

**CIRCUIT ENGINEERING  
DISTRICT # 7, OKLAHOMA**

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2014**

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# INTRODUCTORY SECTION

# *Circuit Engineering District #7*

*P.O. Box 337*

*Clinton, OK 73601*

*Tel. (580) 323-8685 Fax (580) 323-8680*

*Serving Beckham, Blaine, Custer, Dewey, Greer, Harmon, Jackson, Kiowa, Roger Mills, Tillman, and Washita Counties*

November 24, 2014

To the Citizens of Circuit Engineering District #7:

We are pleased to present the Circuit Engineering District #7 (the "District") annual financial statements for the year ended June 30, 2014. This report contains basic financial statements and other financial and statistical information, providing complete and full disclosure of all financial aspects of the CED for fiscal year 2014.

Responsibility for the accuracy, completeness and fairness of this report rests with the District. This report was prepared in conformity with generally accepted accounting principles set forth by the Governmental Accounting Standards Board ("GASB") and other recognized authoritative sources, and it is representative of the District's commitment to provide complete financial information.

The financial statement is divided into three sections:

1. The Introductory Section contains a letter of transmittal and organizational charts for the CED staff and Board of Directors.
2. The Financial Section contains the independent auditor's report; management's discussion and analysis; basic financial statements; and notes to the basic financial statements.
3. The Statistical Section includes selective financial, economic, and demographic information about the CED and its member counties.

## **Form of Government and Reporting Entity**

The District was created October 9, 1998 and began operations August 1, 1999, under Title 69, Section 687.1 Circuit Engineering Districts of Oklahoma Statute; and complies with Title 74, Chapter 31, Interlocal Cooperation Act. Within the statute, the board of county commissioners of any county within the state may create a circuit engineering district with any other county or counties located within its Association of County Commissioners of Oklahoma district to assist the counties in carrying out the day-to-day activities related to road maintenance, construction, engineering and inspection.

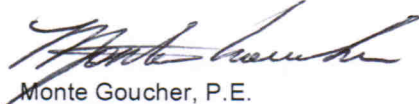
The District covers an eleven county region including: Beckham, Blaine, Custer, Dewey, Greer, Harmon, Jackson, Kiowa, Roger Mills, Tillman, and Washita counties. During fiscal year 2013, these counties participated together in bridge inspection services, bridge and roadway design and construction engineering services, construction inspection services, sign making, Force account bridge construction and training classes for the member counties.

The District also reports one blended component unit, the CED#7 County Energy District Authority (the "Authority"). The Authority was created under Title 60 on October 26, 2010 under provision of the Oklahoma Statutes by a Declaration of the Trust. The District has beneficial interest and the trustees of the District serve as Trustees of the Authority.

### **Factors Affecting Financial Condition**

The District operates from five financial sources: Oklahoma Department of Transportation bridge inspection fees, design and construction engineering fees, construction inspection fees, force account bridge construction fees and legislative grants administered by the Association of County Commissioners of Oklahoma. For additional information on the financial condition of the District, please review the Management Discussion and Analysis in Section II of the financial statement.

Respectfully submitted,

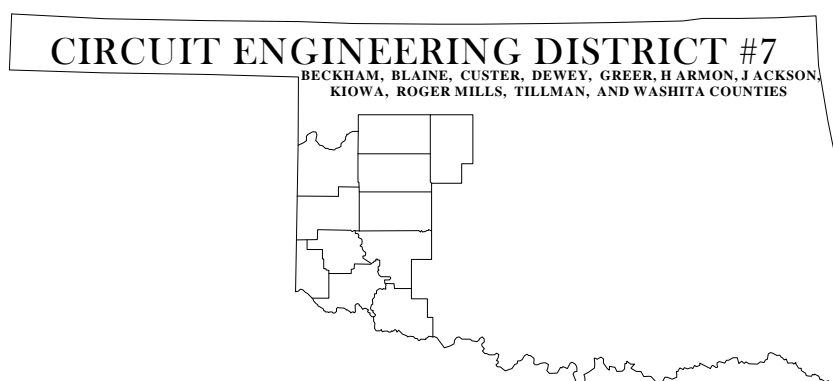
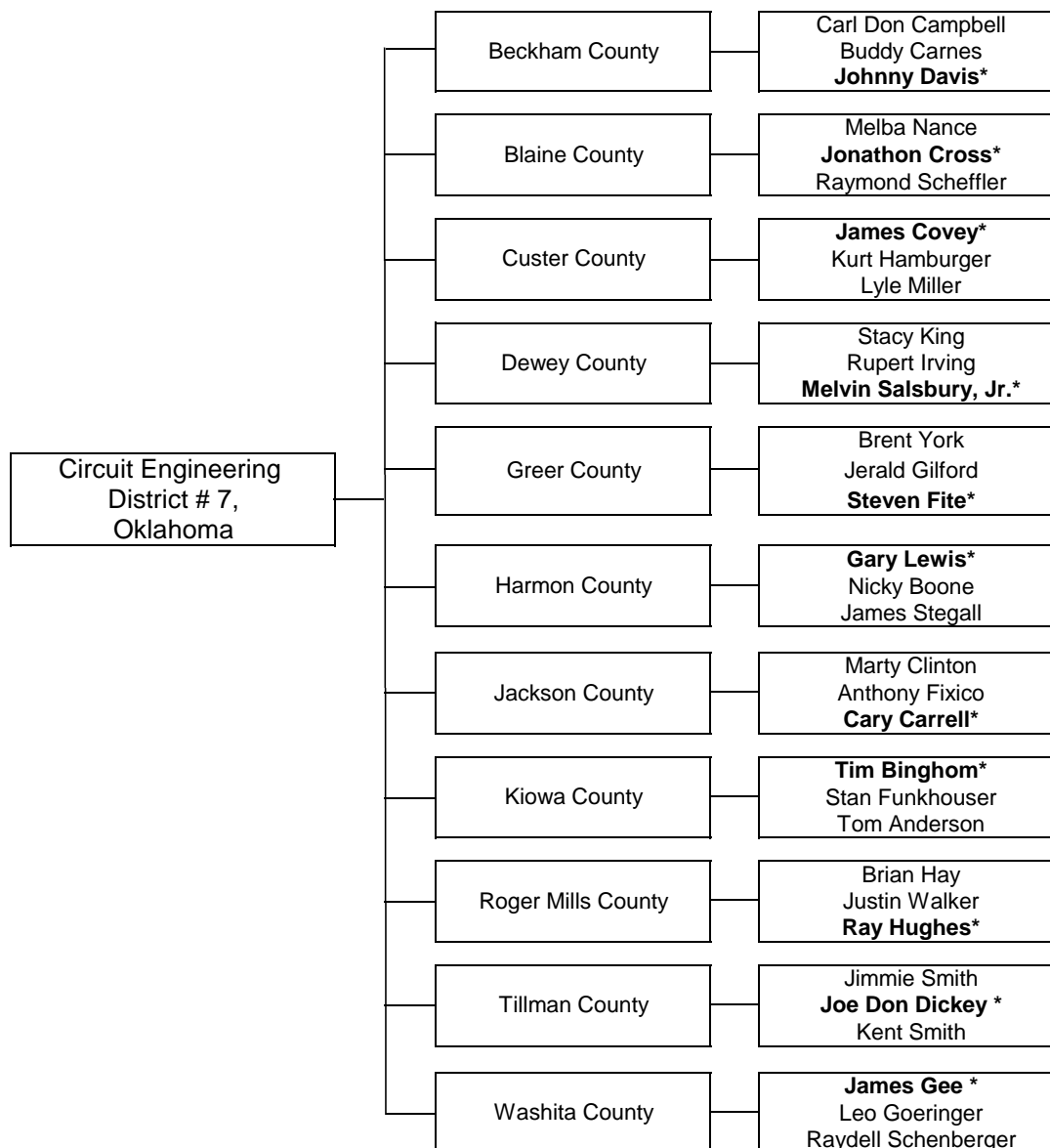


