Circuit Engineering District No. 4
Shawnee, Oklahoma

Financial Statements

June 30, 2018 and 2017
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

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 statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years 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 audits. We conducted our audits 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 audits 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)

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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, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

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 schedule of the District's proportionate share of net pension liability and the schedule of the District's contributions on pages 20 and 21, respectively, 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 11, 2019, 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 the effectiveness of the District's 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 11, 2019

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 years ended June 30, 2018 and 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 years ended June 30:

Statements of Net Position

		2018	2017
Assets:			
Current assets	$	658,116	697,569
Capital assets, net		230,634	267,885
Total assets		888,750	965,454
Deferred outflows of resources related to the pension plan		167,109	373,834
Liabilities:			
Current liabilities		65,935	116,042
Net pension liability		169,103	319,812
Total liabilities		235,038	435,854
Deferred inflows of resources related to the pension plan		33,166	112,919
Net position:			
Invested in capital assets, net		230,634	267,885
Unrestricted		557,021	522,630
Total net position	$	787,655	790,515

Statements of Revenues, Expenses, and
Changes in Net Position

	2018	2017
Operating revenues:		
Construction, engineering, and inspection	$ 680,291	880,527
Sign design and production	86,446	83,190
Other	307,456	267,856
Total operating revenues	1,074,193	1,231,573
Operating expenses:		
Project construction, engineering, and inspection	116,213	186,552
Salaries and benefits	776,908	796,176
Other operating expenses	183,932	200,793
Total operating expenses	1,077,053	1,183,521
Operating (loss) income	(2,860)	48,052
Change in net position	(2,860)	48,052
Net position, beginning of year	790,515	742,463
Net position, end of year	$ 787,655	790,515

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.

Financial Highlights

The District 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.

- At June 30, 2018, cash and cash equivalents increased from $567,591 to $595,302 (net increase of $27,711). Management believes the increase is primarily a result of timing of receipt of revenue at year-end. At June 30, 2017, 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.

- At June 30, 2018, the District's current assets decreased approximately $39,000 and its current liabilities decreased approximately $50,000 from June 30, 2017. At June 30, 2017, the District's current assets increased approximately $121,000 and its current liabilities increased approximately $51,000 from June 30, 2016.

- At June 30, 2018, the District's net pension liability approximated $169,000, deferred outflows of resources approximated $167,000, and deferred inflows of resources approximated $33,000. 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.

- The decrease from 2017 in total operating revenues of approximately $157,000 for the year ended June 30, 2018, was due to decreases in construction, engineering, and inspection services revenue. The decrease from 2016 in total operating revenues of approximately $157,000 for the year ended June 30, 2017, was due to decreases in construction, engineering, and inspection services revenue.

- Total operating expenses decreased approximately $106,000 for the year ended June 30, 2018, due primarily to a decrease in project construction, engineering, and inspection expenses of approximately $70,000, a decrease in salaries and benefits of approximately $19,000, and a decrease in insurance expense of approximately $4,000. 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.

Financial Highlights, Continued

The financial structure of Circuit Engineering Districts is unique in the fact that the Districts 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 2018 and 2017 reporting periods, design engineering and related services accounted for approximately 38% and 34% of service income, respectively. 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 12% and 21% of service income, respectively. Bridge inspection funding is a mix of 80% federal funds and 20% state funds obtained by agreement with the Oklahoma Department of Transportation and the Federal Highway Administration. Physical construction and maintenance assistance to the member-counties accounted for approximately 13% and 17% of service income, respectively. These funds are received from member-county accounts. Eight percent and seven percent of service income was generated by the sign making department in 2018 and 2017, respectively. In 2018 and 2017, the District received $293,054 and $246,814, respectively, 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 revenues 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 $246,814 received in FY 2017 to $293,054 received in FY 2018; and 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, 2018 and 2017, the District had invested approximately $694,000 and $679,000, respectively, 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, 2018 and 2017, approximated $231,000 and $268,000, respectively. Additional details concerning the District's capital assets can be found in the notes to the financial statements.

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 2019, 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 is currently 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 2019 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.

