative expenses	36,128
Professional services	20,299
Sign materials	59,765
Depreciation	<u>55,542</u>
Total operating expenses	<u>1,183,521</u>
Operating income	<u>48,052</u>
Change in net position	48,052
Net position, beginning of year, as restated	<u>742,463</u>
Net position, end of year	<u>\$ 790,515</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**STATEMENT OF CASH FLOWS**

**Increase (Decrease) in Cash and Cash Equivalents**

*Year Ended June 30, 2017*

**Cash flows from operating activities:**

Cash received from operating revenues	\$ 1,223,744
Cash payments for goods and services	(263,711)
Cash payments for salaries and benefits	<u>(813,963)</u>
Net cash provided by operating activities	<u>146,070</u>

**Cash flows from capital, noncapital, and related financing activities:**

Purchases of capital assets	<u>(28,794)</u>
Net cash used in capital, noncapital, and related financing activities	<u>(28,794)</u>

**Net increase in cash and cash equivalents**

117,276

Cash and cash equivalents, beginning of year

450,315

Cash and cash equivalents, end of year

\$ 567,591

**Reconciliation of operating income to net cash provided by operating activities:**

Operating income	\$ 48,052
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	55,542
Changes in deferred amounts related to pensions	(221,617)
Changes in operating assets and liabilities:	
Accounts receivable	(7,829)
Inventory	3,882
Accounts payable	64,210
Accrued payroll liabilities	(13,623)
Compensated absences payable	774
Net pension liability	<u>216,679</u>
Net cash provided by operating activities	<u>\$ 146,070</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2017**

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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Operations**

Circuit Engineering District No. 4 (the “District”) is a multi-county governmental organization voluntarily comprised of eight member-counties established in April 1999 pursuant to the authority of Title 74, Chapter 31, Interlocal Cooperation Act and Title 69, Section 687.1, Circuit Engineering Districts of the Oklahoma Statutes. The District became active on January 1, 2003, with the purpose of providing safety bridge inspections and project design engineering, planning and management services to the following eight member-counties: Coal, Hughes, Johnston, Lincoln, Okfuskee, Pontotoc, Pottawatomie, and Seminole (the “Counties”). The District also provides small footprint construction assistance and road sign manufacturing services to the Counties. The District’s Board of Directors is comprised of one county commissioner from each of the Counties.

**Basis of Accounting**

The District prepares its financial statements on the enterprise fund basis using the economic measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the obligation is incurred.

**Financial Statement Presentation**

The District follows the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* (GASB 34), in preparing its financial statements.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of 3 months or less to be cash and cash equivalents.

**Accounts Receivable**

Accounts receivable consist of unpaid billings of inspection, engineering, construction, and sign manufacturing services. The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts was considered necessary.

See Independent Auditors’ Report.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Inventory**

Inventory consists of road sign construction materials, which are valued at the lower of cost or net realizable value.

**Capital Assets**

Capital assets are stated at cost and depreciated on the date they are placed into service. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are 40 years for buildings and structures; 7 years for machinery and equipment; and 5 years for vehicles and office equipment.

**Compensated Absences**

The District's employees can accrue a maximum of 480 hours of vacation pay. Upon termination, accrued unpaid hours will be paid at the employee's hourly rate then in effect. Sick leave can be accrued at a rate of 12 days per year (8 hours for every full month of service, for a maximum of 130 days), but is not paid upon termination.

The District's non-exempt employees are required to utilize compensatory time off in lieu of cash overtime payments. Compensatory time off is granted to an employee at a rate of 1½ hours for each hour of overtime worked. Each non-exempt employee can accrue up to 240 hours of compensatory time.

**Net Position**

Net position is classified and displayed in three components:

*Invested in Capital Assets, Net*—Consists of capital assets, net of accumulated depreciation, less the balance of debt incurred to finance the acquisition, construction, or improvement of the related capital assets.