Monte Goucher, P.E.  
Executive Director, Circuit Engineer CED #7

# Circuit Engineering District #7, Oklahoma

## 2013-2014 Board of Directors

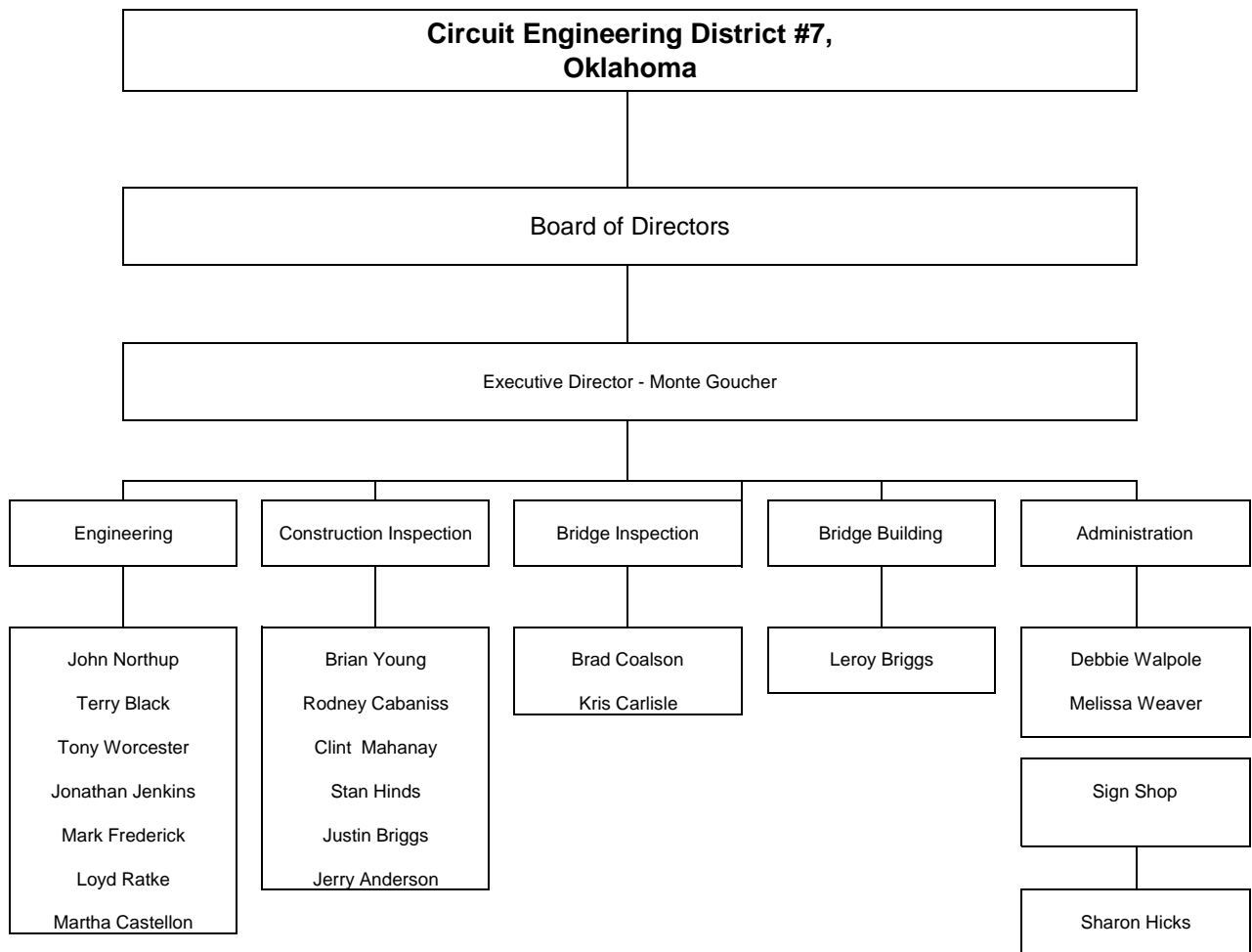
### Organizational Chart



\* Member of the Circuit Engineering District Board of Directors

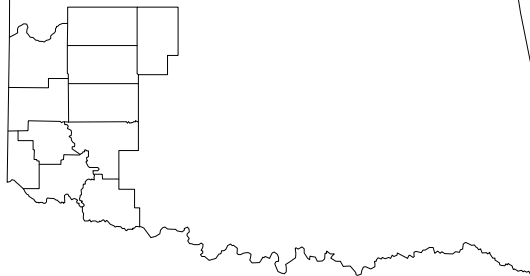
# Circuit Engineering District #7, Oklahoma

## 2013-2014 Staff Organizational Chart



### CIRCUIT ENGINEERING DISTRICT #7

BECKHAM, BLAINE, CUSTER, DEWEY, GREER, HARMON, JACKSON,  
KIOWA, ROGER MILLS, TILLMAN, AND WASHITA COUNTIES



Emulsion Plant:  
Michael Thorpe  
Jesse Fox

# FINANCIAL SECTION



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Civil Engineering District #7

We have audited the accompanying financial statements of the governmental activities, the business-type activities, its major fund, of Civil Engineering District #7 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the major fund, of the Civil Engineering District # 7, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–6 and 25 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 of America, 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Civil Engineering District #7's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**FSW&B CPA'S- PLLC**

