

**CIRCUIT ENGINEERING
DISTRICT # 7, OKLAHOMA**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2019**

TABLE OF CONTENTS

I. INTRODUCTORY SECTION

Transmittal Letter	i
Organizational Charts	
CED #7 Board of Directors	iii
CED #7 Staff	iv

II. FINANCIAL SECTION

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements	
Balance Sheet – Governmental Fund	10
Statement of Revenues, Expenditures, and Changes in	
Fund Balance – Governmental Fund	11
Statement of Net Position – Proprietary Funds	12
Statement of Revenues, Expenses and Changes in	
Fund Net Position – Proprietary Funds	13
Statement of Cash Flows – Proprietary Funds	14
Notes to the Basic Financial Statements	15
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	28
Notes to Required Supplementary Information	29

III. STATISTICAL SECTION

Miscellaneous Statistics (unaudited)	30-31
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IV. Other Reports

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	32-33
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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

January 28, 2020

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, 2019. This report contains basic financial statements and other financial and statistical information, providing complete and full disclosure of all financial aspects of the District for fiscal year 2019.

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 District 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 District 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 which includes: Beckham, Blaine, Custer, Dewey, Greer, Harmon, Jackson, Kiowa, Roger Mills, Tillman, and Washita counties. During fiscal year 2019, these counties participated together in bridge inspection services, bridge and roadway design and construction engineering services, construction inspection services, sign making, 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, sale of emulsion oil 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,

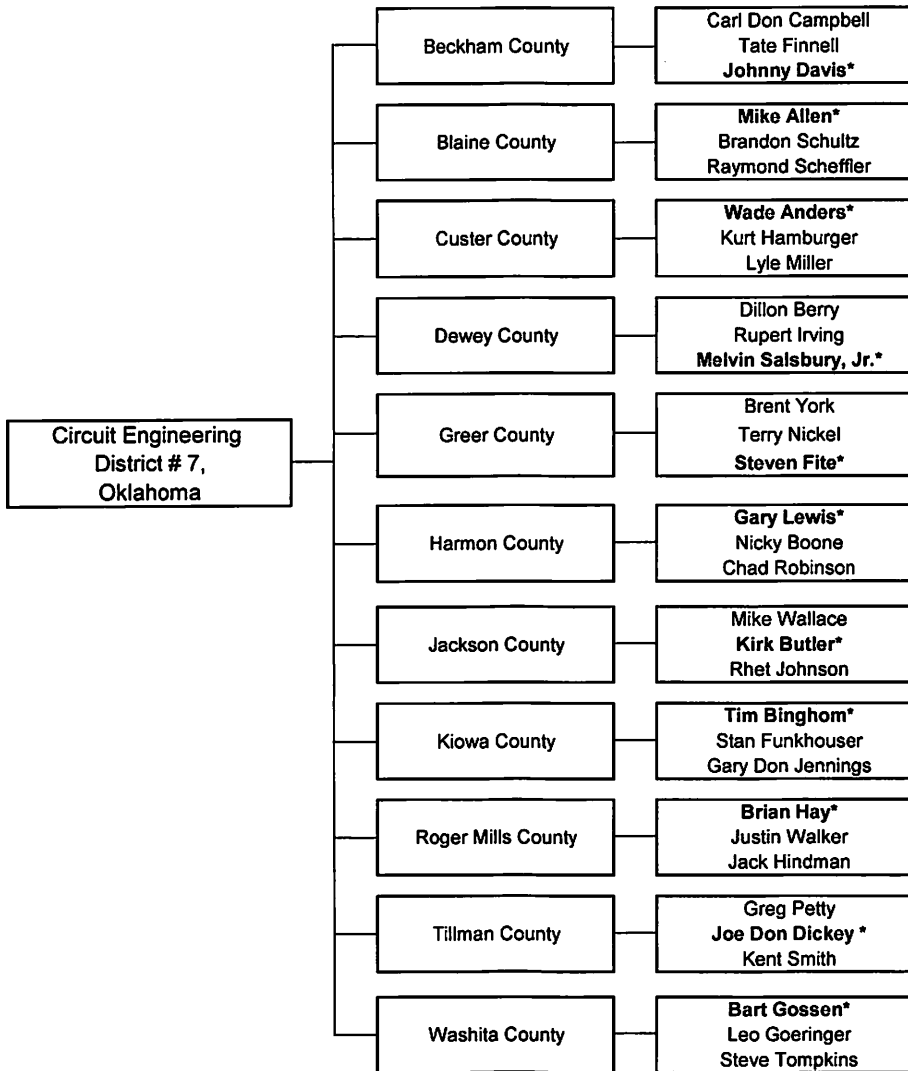
A handwritten signature in black ink, appearing to read 'Brian Young', with a long horizontal flourish extending to the right.