*Restricted*—Consists of net position with constraints placed on the use either by i) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or ii) law through constitutional provisions or enabling legislation. The District had no restricted net position as of June 30, 2017.

*Unrestricted*—Consists of all other net position that do not meet the definition of "Invested in Capital Assets, Net" or "Restricted."

See Independent Auditors' Report.



**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Income Tax**

The District is exempt from federal and state income taxes.

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

**Recent Accounting Pronouncements**

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 addresses employer and governmental non-employer contributing entities' accounting and financial reporting when participating in an other postemployment benefit (OPEB) plan. This statement requires proper recognition of OPEB liabilities by employers and requires a more comprehensive measure of OPEB expense. More robust disclosures will also improve transparency and accountability. GASB 75 is effective for financial statements for the periods beginning after June 15, 2017. The District will adopt GASB 75 effective July 1, 2017, for the June 30, 2018, reporting year. The District does not expect GASB 75 to have a significant impact on the financial statements.

In March 2017, GASB issued Statement No 85, *Omnibus 2017* (GASB 85). GASB 85 clarified several practice issues identified during the application of earlier GASB pronouncements. GASB 85 addresses topics including the blending of component units, goodwill and negative goodwill, fair value measurement and application, employer accounting and reporting for pensions and OPEB, and reporting by OPEB plans. The District will adopt GASB 85 on July 1, 2017, for the June 30, 2018, reporting year. The District does not expect GASB 85 to have a significant impact on the financial statements.

**Date of Management's Review of Subsequent Events**

Management has evaluated subsequent events through February 5, 2018, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

See Independent Auditors' Report.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(2) CORRECTION OF ERRORS**

The July 1, 2016, net position has been restated to correct errors in reporting operating expenses, salary-related expenses, and pension expense associated with a pension plan.

The effect of the change on the July 1, 2016, net position is as follows:

As previously reported	\$	763,401
Correction of errors:		
Correction of prepaid expenses as of June 30, 2016		(8,017)
Correction of accrued payroll as of June 30, 2016		(26,681)
Correction of accrued compensated absences as of June 30, 2016		(14,681)
Correction of deferred outflows/inflows of resources and net pension liability as of June 30, 2016		<u>28,441</u>
As restated	\$	<u>742,463</u>

**(3) CASH AND CASH EQUIVALENTS**

**Custodial Credit Risk—Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's deposit policy for custodial credit risk is described as follows:

The District requires that balances on deposit with financial institutions be insured by the FDIC or collateralized by securities pledged in the District's name.

As of June 30, 2017, the carrying amount of approximately \$34,000 of the District's cash deposits was not fully collateralized by federal depository insurance or pledges.

See Independent Auditors' Report.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(4) CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017, was as follows:

	<u>Balance at June 30, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2017</u>
Buildings	\$ 179,187	-	-	179,187
Machinery and equipment	297,451	-	-	297,451
Office equipment	43,249	-	-	43,249
Vehicles	130,382	28,794	-	159,176
Total capital assets	<u>650,269</u>	<u>28,794</u>	<u>-</u>	<u>679,063</u>
Accumulated depreciation:				
Buildings	(7,754)	(4,230)	-	(11,984)
Machinery and equipment	(182,664)	(40,872)	-	(223,536)
Office equipment	(39,643)	(1,480)	-	(41,123)
Vehicles	(125,575)	(8,960)	-	(134,535)
Total accumulated depreciation	<u>(355,636)</u>	<u>(55,542)</u>	<u>-</u>	<u>(411,178)</u>
Capital assets, net	<u>\$ 294,633</u>	<u>(26,748)</u>	<u>-</u>	<u>267,885</u>

**(5) PENSION PLAN**

**Plan Description**

The District contributes to the Oklahoma Public Employees Retirement Plan, a cost-sharing, multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (collectively referred to as “OPERS”). OPERS provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the Oklahoma Legislature. Title 74 of the Oklahoma Statutes, Sections 901–943, as amended, assigns the authority for management and operation of OPERS to the Board of Trustees of OPERS. OPERS issues a publicly available annual financial report that includes financial statements and required supplementary information for OPERS. That annual report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 200, Oklahoma City, Oklahoma 73118 or by calling 1-800-733-9008, or can be obtained at [www.opers.ok.gov/websites/opers/images/pdfs/CAFR-2017-OPERS.pdf](http://www.opers.ok.gov/websites/opers/images/pdfs/CAFR-2017-OPERS.pdf).