Stillwater, OK  
December 10, 2014

**CIRCUIT ENGINEERING DISTRICT #7  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

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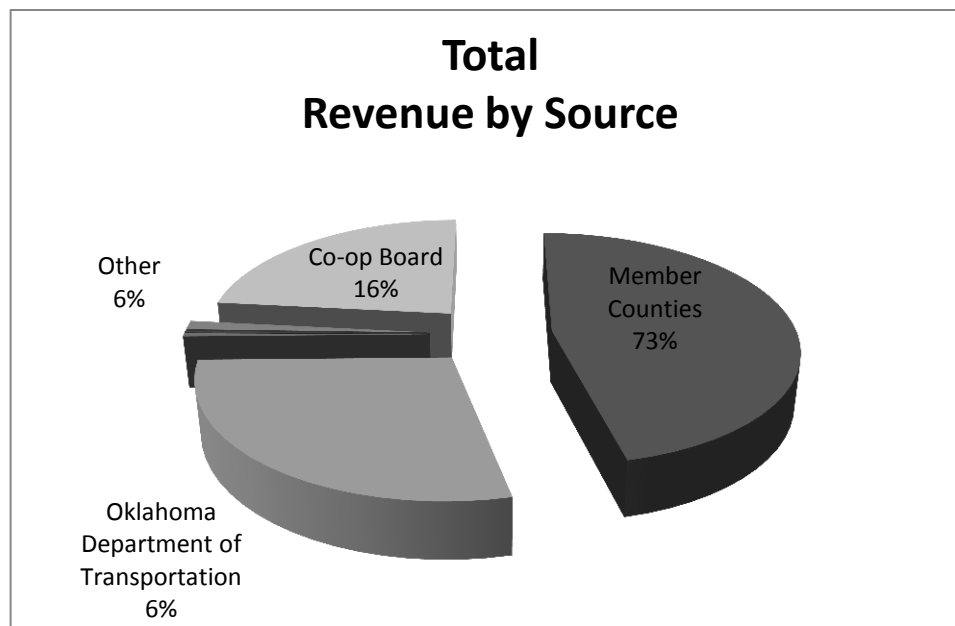
Our discussion and analysis of the Circuit Engineering District #7's ("District") performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2014. Please review it in conjunction with the transmittal letter and the District's basic financial statements.

**Financial Highlights**

- The District's assets exceeded its liabilities by \$3,098,933 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$3,078,338.
- Total net position is comprised of the following:
  - (1) Capital assets, net of related debt, of \$552,218 include property and equipment, net of accumulated depreciation. The District had outstanding debt of \$2,722,651 related to capital assets as of June 30, 2014.
  - (2) Unrestricted net assets of \$1,775,107 represent the portion available to maintain the District's continuing obligations to member counties and creditors. Included in restricted net assets is \$369,830, which the District has restricted internally for capital asset purchases.
- Total liabilities of the District increased from \$2,458,046 to \$2,722,651 during the fiscal year. The increase is attributable to notes payable for the construction of the Energy District.
- Over \$565,000 in revenues was generated from CIRB through project management, interest earnings, and CBRI direct allocation per state statute.

Operations for the fiscal year 2014 were mainly supported by engineering fees, OCCEDB distributions and construction inspection fees, which provided 40%, 18% and 28% of revenues for the year. Bridge inspection fees (6%), sign shop proceeds (1%), and bridge building proceeds (5%) also contributed to the operations for the year. Investment earnings, and auction proceeds provided the remainder of the support for the year.

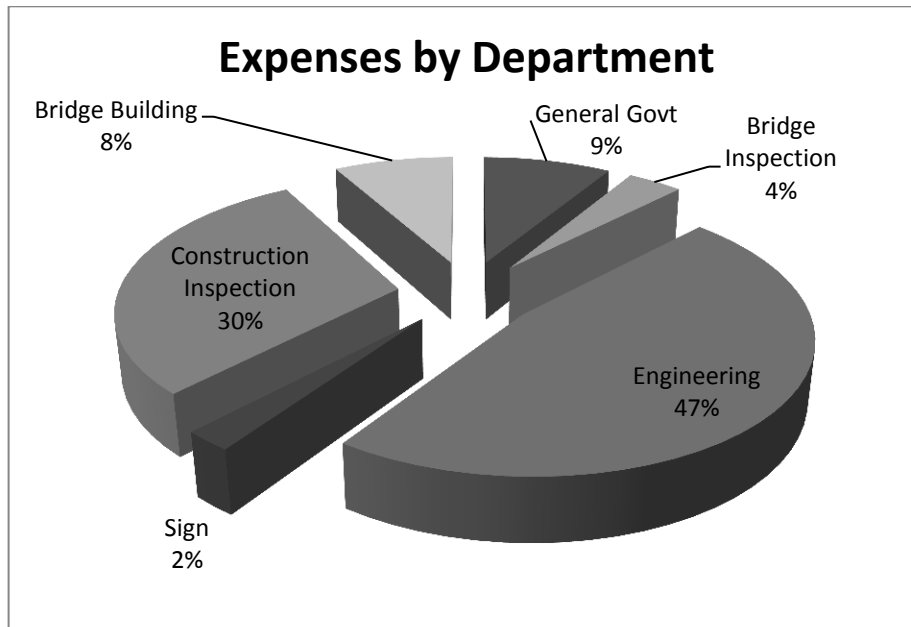
During fiscal year 2014, the District received revenues from the following sources:



**CIRCUIT ENGINEERING DISTRICT #7  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

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Expenses were allocated by the following departments as of June 30, 2014:



Operating expenses for 2014 increased 6% over prior year. The following chart displays the change in expenses when compared to prior year.

**Expenses by department**

			Change	
	2014	2013	\$	%
General government	\$ 221,531	\$ 268,064	\$ (46,533)	-17%
Engineering	1,200,158	1,042,242	157,916	15%
Construction inspection	756,779	607,852	148,927	25%
Bridge inspection	94,708	132,639	(37,931)	-29%
Bridge building	206,401	262,685	(56,284)	-21%
Signs	61,540	94,436	(32,896)	-35%
	<b>\$ 2,541,117</b>	<b>\$ 2,407,918</b>	<b>\$ 133,199</b>	<b>6%</b>

The decrease in expenditures for General Government can be attributed to the decrease in bridge materials purchased on behalf of member counties. Additionally, the CED had no request for bridge building grant monies for the past fiscal year. The increase in Engineering expenses was primarily due to the addition of a graduate engineer to the engineering staff and the use of additional consultant services for roadway design projects. The district is presently utilizing the services of three (3) consulting engineering firms to supplement the districts engineering staff in order to meet the districts 5-year construction plan. Construction inspection experienced an increase in expenditures due to new construction (expansion) of the Materials Lab and upgraded lab equipment. The inspection department also added one employee and opened a satellite office in Altus, Oklahoma to house district staff inspecting construction projects located in the south end of the district. The Bridge Safety Inspection program showed a decrease in expenditures primarily due to staff changes (the retirement of an experienced inspection employee replaced by a lower salaried employee). The district also retained the use of the existing inspection vehicle and declined the purchase of the new vehicle during this fiscal year.

**CIRCUIT ENGINEERING DISTRICT #7  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

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The bridge building operation experienced a decrease in expenses which are a result of declining bridge construction projects requested by member counties for this past fiscal year. Sign shop expenses decreased due to slower sign sales to member counties and the smaller amount of inventory purchased to meet sales demands.

### **Using This Annual Report**

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The Fund financial statements tell how the services were financed in the short term as well as what remains for future spending.

### **Reporting the District as a Whole**

#### *Statement of Net Position and Statement of Activities:*

One of the most important questions asked about the District's finances is "Is the CED as a whole better off or worse as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the District as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position as the difference between assets, what the District owns, and liabilities, what the District owes, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's availability of capital projects and continuing local government support to assess the overall health of the District.

#### *Balance Sheet and Statement of Revenue Expenditures and Changes in Fund Balance:*

The District's services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances at year-end that are available for spending. This fund is reported using the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Included in the financial statements is a reconciliation between the governmental activities and governmental fund financial statements.

#### *Notes:*

The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided.

**CIRCUIT ENGINEERING DISTRICT #7  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

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*Other Information:*

In addition to the basic financial statement and accompanying notes, this report also presents statistical information, not required to be presented in the notes, but deemed by management to be beneficial in additional analysis of the financial statements.