Brian Young
Operations Manager, CED #7

Circuit Engineering District #7, Oklahoma

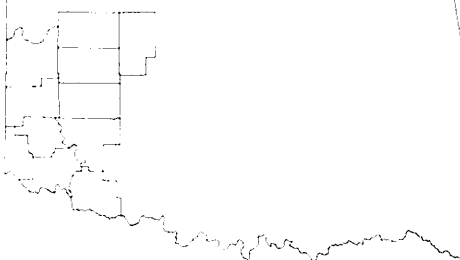
2018-2019 Board of Directors

Organizational Chart



CIRCUIT ENGINEERING DISTRICT #7

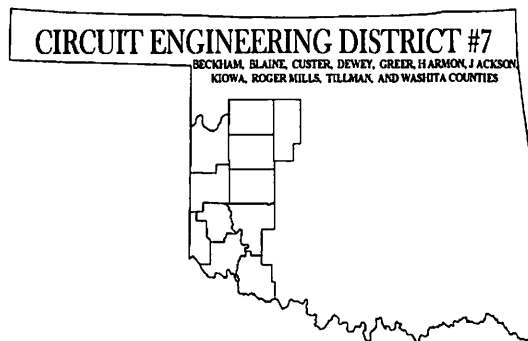
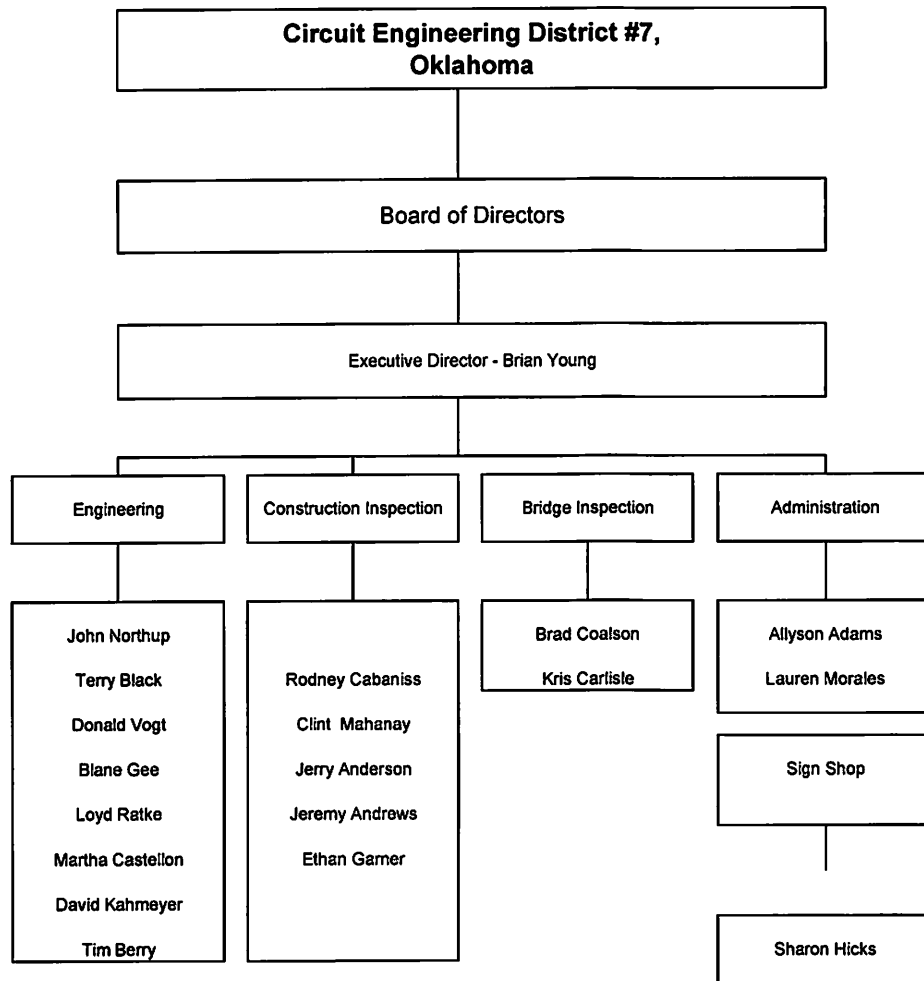
BECKHAM, BLAINE, CUSTER, DEWEY, GREER, HARMON, JACKSON,
KIOWA, ROGER MILLS, TILLMAN, AND WASHITA COUNTIES