See Independent Auditors’ Report.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(5) PENSION PLAN, CONTINUED**

**Benefits Provided**

OPERS provides members with full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983, must have 6 or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of 10 years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having 8 years of credited service whose disability status has been certified as being within 1 year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

For state, county, and local agency employees, benefits are determined at 2% of the average annual salary received during the highest 36 months of the last 10 years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last 10 years. Normal retirement age under the plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the plan.

See Independent Auditors' Report.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(5) PENSION PLAN, CONTINUED**

**Benefits Provided, Continued**

Members become eligible to vest fully upon termination of employment after attaining 8 years of credited service, or the members' contributions may be withdrawn upon termination of employment.

Upon the death of an active member, the accumulated contributions of the member are paid to the member's named beneficiary(ies) in a single lump sum payment. If a retired member elected a joint annuitant survivor option or an active member was eligible to retire with either reduced or unreduced benefits or eligible to vest the retirement benefit at the time of death, benefits can be paid in monthly payments over the life of the spouse if the spouse so elects.

Benefits are payable to the surviving spouse of an elected official only if the elected official had at least 6 years of participating elected service and was married at least 3 years immediately preceding death. Survivor benefits are terminated upon death of the named survivor and, for elected officials, remarriage of the surviving spouse. Upon the death of a retired member with no survivor benefits payable, the member's beneficiary(ies) are paid the excess, if any, of the member's accumulated contributions over the sum of all retirement benefit payments made.

Upon the death of a retired member, OPERS will pay a \$5,000 death benefit to the member's beneficiary, or to the estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the beneficiary.

Benefits are established and may be amended by the State Legislature.

**Contributions**

The contribution rates for each member category of OPERS are established by the Oklahoma Legislature after recommendation by the Board of Trustees of OPERS based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation.

For 2017, member employers contributed 16.5% on all salary and member employees contributed 3.5% on all salary.

See Independent Auditors' Report.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(5) PENSION PLAN, CONTINUED**

**Contributions, Continued**

Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91%, which is actuarially determined. The election is available for all state, county, and local government employees, except for elected officials and hazardous duty members.

Contributions to OPERS by the District for 2017 were \$90,023.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability. As of June 30, 2017, the net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The District's proportion of the net pension liability was based on the District's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2016. Based upon this information, the District's proportion for June 30, 2017, was 0.03223163%.

For the year ended June 30, 2017, the District recognized net pension expense of approximately \$82,000. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	14,054
Changes of assumptions	51,128	-
Net difference between projected and actual earnings on pension plan investments	232,683	98,865
District contributions subsequent to the measurement date	<u>90,023</u>	<u>-</u>
	<u>\$ 373,834</u>	<u>112,919</u>

See Independent Auditors' Report.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(5) PENSION PLAN, CONTINUED**

**Pension Liabilities, Pension Expense, and Deferred Outflows of  
Resources and Deferred Inflows of Resources Related to Pensions, Continued**

Reported deferred outflows of resources of \$90,023 at June 30, 2017, related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$ 31,166
2019	32,940
2020	64,580
2021	<u>42,206</u>
	<u>\$ 170,892</u>

See Independent Auditors' Report.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(5) PENSION PLAN, CONTINUED**

**Actuarial Methods and Assumptions**

The total pension liability was determined on an actuarial valuation prepared as of July 1, 2016, using the following actuarial assumptions:

Investment return:	7.25%, compounded annually, net of investment expense and including inflation
Salary increases:	4.5% to 8.4% per year, including inflation
Mortality rates:	Active participants and nondisabled pensioners: RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)
Annual post-retirement benefit increases:	None
Assumed inflation rate:	3.0%
Payroll growth:	4.0% per year
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years

With the exception of the long-term rate of return used as of July 1, 2016, the actuarial assumptions used in the July 1, 2016, valuation are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2013. The experience study report is dated May 9, 2014. The long-term rate of return was modified by the Board of Trustees of OPERS during 2016.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

See Independent Auditors' Report.