**2014 Operations and Future Plans**

Fiscal year 2014 was a year of growth for the District with the addition of staff for the engineering and construction departments and the completion of the asphalt emulsion plant initiated by the County Energy District Authority. The emulsion plant produces road oils to be purchased and used by member counties for maintenance and construction of the districts county roads. The road oil formula, exclusively owned by the district, produces a superior emulsion product that will result in a significant savings to the member counties. The CIRB program enacted by the legislature in 2006 has been making an impact on the districts engineering and construction inspection operations. The district experienced over \$16.5 million of construction projects let during the fiscal year. The district now provides right of way acquisition services to member counties through the additional of staff personnel experienced in acquiring right of way needed for construction of road and bridge projects. The district is currently planning to add engineering staff to assist member counties in the coordination of utility relocations required on road and bridge projects.

The district will continue to utilize and solicit the assistance of private sector engineering consultants to assist with the preparation of roadway plans and projects scheduled on the districts 5-year construction plan. Presently the district is engaged with three (3) private consultant firms providing turn-key design services contracts for specific projects. The district will continue to strive for a healthy balance of "in-house" projects and outsourcing of services. Approximately 50% of the districts engineering budget is dedicated to outsourcing of services to the private sector.

The anticipated budgeted revenues are expected at \$3,028,000 compared to the prior year budgeted amount of \$2,648,00, or a 12.8% increase. The majority of the increase in revenue will be attributed to increased construction inspection revenues due to the amount of new construction projects being let in the upcoming fiscal year. It is anticipated that the district will experience a slight decrease in expenses for the upcoming fiscal year (estimated at -3.0%) since the present staff is adequate to handle the increase in inspection projects. The district has budgeted \$268,000 in capital purchases for engineering (computers and software), laboratory equipment, and seven pickups.

**Request for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or any request for additional financial information should be addressed to the CED #7, PO Box 337, Clinton, Oklahoma 73601.

Monte Goucher, P.E.  
Executive Director, Circuit Engineer CED #7

**CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 1,042,491	\$ 3,610	\$ 1,046,101
Investments	102,010	-	102,010
Restricted cash	369,830	-	369,830
Restricted investments	401,779	-	401,779
Accounts receivable	576,163	722	576,885
Unbilled receivables	143,137	-	143,137
Due from Energy District	631,059	-	631,059
Inventory	38,439	-	38,439
<i>Total current assets</i>	<u>3,304,908</u>	<u>4,332</u>	<u>3,309,240</u>
<b>Non-current assets:</b>			
Land	35,214	14,786	50,000
Other capital assets, net of depreciation	575,967	2,648,901	3,224,869
<i>Total non-current assets</i>	<u>611,181</u>	<u>2,663,687</u>	<u>3,274,869</u>
<b>Total assets</b>	<u><u>\$ 3,916,089</u></u>	<u><u>\$ 2,668,019</u></u>	<u><u>\$ 6,584,108</u></u>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts Payable	\$ 43,882	\$ 2,399	\$ 46,281
Accrued expenses payable	4,739	-	4,739
Compensated absences	74,636	5,808	80,444
Accrued interest payable	-	631,059	631,059
Notes payable	-	358,028	358,028
<i>Total current liabilities</i>	<u>123,258</u>	<u>997,294</u>	<u>1,120,552</u>
<b>Non-current liabilities:</b>			
Notes payable	-	2,364,623	2,364,623
<i>Total non-current liabilities</i>	<u>-</u>	<u>2,364,623</u>	<u>2,364,623</u>
<b>Total liabilities</b>	<u>123,258</u>	<u>3,361,917</u>	<u>3,485,175</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	611,181	(58,964)	552,218
Restricted	771,609	-	771,609
Unrestricted	2,410,041	(634,935)	1,775,107
<i>Total net position</i>	<u>3,792,831</u>	<u>(693,898)</u>	<u>3,098,933</u>
<b>Total liabilities and net position</b>	<u><u>\$ 3,916,089</u></u>	<u><u>\$ 2,668,019</u></u>	<u><u>\$ 6,584,108</u></u>

See accompanying notes to the basic financial statements

# CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) / Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 221,531	\$ 6,480	\$ 567,555	\$ 352,504
Engineering	1,200,158	1,201,437	-	1,280
Construction inspection	756,779	965,025	-	208,246
Bridge inspection	94,708	189,077	-	94,369
Bridge building	206,401	172,193	-	(34,209)
Signs	61,540	45,736	-	(15,805)
Total governmental activities	<u>\$ 2,541,118</u>	<u>\$ 2,579,948</u>	<u>\$ 567,555</u>	<u>\$ 606,385</u>
Business-type activities:				
Energy District	\$ 909,755	\$ 261,927	-	\$ (647,828)
Total business-type activities	<u>909,755</u>	<u>261,927</u>	<u>-</u>	<u>(647,828)</u>
<b>Total primary government</b>	<u><b>\$ 3,450,872</b></u>	<u><b>\$ 2,841,875</b></u>	<u><b>\$ 567,555</b></u>	<u><b>\$ (41,443)</b></u>

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Changes in Net Assets:</b>			
Net (expense) / revenue	\$ 606,385	\$ (647,828)	\$ (41,443)
<b>General revenues:</b>			
Auction proceeds	\$ 39,853	\$ -	\$ 39,853
Gain (Loss) on Sale of Assets	19,865	-	19,865
Unrestricted investment earnings	2,310	10	2,321
Transfers - Internal activity	-	-	-
Total general revenues and transfers	<u>62,028</u>	<u>10</u>	<u>62,038</u>
Change in net assets	668,413	(647,817)	20,595
<b>Net assets-beginning</b>	<u>3,124,419</u>	<u>(46,081)</u>	<u>3,078,338</u>
<b>Net assets-ending</b>	<u><b>\$ 3,792,832</b></u>	<u><b>\$ (693,898)</b></u>	<u><b>\$ 3,098,933</b></u>

See accompanying notes to the basic financial statements



# CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA

## BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2014

	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,042,491
Investments	102,010
Restricted cash	369,830
Restricted investments	401,779
Net receivables	576,163
Unbilled receivables, net	143,137
Due from Energy District	631,059
Inventory	38,439
<b>Total assets</b>	<b>\$ 3,304,908</b>
<b>LIABILITIES</b>	
Accounts Payable	\$ 43,882
Accrued payroll liabilities	4,739
Compensated absences	74,636
Deferred Grant Revenue	-
<b>Total liabilities</b>	<b>123,258</b>
<b>FUND BALANCE</b>	
Nonspendable	1,388,798
Restricted	401,779
Committed	369,830
Assigned	
Unassigned	1,021,243
<b>Total fund balance</b>	<b>3,181,650</b>
<b>Total liabilities and fund balance</b>	<b>\$ 3,304,908</b>
 <b>Total Governmental Fund Balance</b>	 <b>3,181,650</b>
 <b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Land and capital assets, net of accumulated depreciation are not financial resources and, therefore, are not reported in the funds.	
See Note 4.C for additional detail.	
Land	35,214
Capital assets	1,362,310
Less: Accumulated depreciation	(786,343)
	<u>611,181</u>
<b><i>Net assets of Governmental Activities</i></b>	<b><u>\$ 3,792,831</u></b>