*Member of the Circuit Engineering District Board of Directors

Circuit Engineering District #7, Oklahoma

2018-2019 Staff Organizational Chart



Emulsion Plant:
Austin Palmer
Jacob Brown
Kent Miller

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Circuit Engineering District #7

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the business-type activities of the Circuit Engineering District #7, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Circuit Engineering District #7'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 and the business-type activities of the Circuit Engineering District #7, as of June 30, 2019, 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 3-7 and 28-29 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 Circuit 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2019, on our consideration of the Circuit Engineering District #7'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 solely 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 Circuit Engineering District #7'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 Circuit Engineering District #7's internal control over financial reporting and compliance.

FSW&B CPAs-PLLC

FSW&B CPA's-PLLC

Stillwater, OK

January 22, 2020

**CIRCUIT ENGINEERING DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

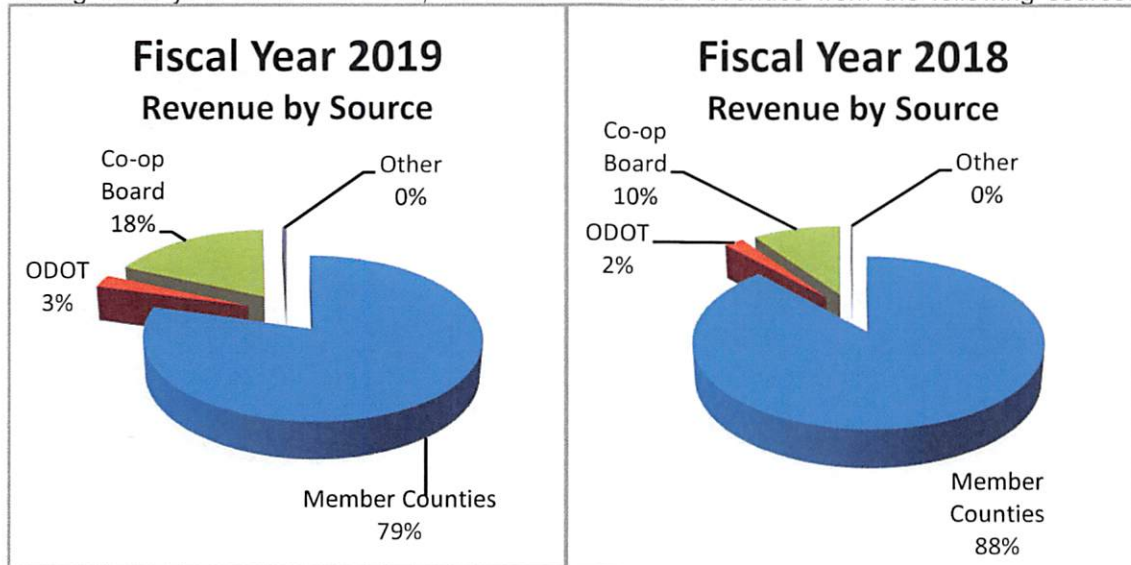
Our discussion and analysis of the Circuit Engineering District #7's ("District") performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. Please review it in conjunction with the transmittal letter and the District's basic financial statements.