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:

Daniel Clements, General Manager
Circuit Engineering District No. 4
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Shawnee, OK 74801
Telephone: 405-214-0058

CIRCUIT ENGINEERING DISTRICT NO. 4
SHAWNEE, OKLAHOMA

STATEMENTS OF NET POSITION

June 30,	*2018*	*2017*
Assets		
Current assets:		
Cash and cash equivalents	$ 595,302	567,591
Accounts receivable	37,507	115,957
Inventory	25,307	14,021
Total current assets	658,116	697,569
Non-current assets:		
Capital assets, net	230,634	267,885
Total non-current assets	230,634	267,885
Total assets	888,750	965,454
Deferred Outflows of Resources		
Deferred amounts related to the pension plan	167,109	373,834
Liabilities		
Current liabilities:		
Accounts payable	18,094	69,093
Accrued payroll liabilities	31,330	31,494
Accrued compensated absences	16,511	15,455
Total current liabilities	65,935	116,042
Noncurrent liabilities:		
Net pension liability	169,103	319,812
Total noncurrent liabilities	169,103	319,812
Total liabilities	235,038	435,854
Deferred Inflows of Resources		
Deferred amounts related to the pension plan	33,166	112,919
Net Position		
Invested in capital assets, net	230,634	267,885
Unrestricted	557,021	522,630
Total net position	$ 787,655	790,515

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

CIRCUIT ENGINEERING DISTRICT NO. 4
SHAWNEE, OKLAHOMA

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30,	*2018*	*2017*
Operating revenues:		
Construction, engineering, and inspection	$ 680,291	880,527
Sign design and production	86,446	83,190
Other	307,456	267,856
Total operating revenues	1,074,193	1,231,573
Operating expenses:		
Salaries and benefits	776,908	796,176
Project engineering and design	70,809	146,992
Construction fuel and supplies	45,404	39,560
Repairs and maintenance	14,168	12,980
Utilities	5,530	5,091
Insurance	6,540	10,988
Administrative expenses	24,166	36,128
Professional services	24,275	20,299
Sign materials	57,410	59,765
Depreciation	51,843	55,542
Total operating expenses	1,077,053	1,183,521
Operating (loss) income	(2,860)	48,052
Change in net position	(2,860)	48,052
Net position, beginning of year	790,515	742,463
Net position, end of year	$ 787,655	790,515

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

CIRCUIT ENGINEERING DISTRICT NO. 4
SHAWNEE, OKLAHOMA

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

Years Ended June 30,	*2018*	*2017*
Cash flows from operating activities:		
Cash received from operating revenues	$ 1,152,643	1,223,744
Cash payments for goods and services	(310,587)	(263,711)
Cash payments for salaries and benefits	(799,753)	(813,963)
Net cash provided by operating activities	42,303	146,070
Cash flows from capital, noncapital, and related financing activities:		
Purchases of capital assets	(14,592)	(28,794)
Net cash used in capital, noncapital, and related financing activities	(14,592)	(28,794)
Net increase in cash and cash equivalents	27,711	117,276
Cash and cash equivalents, beginning of year	567,591	450,315
Cash and cash equivalents, end of year	$ 595,302	567,591
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	$ (2,860)	48,052
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation	51,843	55,542
Changes in deferred amounts related to pensions	126,972	(221,617)
Changes in operating assets and liabilities:		
Accounts receivable	78,450	(7,829)
Inventory	(11,286)	3,882
Accounts payable	(50,999)	64,210
Accrued payroll liabilities	(164)	(13,623)
Compensated absences payable	1,056	774
Net pension liability	(150,709)	216,679
Net cash provided by operating activities	$ 42,303	146,070

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

(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 statements 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.

Inventory

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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, 2018 or 2017.

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

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.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 evaluated the effect of adopting GASB 75 related to its OPEB plan (see discussion of the OPEB plan in Note 5) on its financial statements and determined the impact to be immaterial. Therefore, the District did not record the impact of adopting GASB 75 in its 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 adopted GASB 85 effective July 1, 2017. The adoption of GASB 85 did not have a significant impact on the financial statements.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through February 11, 2019, 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.

(2) 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, 2018, the District did not have any cash deposits that were not fully insured by federal depository insurance. 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.