See accompanying notes to the basic financial statements

# CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND FOR THE YEAR ENDED JUNE 30, 2014

	General Fund
<b>Revenues:</b>	
Engineering fees	\$ 1,276,052
Construction inspection	896,890
Bridge inspection fees	189,077
Bridge building fees	172,193
Intergovernmental	567,555
Signs	45,736
Proceeds from sale of assets	22,160
Auction proceeds	39,853
Reimbursed expenses	3,123
Interest income	2,310
<i>Total Revenues</i>	<u>3,214,948</u>
<b>Expenditures:</b>	
Current operations:	
Engineering	1,174,339
Construction Inspection	695,623
Bridge inspection	85,309
Bridge building	180,998
Signs	60,774
General government	182,468
Capital expenditures	175,254
<i>Total Expenditures</i>	<u>2,554,764</u>
Excess revenues over (under) expenditures	<u>660,184</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers in	
Transfers out	-
Total other financing sources and uses	<u>-</u>
Net Change in Fund Balance	660,184
Fund balance at beginning of year	2,521,466
Fund balance at end of year	<u><u>\$ 3,181,650</u></u>
<b>Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:</b>	
<b>Net change in Fund Balances - Total Governmental Funds</b>	<b>\$ 660,184</b>
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital asset purchases capitalized	175,254
Depreciation expense	<u>(158,249)</u>
	17,004
In the statement of activities, the loss on the sale of assets is reported, whereas in the governmental funds, the proceeds from the sale, if any, increase financial resources. The change in net assets differs from the change in fund balance by the cost of the assets disposed of \$33,726, net of related accumulated depreciation of \$24,951.	<u>(8,775)</u>
<b>Change in Net Assets of Governmental Activities</b>	<u><u>\$ 668,413</u></u>

See accompanying notes to the basic financial statements

**CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2014**

	<b>Business-type Activities</b>
	<b>Energy District</b>
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 3,610
Accounts receivable	722
<i>Total current assets</i>	<u>4,332</u>
<b>Non-current assets:</b>	
Land	14,786
Other capital assets, net of depreciation	2,648,901
<i>Total non-current assets</i>	<u>2,663,687</u>
<b>Total assets</b>	<u><u>\$ 2,668,019</u></u>
<b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accounts payable	\$ 2,399
Compensated absences	5,808
Due to CED #7	631,059
Notes payable	358,028
<i>Total current liabilities</i>	<u>997,294</u>
<b>Non-current liabilities:</b>	
Notes payable	2,364,623
<i>Total non-current liabilities</i>	<u>2,364,623</u>
<b>Total liabilities</b>	<u>3,361,917</u>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	(58,964)
Unrestricted	(634,935)
<i>Total net assets</i>	<u>(693,898)</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 2,668,019</u></u>

See accompanying notes to the basic financial statements

# CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2014

	<u>Business-type Activities</u>
	<u>Energy District</u>
<b>Operating Revenues:</b>	
Sale of asphalt emulsion product	\$ 261,927
<i>Total Operating Revenues</i>	<u>261,927</u>
<b>Operating Expenses:</b>	
Current operations:	
Cost of goods sold	373,721
Personal services	185,248
Materials and supplies	23,086
Other services and charges	98,385
Depreciation and amortization	120,144
<i>Total Operating Expenses</i>	<u>800,584</u>
Net Operating Income	(538,657)
<b>Nonoperating Revenue (Expense):</b>	
Investment income	10
Interest expense	(109,171)
<i>Total Nonoperating Revenue (Expense)</i>	<u>(109,160)</u>
<b>Net Income (Loss) before contributions and transfers</b>	(647,817)
Transfers from other funds	-
Transfers to other funds, net	0
<b>Change in Net Position</b>	<u>(647,817)</u>
Net Assets - beginning of year	(46,081)
Net Assets - end of year	<u>\$ (693,898)</u>

See accompanying notes to the basic financial statements

**CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

	<b>Business-type Activities</b>
	<b>Energy District</b>
<b><u>Cash flows from operating activities:</u></b>	
Receipts from customers	\$ 261,205
Payments to suppliers	(602,692)
Payments to employees	(185,248)
Other operating revenues	-
<b>Net cash provided (used) by operating activities</b>	<b>(526,735)</b>
<b><u>Cash flows from non-capital financing activities:</u></b>	
Due to CED#7	592,647
Transfers from other funds	-
Transfers to other funds	-
<b>Net cash provided (used) by non-capital financing activities</b>	<b>592,647</b>
<b><u>Cash flows from capital and related financing activities:</u></b>	
Proceeds from issuance of debt	426,077
Purchase of capital assets	(424,190)
Principal paid on capital debt	(589)
Interest paid on capital debt	(70,758)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(69,461)</b>
<b><u>Cash flows from investing activities:</u></b>	
Investment income	10
<b>Net cash provided (used) by investing activities</b>	<b>10</b>
Net increase (decrease) in cash and cash equivalents	(3,538)
Cash and cash equivalents, July 1, 2013	7,148
Cash & cash equivalents, June 30, 2014	\$ 3,610
Cash, including time deposits	\$ 3,610
Restricted cash, including time deposits	-
Total cash and cash equivalents, end of year	<b>\$ 3,610</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>	
Operating income (loss)	\$ (538,657)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	120,144
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(722)
Increase (decrease) in accounts payable	551
Increase (decrease) in accrued expenses	(108,050)
Total adjustments	11,922
<b>Net cash provided (used) by operating activities</b>	<b>\$ (526,735)</b>

See accompanying notes to the basic financial statements

**CIRCUIT ENGINEERING DISTRICT #7**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Circuit Engineering District #7, Oklahoma (the "District") complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

**1.A. FINANCIAL REPORTING ENTITY**

The District was created under Title 69, Section 687.1 Circuit Engineering Districts of Oklahoma Statute; and complies with Title 74, Chapter 31, Interlocal Cooperation Act. Within the statute, the board of county commissioners of any county within the state may create a circuit engineering district with any other county or counties located within its Association of County Commissioners of Oklahoma district to assist the counties in carrying out the day-to-day activities related to road maintenance, construction and inspection.

Individual counties may elect to participate in the District by passage of a resolution, which accepts the Bylaws of the District. Membership consists of the voting and non-voting members. Voting members are County Commissioners appointed by a member county to serve on the Board of Directors. Non-voting members are affiliate or associate members which serve on committees or represent outside business interest to the District.

The District is governed by a Board of Trustees (the "Board") that acts as the authoritative and legislative body of the entity. The Board is comprised of 11 voting members. Of the eleven, three are elected as officers of the District; President, Vice-President, and Secretary-Treasurer. Each officer serves a term of one year; there are no term limits for reappointment.

Within the District there are eleven eligible counties: Beckham, Blaine, Custer, Dewey, Greer, Harmon, Jackson, Kiowa, Roger Mills, Tillman, and Washita County. As of June 30, 2014, all eligible counties elected to participate in the District.

The accompanying general purpose financial statements comply with the provisions of GASB Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate entities for which the District is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or, (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has one component unit.