Financial Highlights

- The District's assets exceeded its liabilities by \$4,618,111 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$4,579,361.
- Total net position is comprised of the following:
 - (1) Capital assets, net of related debt, of \$2,537,495 include property and equipment, net of accumulated depreciation. The District had outstanding debt of \$194,246 related to capital assets as of June 30, 2019.
 - (2) Unrestricted net assets of \$1,567,477 represent the portion available to maintain the District's continuing obligations to member counties and creditors. Included in restricted net assets is \$513,139, which the District has restricted internally for capital asset purchases.
- Total liabilities of the District increased from \$4,045,414 to \$4,080,118 during the fiscal year. The increase is attributable to payments made by CED #7 for the operational expenses of the Energy District, offset by principle payments made on notes payable held by the Energy District Authority.
- Over \$610,000 in revenues were generated from CIRB through project management, interest earnings, and CBRI direct allocation per state statute.

Operations for the fiscal year 2019 were mainly supported by engineering fees and construction inspection fees, which provided 48% and 21% of revenues, respectively. This division of revenues is similar to the prior year. Bridge inspection fees (8%) and sign shop proceeds (1%) also contributed to the operations for the year. Investment earnings, state allocations and auction proceeds provided the remainder of the support for the year.

During fiscal year 2019 and 2018, the District received revenues from the following sources:

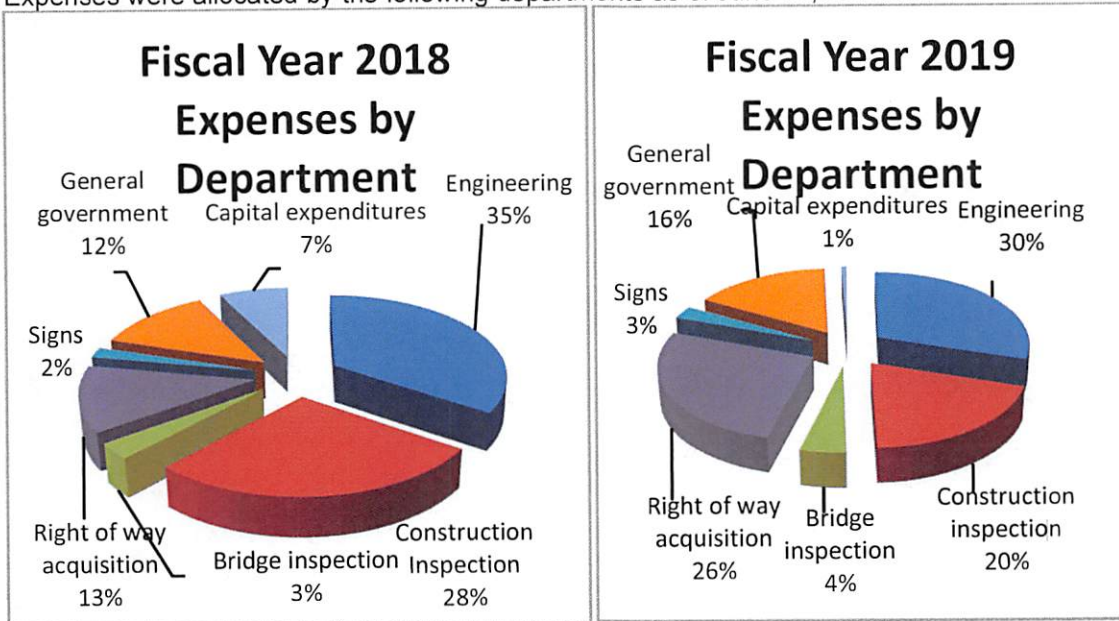


Total Revenues \$2,994,696

Total Revenues \$3,515,556

**CIRCUIT ENGINEERING DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

Expenses were allocated by the following departments as of June 30, 2018 and 2019:



Operating expenses for 2019 decreased 5% over prior year. The following chart displays the change in expenses when compared to prior year.