(3) CAPITAL ASSETS

Capital asset activity for the years ended June 30 was as follows:

	Balance at June 30, 2017	Additions	Retirements	Balance at June 30, 2018
Buildings	$ 179,187	-	-	179,187
Machinery and equipment	297,451	9,589	-	307,040
Office equipment	43,249	5,003	-	48,252
Vehicles	159,176	-	-	159,176
Total capital assets	679,063	14,592	-	693,655
Accumulated depreciation:				
Buildings	(11,984)	(4,230)	-	(16,214)
Machinery and equipment	(223,536)	(40,217)	-	(263,753)
Office equipment	(41,123)	(1,638)	-	(42,761)
Vehicles	(134,535)	(5,758)	-	(140,293)
Total accumulated depreciation	(411,178)	(51,843)	-	(463,021)
Capital assets, net	$ 267,885	(37,251)	-	230,634

	Balance at June 30, 2016	Additions	Retirements	Balance at June 30, 2017
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	650,269	28,794	-	679,063
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	(355,636)	(55,542)	-	(411,178)
Capital assets, net	$ 294,633	(26,748)	-	267,885

See Independent Auditors' Report.

(4) PENSION PLAN

Plan Description

The District contributes to OPERS, a cost-sharing, multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the "System"). 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 the System (the "System's Board"). The System 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, 5400 N. Grand Boulevard, Suite 400, Oklahoma City, OK 73112-5625 or by calling 1-800-733-9008, or can be obtained at www.opers.ok.gov/websites/opers/images/pdfs/CAFR-2018-OPERS.pdf.

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.

(4) PENSION PLAN, CONTINUED

Benefits Provided, Continued

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.

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 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.

(4) PENSION PLAN, CONTINUED

Contributions

The contribution rates for each member category of OPERS are established by the Oklahoma Legislature after recommendation by the System's Board 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 both 2018 and 2017, *state agency employers* contributed 16.5% (which includes the amount contributed to the OPERS Health Insurance Subsidy Plan (See Note 5)) on all salary, and *state employees* contributed 3.5% on all salary.

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 2018 and 2017 were as follows:

2018	2017
$ 84,483	90,023

(4) PENSION PLAN, CONTINUED

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

At June 30, 2018 and 2017, the District reported a liability for its proportionate share of the net pension liability. As of June 30, 2018, the net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. 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, 2018 and 2017. Based upon this information, the District's proportion for June 30, 2018 and 2017, was 0.03127695% and 0.03223163%, respectively.

For the years ended June 30, 2018 and 2017, the District recognized a net pension expense of approximately $61,000 and $82,000, respectively. At June 30, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	30,240
Changes of assumptions	75,072	-
Net difference between projected and actual earnings on pension plan investments	7,554	-
Changes in proportion	-	2,926
Authority contributions subsequent to the measurement date	84,483	-
	$ 167,109	33,166

See Independent Auditors' Report.

(4) PENSION PLAN, CONTINUED

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

2017	Deferred Outflows of Resources	Deferred Inflows of Resources
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
Authority contributions subsequent to the measurement date	90,023	-
	$ 373,834	112,919

Reported deferred outflows of resources of $84,483 related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. The 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:	
2019	$ 15,961
2020	47,270
2021	14,218
2022	(27,989)
	$ 49,460

See Independent Auditors' Report.

(4) PENSION PLAN, CONTINUED

Actuarial Methods and Assumptions

The total pension liability as of June 30, 2018 and 2017, was determined from actuarial valuations prepared as of July 1, 2017 and 2016, respectively, using the following actuarial assumptions:

Investment return:	7.00% for 2017 and 7.25% for 2016, compounded annually net of investment expense and including inflation
Salary increases:	3.5% to 9.5% for 2017 and 4.5% to 8.4% for 2016, including inflation
Mortality rates:	For 2017 Calculation—Active participants and nondisabled pensioners: RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years) For 2016 Calculation—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:	2.75% for 2017 and 3.00% for 2016
Payroll growth:	3.5% for 2017 and 4.0% for 2016
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years

The actuarial assumptions used in the July 1, 2017, valuations are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2016. The experience study report is dated April 13, 2017. The long-term rate of return was modified by the Board of Trustees of the System during 2017.