**Blended Component Unit Reported with Primary Government:**

CED #7 County Energy District Authority (the "Authority") – was created under Title 60 on October 26, 2010 under provision of the Oklahoma Statutes by a Declaration of the Trust. The District has beneficial interest and the trustees of the District serve as Trustees of the Authority. District employees carry on the activities of the Authority. The Authority provides assistance to member counties in the negotiation and preparation of Wind Farm Road Maintenance agreements and also plans to provide emulsified asphalt to member counties for use in

**CIRCUIT ENGINEERING DISTRICT #7**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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resurfacing roadways in the future. Accounts of the Authority are recorded in business-type activities.

## **1.B. BASIS OF PRESENTATION**

### *Government-wide Financial Statements:*

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

### *Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. The District utilized two funds, the governmental and proprietary funds. The fund of the financial reporting entity is described below:

### **Governmental Funds**

#### *General Fund*

The General Fund is the primary operating fund of the District and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

### **Proprietary Funds**

#### *CED #7 County Energy District Authority*

The CED#7 County Energy District Authority accounts for transactions relating to providing emulsified asphalt to member counties for use in resurfacing roadways.

Management has elected to report all funds as major in the fund financial statements. This election is in accordance with GASB reporting models.

## **1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

### *Measurement Focus*

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income,

**CIRCUIT ENGINEERING DISTRICT #7**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported.

In the governmental fund financial statements, the “current financial resources” measurement focus is used. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

*Basis of Accounting*

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statement, the governmental fund is presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

**1.D. ASSETS, LIABILITIES, AND EQUITY**

**Cash and Investments**

For the purpose of the Statement of Net Position, “Cash and cash equivalents” includes all unrestricted demand, savings accounts, and certificates of deposits maturing within 90 days. A formal deposit or investment policy has been developed by the District. Under common pretense, the District requires that all deposits be insured or collateralized within the financial institution maintaining custody of the deposit. Additional cash and investment disclosures are presented in Notes 2.B. and 4.A.

**Accounts Receivable**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include construction inspection and engineering fees.

In the fund financial statements, material receivables in the governmental fund include revenue accruals such as construction inspection and bridge inspection fees since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.



**CIRCUIT ENGINEERING DISTRICT #7**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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**Inventory**

Inventory consists of materials, including aluminum, film, and posts to construct regulatory signs for member counties. Amount in inventory represent new materials at cost basis. Cost of goods sold is recognized on the first in-first out basis. Reserves for obsolete inventory are recorded as considered necessary based upon the performance of an annual inventory.

**Capital Assets**

The accounting treatment over property, plant, and equipment (capital assets) depends on whether they are reported in the government-wide or fund financial statements.

*Government-wide Statements*

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

The District's capital assets are reviewed for impairment and written down to fair value whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Machinery and Equipment	3-15 years
Improvements	15 years
Buildings	30 years

*Fund Financial Statements*

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**Restricted Assets**

Restricted assets include cash from auction proceeds. Such funds are restricted by the Board of Directors for the purchase of capital assets. It is the policy of the District to first apply unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Compensated Absences**

The District's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as non-current liabilities in the government-wide statements. In the fund financial statements, the

**CIRCUIT ENGINEERING DISTRICT #7**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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governmental fund reports only the compensated absence liability payable from expendable available financial resources.

**Use of Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates made by the District include accounts receivable and inventories. Actual results could differ from the estimates.

**Unbilled Receivables and Revenue Recognition**

In the past, contracts were accounted for on a percentage of completion basis, whereby revenue is recognized as the project progresses. In 2011, we moved from a percentage of completion basis to hourly billing, whereby hours worked on a project are billed as incurred. Hourly billing is considered to be a more relevant measure of performance on the contracts.

Revenues recognized prior to invoicing the client are recorded as unbilled receivables, where the collection of the receivable is probable. Unbilled amounts will be invoiced in subsequent periods. As of June 30, 2014 the District has \$143,137 in unbilled receivables. Of this amount, \$87,951 is attributable to engineering fees and \$55,186 is attributable to construction inspection fees.

*Bridge Inspection Fees*

Bridge inspection fees are payments from the Oklahoma Department of Transportation for the inspections of bridges within the district. The district also inspects, repairs, and posts signs for a fee.

*Engineering Fees*

The District performs most required design engineering for the bridge and road construction projects within the district; the fees for the design services are estimated to be a percentage of the total estimated cost of construction for each project. However, the district is reimbursed at an agreed hourly rate for actual work performed for each project.

*Construction Inspection Fees*

The District performs most required construction inspection for bridge and road construction projects within the district; fees for the inspection services are estimated to be a percentage of the total estimated cost of construction for each project. However, the district is reimbursed at an agreed hourly rate for actual work performed for each project.

*Bridge Building Fees*

Bridge building fees are earned for the construction and repair of bridges across the district. Fees are billed at the completion of the project. These fees also include reimbursements for material and supplies used on the project.

*Sign Fees*

The District produces traffic signs for member counties and cities. The fees for production are based upon a standard rate charge. Fees are charged upon completion of the sign order.

*Auction Proceeds*

Auction proceeds represent the District's percentage of the sales commission generated from the yearly auctions held for surplus equipment and machinery. The District serves as host for the event and is paid accordingly.

**CIRCUIT ENGINEERING DISTRICT #7**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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*Contributions*

As a governmental operating entity, the District receives contributions from other political divisions including the State of Oklahoma.

**Equity Classifications**

*Government-wide Statements*

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted – consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantor, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

*Fund Statements*

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

Nonspendable

Fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned),

Restricted

Fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

Committed

Fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's Board of Directors, the District's highest level of decision-making authority,

Assigned

Fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

**CIRCUIT ENGINEERING DISTRICT #7**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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Unassigned

Fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

By its nature as a government unit, the District and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the District's compliance with significant laws and regulations and demonstration of its stewardship over District resources follows.

**2.A. FUND ACCOUNTING REQUIREMENTS**

The District complies with all state regulations requiring the use of separate funds.

**2.B. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS**

In accordance with state law, all uninsured deposits of funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, or surety bonds. See Note 4.A.

**2.C. FUND EQUITY RESTRICTIONS**

**Deficit Prohibition**

Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The District complied with this statute in all material respects for the year ended June 30, 2014.

**NOTE 3. INTERGOVERNMENTAL REVENUES AND CHARGES FOR SERVICES**

Revenues are received from member counties which are related parties of the District. Such receipts are considered charges for services and include payment for engineering fees, construction inspection, and county road signs. During the year ended June 30, 2014, the member counties contributed the following funds to the District for services provided:

	<b>Revenue Earned</b>
Beckham County	125,465
Blaine County	389,173
Custer County	188,706
Dewey County	246,550
Greer County	251,877
Harmon County	310,220
Jackson County	152,688
Kiowa County	246,420
Roger Mills County	104,042
Tillman County	321,797
Washita County	329,032
<b>Total Member Contributions</b>	<b>\$ 2,665,970</b>

**CIRCUIT ENGINEERING DISTRICT #7**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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At June 30, 2014, amounts due from related parties were as follows:

	<u>June 30, 2014</u>
Beckham County	\$ 31,673
Blaine County	83,543
Custer County	55,452
Dewey County	59,646
Greer County	32,480
Harmon County	9,017
Jackson County	16,251
Kiowa County	110,776
Roger Mills County	288
Tillman County	37,020
Washita County	<u>113,981</u>
<b>Total Member County Receivable</b>	<b><u>\$ 550,127</u></b>

**NOTE 4. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

**4.A. CASH AND CASH EQUIVALENTS**

Deposits

The District's policies regarding deposits of cash are discussed in Note 1.D. During the fiscal year ended June 30, 2014, the District was in compliance of the required collateral pledge for custody risk. Assets in excess of FDIC limits were secured with a line of credit in the amount of \$2,000,000 from the Federal Home Loan Bank (FHLB) of Topeka.