	2019	2018	Change	
			\$	%
General Government	\$432,340	\$ 378,599	\$ 53,741	14%
Engineering	802,150	1,043,120	(240,970)	-23%
Construction inspection	525,600	833,560	(307,960)	-37%
Bridge inspection	116,005	92,671	23,334	25%
Right of Way	707,856	384,906	322,950	84%
Signs	72,533	60,460	12,073	20%
	<u>\$2,656,484</u>	<u>\$2,793,316</u>	<u>\$(136,832)</u>	<u>-5%</u>

General government expenses experienced a 14% increase this fiscal year after a 80% increase the preceding fiscal year. This increase in General Government expense is largely attributed to the hiring of Value Added Management, LLC for a consultant to help with the transition of new Executive Director.

Engineering department expenses experienced a 23% decrease which can be attributed to a decrease in design contracts due to the State of Oklahoma financial crisis. The State Legislature took current CIRB funds earmarked for design in 2018 and funded other state services. Projects that were delayed will be designed as funds become available.

**CIRCUIT ENGINEERING DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

Construction inspection experienced a decrease of expenses of 37%. This decrease can be attributed to a decrease in construction inspection contracts due to the State of Oklahoma financial crisis. The State Legislature took current CIRB funds earmarked for construction in 2018 and funded other state services. Projects that were delayed will be constructed as funds become available.

Right of way acquisition experienced a significant increase of expenses of 84%. The right of way program will have a tendency to experience large annual swings due to the fact that the purchase of right of way easements varies from county to county and project to project. This significant increase is due to the acquisition of large volumes of land and/or land of significantly higher value being acquired.

Bridge Inspection expenses increased 25%. Safety inspections for member counties are performed every other year on a rotation basis and since the total number of bridge inspections performed each year varies, this will account for most of the annual increases or decreases in expenses. The addition of fractural critical bridge inspections on several bridges in the district that have to be inspected on a yearly basis.

The sign department experienced a 20% increase in expenses due to increasing inventory depleted from previous years.

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 is 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.

**CIRCUIT ENGINEERING DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

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.

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.

2019 Operations and Future Plans

Fiscal Year 2019 was a frustrating year for the District striving to implement the District's aggressive 5-year road and bridge construction plan. The district successfully completed several road and bridge projects from a design and construction standpoint. However, the State of Oklahoma's financial crisis proved to be very damaging to the District's CIRB fund. With the legislature returning \$3,750,000 to the fund that basically placed the construction plan for 2020 at a positive balance and not a negative one with the hope of restoring normal bidding and awarding of construction contracts in FY2020. This will allow the district to construct some projects that were pushed back on through legislative sweeps.

The emulsion plant experienced an average year of oil sales growth compared to last year with early heavy spring rains causing customers to correct storm damage. The new clients helped offset the ones that couldn't place oil this season. However, sales have not reached a point, as of this date, where, the oil district can carry all of its expenses and loan obligations, but gains are being made.

The District is still dealing with the ramifications of the employee embezzlement discovered in July 2018. Independent financial audits were performed and policies modified to protect the District going forward. The District has incurred large expenses for attorney fees and fees billed by the Oklahoma State Auditor & Inspector. It is the hope of management and the board of directors that this issue will be completed in fiscal year 2020.