**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(5) PENSION PLAN, CONTINUED**

**Actuarial Methods and Assumptions, Continued**

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. large cap equity	38.0%	5.3%
U.S. small cap equity	6.0%	5.6%
U.S. fixed income	25.0%	0.7%
International stock	18.0%	5.6%
Emerging market stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate anticipation	<u>3.5%</u>	1.5%
	<b><u>100.0%</u></b>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

See Independent Auditors' Report.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(5) PENSION PLAN, CONTINUED**

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the employer calculated using the discount rate of 7.25%, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease <u>(6.25%)</u>	Current Discount Rate <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
Net pension liability	<u>\$ 654,671</u>	<u>319,812</u>	<u>35,546</u>

The net pension liability of OPERS has been determined based on current guidelines and reporting standards. With the implementation of GASB 75 as of July 1, 2017, the net pension liability is expected to change and the OPEB net liability for OPERS could possibly increase. The total impact of the implementation of GASB 75 on OPERS and the further impact on the District had not been determined as of the report date.

**Pension Plan Fiduciary Net Position**

Detailed information about OPERS’ fiduciary net position is available in the separately issued financial report of OPERS, which can be located at [www.opers.ok.gov](http://www.opers.ok.gov).

See Independent Auditors’ Report.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(6) RISK MANAGEMENT**

The District is exposed to various risks of loss and manages those risks as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
General Liability and Property	The District participates in ACCO-SIG, a public entity risk pool.	If claims exceed pool assets, the District would be required to pay its share of the pool deficit.
Worker's Compensation	The District participates in ACCO-SIF, a public entity risk pool.	If claims exceed pool assets, the District would be required to pay its share of the pool deficit.
Health and Life Insurance	The District participates in OPEH&W, a public entity risk pool.	If claims exceed pool assets, the District would be required to pay its share of the pool deficit.

**Pool entity descriptions listed below:**

**Association of County Commissioners of Oklahoma—  
Self Insurance Group (ACCO-SIG)**

The pool operates as a common risk management and insurance program and is self-sustaining through member premiums. Each member pays a deductible amount for each insured event as stated in the “Certificate of Participation.” The risk pool pays legitimate claims in excess of the deductible amounts up to and including \$50,000 per insured event. The pool has acquired commercial reinsurance to cover claims in excess of \$50,000, up to a \$1,000,000 limit per insured event. The pool established in 1986 has consistently performed at acceptable industry norms.

**Association of County Commissioners of Oklahoma—  
Self Insurance Fund (ACCO-SIF)**

The pool operates as a common risk management and insurance program and is self-sustaining through member premiums. The risk pool pays legitimate worker’s compensation claims up to \$500,000 per incident. A reinsurance policy pays claims that exceed \$500,000 per incident. The pool, established in 1986, consistently performs at acceptable industry norms.

See Independent Auditors’ Report.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(6) RISK MANAGEMENT, CONTINUED**

**Pool entity descriptions, Continued:**

**Oklahoma Public Employees Health and Welfare Trust (OPEH&W)**

The pool operates as a common risk management trust formed to provide healthcare services to its members and to be self-sustaining through member premiums. The trust was formed in 1992 and currently has over 100 participating Oklahoma governmental entity members. The trust has consistently performed at acceptable industry norms.

Management believes the above risk coverages are sufficient to preclude any significant risk exposure.