The District invests in certificates of deposit which are reported as Investments and Restricted Investments in the Statement of Net Position. At June 30, 2014, the District held two certificates of deposit in the amount of \$503,789 with an interest rate of 0.3% and maturity dates of December 1, 2014 and January 15, 2015. Cost equates to fair value of the certificate of deposit. The District holds no other investments.

**4.B. ACCOUNTS RECEIVABLE**

Accounts receivable of the governmental activities consists of engineering fees, bridge inspection fees, sign revenues, and construction inspection fees, as well as the unbilled receivable due to the District based upon hourly fees for construction inspection and engineering projects.

**CIRCUIT ENGINEERING DISTRICT #7**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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**4.C. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014 was as follows:

Governmental activities:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2014</u>
Land	\$ 35,214	\$ -	\$ -	\$ 35,214
Equipment	459,826	41,500	7,400	493,926
Vehicles	220,767	54,838	26,326	249,279
Building improvements	338,833	78,915	-	417,748
Building	201,357	-	-	201,357
	<u>1,255,997</u>	<u>175,253</u>	<u>33,726</u>	<u>1,397,524</u>
Less accumulated depreciation	<u>653,044</u>	<u>161,607</u>	<u>28,308</u>	<u>786,343</u>
Net capital assets	<u>\$ 602,953</u>			<u>\$ 611,181</u>

Business-type Activities:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2014</u>
Land	\$ -	\$ 14,786	\$ -	\$ 14,786
Equipment	-	1,521,042	-	1,521,042
Site development	-	603,125	-	603,125
Building	-	69,877	-	69,877
Emulsion recipe	-	575,000	-	575,000
	<u>-</u>	<u>2,783,830</u>	<u>-</u>	<u>2,783,830</u>
Less accumulated depreciation	<u>-</u>	<u>120,143</u>	<u>-</u>	<u>120,143</u>
Net capital assets	<u>\$ -</u>			<u>\$ 2,663,687</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 39,062
Engineering	25,819
Construction inspection	61,156
Bridge inspection	9,399
Bridge building	25,404
Sign	767
Total governmental activities depreciation expense	<u>\$ 161,607</u>

**NOTE 5. OTHER NOTES**

**5.A. EMPLOYEE BENEFIT PLANS**

The District has a defined contribution plan (a "457 plan") which covers all of its employees. The District contributes 12% of the covered employee's payroll. Employees are 100% vested in employer contributions upon entering the plan. Total contribution expense was \$93,570 in fiscal year 2014. The plan is administered by Lincoln Life.

**CIRCUIT ENGINEERING DISTRICT #7**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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**5.B. RISK MANAGEMENT**

The District is exposed to various risk of loss as follows:

<u>Types of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
General Liability <ul style="list-style-type: none"> <li>- Torts</li> <li>- Error and Omissions</li> <li>- Officer Liability</li> <li>- Vehicle</li> </ul>	The District participates in a public entity risk pool – Association of County Commissioners of Oklahoma – Self Insured Group (ACCO-SIG)	If claims exceed pool assets, the District would have to pay its share of the pool deficit.
Physical Plant <ul style="list-style-type: none"> <li>- Theft</li> <li>- Damages to Assets</li> <li>- Natural Disasters</li> </ul>	The District participates in a public entity risk pool – ACCO-SIG.	If claims exceed pool assets, the District would have to pay its share of the pool deficit.
Worker's Compensation <ul style="list-style-type: none"> <li>- Employees' Injuries</li> </ul>	The District participated in a public entity risk pool – ACCO-SIF	If claims exceed pool assets, the District would have to pay its share of the pool deficit.
Health and Life <ul style="list-style-type: none"> <li>- Medical</li> <li>- Disability</li> <li>- Dental</li> <li>- Life</li> </ul>	The District carries commercial insurance for these types of risk.	None

**ACCO-SIG**

The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. Each participating 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 \$1,000,000 limit per insured event. The pool, established in 1986, has never had to assess additional premiums to be paid by its members.

**ACCO-SIF**

The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. ACCO-SIF was set up in 1984 and pays legitimate worker's compensation claims up to \$500,000 per incident. A reinsurance policy, with no limit, pays claims that exceed \$500,000 for a particular incident. The pool has not assessed additional premiums to be paid by its members in the past three years.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the District when combined with internal cash reserves.

**5.C. COMMITMENTS AND CONTINGENCIES**

In June 2014, the Board of Directors authorized the Executive Director to hire an attorney to explore potential litigation with the company that manufactured and installed the operating

**CIRCUIT ENGINEERING DISTRICT #7  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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equipment at the emulsion plant. The matter was resolved in August 2014 with the manufacturer reimbursing the CED \$22,392.40 for the necessary repair work.



# REQUIRED SUPPLEMENTARY INFORMATION

**CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts			Actual	Variance with Final Budget Favorable / (Unfavorable)
	Original Budget	Amendments	Final Budget		
<b>Revenues:</b>					
Intergovernmental	\$ 475,000	\$ -	\$ 475,000	\$ 567,555	\$ 92,555
Bridge inspection fees	161,500	-	161,500	189,077	27,577
Engineering fees	1,345,000	37,500	1,382,500	1,279,175	(103,325)
Signs	65,000	-	65,000	45,736	(19,264)
Construction inspection	510,000	340,000	850,000	896,890	46,890
Bridge construction fees	-	-	-	172,193	172,193
Auction proceeds	25,000	-	25,000	39,853	14,853
Proceeds from sale of assets	-	-	-	22,160	22,160
Interest income	-	-	-	2,310	2,310
<i>Total Revenues</i>	<u>2,581,500</u>	<u>377,500</u>	<u>2,959,000</u>	<u>3,214,948</u>	<u>255,948</u>
<b>Expenditures:</b>					
Current operations:					
General government					
Personal services	287,856	38,585	326,441	75,927	250,514
Maintenance and operation	279,550	(25,800)	253,750	100,213	153,537
Bridge inspection					
Personal services	106,652	-	106,652	72,423	34,229
Maintenance and operation	29,300	-	29,300	12,886	16,414
Engineering					
Personal services	504,836	69,606	574,442	517,332	57,110
Maintenance and operation	792,750	(31,000)	761,750	644,478	117,272
Signs					
Personal services	35,967	-	35,967	35,572	395
Maintenance and operation	27,000	-	27,000	25,202	1,798
Construction Inspection					
Personal services	391,967	228,373	620,340	597,010	23,330
Maintenance and operation	93,750	7,500	101,250	98,613	2,637
Bridge building					
Personal services	-	-	-	-	-
Maintenance and operation	-	-	-	180,998	(180,998)
Capital expenditures	24,000	61,200	85,200	175,254	(90,054)
Debt Service	-	-	-	-	-
<i>Total Expenditures</i>	<u>2,573,628</u>	<u>348,464</u>	<u>2,922,092</u>	<u>2,535,907</u>	<u>386,185</u>
Excess revenues over (under) expenditures	<u>7,872</u>	<u>29,036</u>	<u>36,908</u>	<u>679,041</u>	<u>642,133</u>
Fund balance, beginning (Non-GAAP budgetary basis):	-	-	-	2,947,824	
Prior period adjustment	-	-	-	-	
Fund balance, ending (Non-GAAP budgetary basis):	<u>\$ 7,872</u>	<u>\$ 29,036</u>	<u>\$ 36,908</u>	<u>\$ 3,626,865</u>	
<u>Adjustments to Generally Accepted Accounting Principles</u>					
Revenue and transfer accruals				(312,009)	
Expenditure and transfer accruals				(133,206)	
<b>Fund balance, ending (GAAP basis)</b>				<u>\$ 3,181,650</u>	