The anticipated budgeted revenues for fiscal year 2020 are expected to be \$3,008,000 compared to the prior year budgeted amount of \$3,002,000 or a 1.0% increase. The increase in revenue will be attributed to construction inspection. It is anticipated that construction contracts will resume in fiscal year 2020 when sufficient cash accumulates into the fund.

**CIRCUIT ENGINEERING DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

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.

CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 492,115	\$ 46,932	\$ 539,047
Restricted cash	513,139	-	513,139
Accounts receivable, net	855,892	-	855,892
Unbilled receivables	43,571	-	43,571
Due from Energy District	3,697,318	-	3,697,318
Inventory	16,354	219,458	235,812
Other assets	81,709	-	81,709
<i>Total current assets</i>	<u>5,700,098</u>	<u>266,390</u>	<u>5,966,488</u>
Non-current assets:			
Land	35,214	14,786	50,000
Other capital assets, net of depreciation	310,194	2,371,547	2,681,741
<i>Total non-current assets</i>	<u>345,408</u>	<u>2,386,333</u>	<u>2,731,741</u>
Total assets	<u><u>\$ 6,045,506</u></u>	<u><u>\$ 2,652,723</u></u>	<u><u>\$ 8,698,229</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 59,893	\$ 1,166	\$ 61,059
Accrued expenses payable	28,797	1,411	30,208
Accrued payroll liabilities	-	1,498	1,498
Compensated absences	89,699	6,090	95,789
Due to CED #7	-	3,697,318	3,697,318
Notes payable	-	194,246	194,246
Total liabilities	<u>178,389</u>	<u>3,901,729</u>	<u>4,080,118</u>
NET POSITION			
Invested in capital assets, net of related debt	345,408	2,192,087	2,537,495
Restricted	513,139	-	513,139
Unrestricted	5,008,570	(3,441,093)	1,567,477
<i>Total net position</i>	<u>5,867,117</u>	<u>(1,249,006)</u>	<u>4,618,111</u>
Total liabilities and net position	<u><u>\$ 6,045,506</u></u>	<u><u>\$ 2,652,723</u></u>	<u><u>\$ 8,698,229</u></u>

See accompanying notes to the basic financial statements

CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) / Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 475,494	\$ 508	\$ 612,092	\$ 137,106
Engineering	802,151	857,270	-	55,119
Construction inspection	600,924	615,967	-	15,043
Bridge inspection	127,284	234,511	-	107,227
Right of way acquisition	707,856	584,399	-	(123,457)
Signs	72,885	48,866	-	(24,019)
Total governmental activities	<u>\$ 2,786,594</u>	<u>\$ 2,341,521</u>	<u>\$ 612,092</u>	<u>\$ 167,019</u>
Business-type activities:				
Energy District	\$ 1,535,440	\$ 1,366,014	-	\$ (169,426)
Total business-type activities	<u>1,535,440</u>	<u>1,366,014</u>	<u>-</u>	<u>(169,426)</u>
Total primary government	<u>\$ 4,322,034</u>	<u>\$ 3,707,535</u>	<u>\$ 612,092</u>	<u>\$ (2,407)</u>

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in Net Assets:			
Net (expense) / revenue	\$ 167,019	\$ (169,426)	\$ (2,407)
General revenues:			
Auction proceeds	\$ 21,116	\$ -	\$ 21,116
Gain (Loss) on Sale of Assets	18,000	-	18,000
Other Income	-	-	-
Unrestricted investment earnings	1,967	74	2,041
Total general revenues and transfers	<u>41,083</u>	<u>74</u>	<u>41,157</u>
Change in net assets	208,102	(169,352)	38,750
Net position-beginning	5,659,015	(1,079,654)	4,579,361
Net position-ending	<u>\$ 5,867,117</u>	<u>\$ (1,249,006)</u>	<u>\$ 4,618,111</u>