See Independent Auditors' Report.

(4) PENSION PLAN, CONTINUED

Actuarial Methods and Assumptions, Continued

The actuarial assumptions used in July 1, 2016, valuations 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 the System 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.

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2017 and 2016, are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
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	3.5%	1.5%
	100.0%	

Discount Rate

The discount rate used to measure the total pension liability was 7.00% in 2017 and 7.25% in 2016. 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.

(4) PENSION PLAN, CONTINUED

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

The following presents the net pension liability as of June 30, 2018 and 2017, of the District calculated using the discount rate of 7.00% and 7.25%, respectively, 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 as of June 30:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
2018			
Net pension liability	$ 499,791	169,103	(110,912)

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
2017			
Net pension liability	$ 654,671	319,812	35,546

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.

(5) OTHER POSTEMPLOYMENT EMPLOYEE BENEFITS (OPEB)

The District participates in the OPERS Health Insurance Subsidy Plan, a cost-sharing, multiple-employer defined benefit public employee health insurance subsidy retirement plan which is administered by OPERS. As discussed in Note 1, the District evaluated the impact of adopting GASB 75 on its financial statements and determined the impact to be immaterial. Therefore, the District did not record the impact of adopting GASB 75 in its financial statements.

(6) RISK MANAGEMENT

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

Type of Loss	Method Managed	Risk of Loss Retained
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.

(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 $1,043,000 and $1,172,000 in 2018 and 2017, respectively. These revenue sources represented approximately 97% and 95% of total operating revenue in 2018 and 2017, respectively. The sources and amounts of revenues were as follows:

	2018		2017	
Oklahoma Department of Transportation	$ 484,000	45%	$ 673,000	55%
Member-counties	266,000	25%	252,000	20%
Oklahoma Cooperative Circuit Engineering Board	293,000	27%	247,000	20%
	$ 1,043,000	97%	$ 1,172,000	95%

(8) CONTINGENCIES

The District is occasionally involved in legal proceedings in the normal course of operations. At June 30, 2018, 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 3 Fiscal Years*

	2018	2017	2016
District's proportion of the net pension liability	0.03127695%	0.03223163%	0.02867319%
District's proportionate share of the net pension liability	$ 169,103	319,812	103,133
District's covered payroll	$ 545,593	579,049	486,533
District's proportionate share of the net pension liability as a percentage of its covered payroll	30.99%	55.23%	21.20%
OPERS' fiduciary net position as a percentage of the total pension liability	94.28%	89.48%	96.00%

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

Only the last 3 fiscal years are presented because data for the prior 7 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 3 Fiscal Years

	2018	2017	2016
Contractually required contribution	$ 84,483	90,023	95,543
Contributions in relation to the contractually required contributions	84,483	90,023	95,543
Contribution deficiency (excess)	$ -	-	-
District's covered payroll	$ 550,377	545,593	579,049
Contributions as a percentage of covered payroll	15.35% *	16.50%	16.50%

Only the last 3 fiscal years are presented because data for the prior 7 fiscal years is not readily available.

*The District adopted GASB 75 effective July 1, 2017; therefore, this amount represents the net percentage for the GASB 68 contribution to OPERS. When combined with the OPERS Health Insurance Subsidy Plan percentage for GASB 75 contributions to OPERS, the total amount contributed to OPERS was 16.50%.

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, 2018, and the related notes to the financial statements, and have issued our report thereon dated February 11, 2019. 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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2018-001, that we consider to be a material weakness.

(Continued)

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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 11, 2019

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2018

Finding 2018-001: 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:
Material adjustments were made to properly record salary-related expenses, pension-related expenses, deferred outflows and inflows of resources, net pension liability, and net position as of and for the year ended June 30, 2018.

Effect:
The financial statements were adjusted to properly state the 2018 financial statements in accordance with accounting principles generally accepted in the United States.

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.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2018

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.

2018 Follow-Up:

The District utilizes a third-party CPA firm to assist in the preparation of its financial statements. This is a repeat comment. See Finding 2018-001. Entries made in 2018 were primarily the result of GASB 68 entries and prior-year entries to balance beginning net position.