See accompanying notes to the basic financial statements

**CIRCUIT ENGINEERING DISTRICT #7**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Budgetary Process**

Under current Oklahoma Statutes, the general fund is required to adopt a formal budget. The budget presented for the general fund included the originally approved budgeted appropriations for expenditures and the supplemental appropriations. The level of budgetary control is at the object level for the District. Any budgetary modifications at this level may only be made by approval of the Board. Supplemental appropriations were necessary during the year, which increased the original budget amounts.

1. Estimated Resources

As part of the District's budgetary process, the Board approves the official estimated resources. The official estimated resources state the projected revenue of each fund. Prior to adoptions, the Board must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available from estimated resources. The estimated resources may be further amended during the year if the Board determines that an estimate needs to be either increased or decreased.

2. Appropriations

Appropriations are required at the object level, personal services, maintenance and operations, or capital outlay, within the fund. Appropriations may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources. Allocations of appropriations among funds and objects within a fund may be modified during the year by approval of the Board.

3. Budgetary Basis of Accounting

The District's budgetary process accounts for certain transactions on a basis other than GAAP. The major difference between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under GAAP, revenues and expenditures are recorded on the full accrual basis on the government-wide statements and on the modified accrual basis of accounting on the governmental fund statements.

For the year ended June 30, 2014, the District did not exceed net budgeted expenditures in total, but did exceed budgeted expenditures in the Bridge Building department and in capital expenditures.

# STATISTICAL SECTION

CIRCUIT ENGINEERING DISTRICT # 7													
MISCELLANEOUS STATISTICS													
June 30, 2014													
	Beckham	Blaine	Custer	Dewey	Greer	Harmon	Jackson	Kiowa	Roger Mills	Tillman	Washita	Total	
Miles of Roads inside the District:													
State (includes Interstates)	309	177	157	138	128	103	153	213	164	149	178	1,869	
County	1,153	1,309	1,401	1,148	845	777	1,210	1,548	1,258	1,437	1,671	13,757	
Total Road Miles	1,462	1,486	1,558	1,286	973	880	1,363	1,761	1,422	1,586	1,849	15,626	
Number of Bridges inside the District:													
State (includes Interstates)	129	54	122	34	28	29	53	117	51	72	81	770	
County **	184	234	277	141	204	76	235	344	102	213	307	2,317	
Total Bridges	313	288	399	175	232	105	288	461	153	285	388	3,087	
Substandard Bridges inside the District:													
State (includes Interstates)	11	3	14	-	-	2	1	13	4	1	9	58	
County **	13	47	34	14	19	2	33	57	2	29	75	325	
Total Substandard Bridges	24	50	48	14	19	4	34	70	6	30	84	383	
Replacement Cost of All Deficient State Bridges	\$ 19,101,000	\$ 6,129,000	\$ 54,312,000	\$ -	\$ -	\$ 7,636,000	\$ 6,456,000	\$ 21,162,000	\$ 6,963,000	\$ 1,690,000	\$ 15,009,000	\$ 138,458,000	
Replacement Cost of All Deficient County Bridges	\$ 3,867,000	\$ 13,673,999	\$ 10,814,000	\$ 4,520,900	\$ 10,332,628	\$ 900,000	\$ 11,048,000	\$ 17,432,000	\$ 495,000	\$ 7,386,000	\$ 22,774,000	\$ 103,243,527	
Total Replacement Cost of All Deficient Bridges	22,968,000	19,802,999	65,126,000	4,520,900	10,332,628	8,536,000	17,504,000	38,594,000	7,458,000	9,076,000	37,783,000	241,701,527	
Number of Road/Bridge Projects* inside the District:													
State (includes Interstates)	5	1	4	5	-	1	-	3	1	-	2	22	
County	1	-	2	2	2	1	2	-	-	1	1	12	
Total Projects	6	1	6	7	2	2	2	3	1	1	3	34	
\$'s of Road/Bridge Projects* inside the District:													
State	\$ 11,666,673	\$ 50,541	\$ 21,211,860	\$ 14,817,982	\$ -	\$ 8,174,375	\$ -	\$ 8,746,908	\$ 1,105,524	\$ -	\$ 2,309,268	\$ 68,083,131	
County	808,111	-	5,297,863	1,655,202	4,686,063	365,920	3,170,438	-	-	593,249	-	16,576,846	
Total \$'s of Projects	\$ 12,474,784	\$ 50,541	\$ 26,509,723	\$ 16,473,184	\$ 4,686,063	\$ 8,540,295	\$ 3,170,438	\$ 8,746,908	\$ 1,105,524	\$ 593,249	\$ 2,309,268	\$ 84,659,977	
*Amounts based on Oklahoma Department of Transportation contracts awarded from lettings of July 1, 2013 to June 30, 2014													
** Most of the temporary pipes were removed from the inventory, as mandated by the FHWA, in 2013													
Source: Circuit Engineering District #7, ODOT Bridge Division's "Summary Bridge Report, May 2014"													

**CIRCUIT ENGINEERING DISTRICT #7  
STATISTICAL INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014**

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Date of Creation: 1999

Member Counties Beckham  
Blaine  
Custer  
Dewey  
Greer  
Harmon  
Jackson  
Kiowa  
Roger Mills  
Tillman  
Washita

The first Circuit Engineering District in Oklahoma

Number of Full-time Employees General government – 3  
Bridge inspection – 2  
Engineering – 7  
Bridge building - 1  
Construction Inspection – 6  
Sign Shop – 1

Emulsion Plant: Number of Full-time Employees - 2

Source: Circuit Engineering District #7

# OTHER REPORTS

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

To the Board of Directors  
Civil Engineering District #7

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and the major fund, of Civil Engineering District #7, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Civil Engineering District #7's basic financial statements, and have issued our report thereon dated December 10, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Civil Engineering District #7's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Civil Engineering District #7's internal control. Accordingly, we do not express an opinion on the effectiveness of Civil Engineering District #7'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Civil Engineering District #7'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*.



### **Purpose of this Report**

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

**FSW&B CPAs- PLLC**

Stillwater, OK

December 10, 2014