**(7) CONCENTRATIONS**

The District received revenue from three sources totaling approximately \$1,172,000 in 2017. These revenue sources represented approximately 95% of total operating revenue in 2017. The sources and amounts of revenues were as follows:

Oklahoma Department of Transportation	\$	673,000	55%
Member-counties		252,000	20%
Oklahoma Cooperative Circuit Engineering Board		<u>247,000</u>	<u>20%</u>
	\$	<u>1,172,000</u>	<u>95%</u>

**(8) CONTINGENCIES**

The District is occasionally involved in legal proceedings in the normal course of operations. At June 30, 2017, there were no outstanding legal issues.

See Independent Auditors' Report.

**SUPPLEMENTARY INFORMATION REQUIRED BY  
GOVERNMENTAL ACCOUNTING STANDARDS BOARD  
STATEMENT NO. 68**

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
NET PENSION LIABILITY  
Oklahoma Public Employees Retirement Plan**

**Last 2 Fiscal Years\***

	<u>2017</u>	<u>2016</u>
District's proportion of the net pension liability	0.03223163%	0.02867319%
District's proportionate share of the net pension liability	\$ 319,812	103,133
District's covered payroll	\$ 579,049	486,533
District's proportionate share of the net pension liability as a percentage of its covered payroll	55.23%	21.20%
OPERS' fiduciary net position as a percentage of the total pension liability	89.48%	96.00%

\* The amounts presented for each fiscal year were determined as of June 30 of the prior year.

Only the last 2 fiscal years are presented because data for the prior 8 fiscal years is not readily available.

See Independent Auditors' Report.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
Oklahoma Public Employees Retirement Plan**

**Last 2 Fiscal Years**

	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 90,023	95,543
Contributions in relation to the contractually required contributions	<u>90,023</u>	<u>95,543</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
District's covered payroll	\$ 545,593	579,049
Contributions as a percentage of covered payroll	16.50%	16.50%

Only the last 2 fiscal years are presented because data for the prior 8 fiscal years is not readily available.

See Independent Auditors' Report.



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

Board of Directors  
Circuit Engineering District No. 4

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Circuit Engineering District No. 4 (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, and have issued our report thereon dated February 5, 2018. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information.

**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 opinion 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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. We did identify a certain deficiency in internal control as described in the accompanying schedule of findings and responses as Finding 2017-001 that we consider to be a material weakness.

(Continued)



**INDEPENDENT AUDITORS' 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*, CONTINUED**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

**Management's Response to Findings**

Management's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Finley & Cook, PLLC*

Shawnee, Oklahoma  
February 5, 2018

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**SCHEDULE OF FINDINGS AND RESPONSES**

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*Year Ended June 30, 2017*

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**Finding 2017-001: Material Weaknesses Surrounding  
Internal Controls Over Financial Reporting**

*Criteria:*

The District should have sufficient internal control processes in place to ensure that the financial statements are presented, in all material respects, in accordance with accounting principles generally accepted in the United States.

*Condition:*

The June 30, 2016, audited financial statements were materially misstated due to errors in recording prepaid expenses, salary-related expenses, and pension expense associated with a pension plan. Material adjustments were made to properly record salary-related expenses, and pension-related expenses, deferred outflows and inflows of resources, and net pension liability as of and for the year ended June 30, 2017.

*Effect:*

The July 1, 2016, net position was restated to correct the errors. The financial statements were adjusted to properly state the 2017 financial statements in accordance with generally accepted accounting principles.

*Recommendation:*

We recommend that management implement sufficient internal control processes surrounding financial statement reporting to ensure that the financial statements are presented, in all material respects, in accordance with accounting principles generally accepted in the United States.

*Views of Responsible Officials and Planned Corrective Actions:*

Management of the District will implement and monitor internal controls surrounding financial statement reporting to ensure that internal controls are operating effectively. Such internal control processes will include consulting with a third-party CPA firm.

**CIRCUIT ENGINEERING DISTRICT NO. 4  
SHAWNEE, OKLAHOMA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

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*Year Ended June 30, 2017*

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There were no findings or questioned costs noted in the audit report for the year ended June 30, 2016.