See accompanying notes to the basic financial statements

CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2019

	General Fund
ASSETS	
Cash and cash equivalents	\$ 492,115
Restricted cash	513,139
Net receivables	855,892
Unbilled receivables, net	43,571
Due from Energy District	3,697,318
Inventory	16,354
Other assets	81,709
Total assets	\$ 5,700,098
LIABILITIES	
Accounts payable	\$ 59,893
Accrued payroll liabilities	28,797
Compensated absences	89,699
Total liabilities	178,389
FUND BALANCE	
Nonspendable	4,694,844
Committed	513,139
Unassigned	313,726
Total fund balance	5,521,709
Total liabilities and fund balance	\$ 5,700,098
 Total Governmental Fund Balance	 5,521,709
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Land and capital assets, net of accumulated depreciation are not financial resources and, therefore, are not reported in the funds.	
Land	35,214
Capital assets	1,428,901
Less: Accumulated depreciation	(1,118,707)
	<u>345,408</u>
 <i>Net assets of Governmental Activities</i>	 <u>\$ 5,867,117</u>

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, 2019

	General Fund
Revenues:	
Engineering fees	\$ 1,441,669
Construction inspection	615,967
Bridge inspection fees	234,511
Intergovernmental	612,092
Signs	48,866
Proceeds from sale of assets	18,000
Auction proceeds	21,116
Miscellaneous income	508
Interest income	1,967
<i>Total Revenues</i>	<u>2,994,696</u>
Expenditures:	
Current operations:	
Engineering	802,150
Construction inspection	525,600
Bridge inspection	116,005
Right of way acquisition	707,856
Signs	72,533
General government	432,340
Capital expenditures	14,543
<i>Total Expenditures</i>	<u>2,671,027</u>
Excess revenues over (under) expenditures	<u>323,669</u>
Net Change in Fund Balance	323,669
Fund balance at beginning of year	5,198,040
Fund balance at end of year	<u>\$ 5,521,709</u>
<i>Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:</i>	
Net change in Fund Balances - Total Governmental Funds	\$ 323,669
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	14,543
Depreciation expense	<u>(130,109)</u>
	(115,566)
<i>Change in Net Assets of Governmental Activities</i>	<u>\$ 208,103</u>

See accompanying notes to the basic financial statements

CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA**STATEMENT OF NET POSITION****PROPRIETARY FUNDS****JUNE 30, 2019**

	Business-type Activities
	Energy District
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 46,932
Inventory	219,458
<i>Total current assets</i>	<u>266,390</u>
Non-current assets:	
Land	14,786
Other capital assets, net of depreciation	2,371,547
<i>Total non-current assets</i>	<u>2,386,333</u>
Total assets	<u><u>\$ 2,652,723</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 1,166
Accrued expenses payable	1,411
Accrued payroll liabilities	1,498
Compensated absences	6,090
Due to CED #7	3,697,318
Notes payable	194,246
<i>Total current liabilities</i>	<u>3,901,729</u>
NET POSITION	
Invested in capital assets, net of related debt	2,192,087
Unrestricted	(3,441,093)
<i>Total net position</i>	<u>(1,249,006)</u>
Total liabilities and net position	<u><u>\$ 2,652,723</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, 2019

	<u>Business-type Activities</u>
	<u>Energy District</u>
Operating Revenues:	
Sale of asphalt emulsion product	\$ 1,366,014
<i>Total Operating Revenues</i>	<u>1,366,014</u>
Operating Expenses:	
Current operations:	
Cost of goods sold	917,286
Personal services	148,964
Materials and supplies	4,755
Other services and charges	263,424
Depreciation and amortization	171,485
<i>Total Operating Expenses</i>	<u>1,505,914</u>
Net Operating Income	(139,900)
Nonoperating Revenue (Expense):	
Investment income	74
Interest expense	(29,526)
<i>Total Nonoperating Revenue (Expense)</i>	<u>(29,452)</u>
Change in Net Position	(169,352)
Net Position - beginning of year	(1,079,654)
Net Position - end of year	<u>\$ (1,249,006)</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, 2019**

	<u>Business-type Activities</u>
	<u>Energy District</u>
<u>Cash flows from operating activities:</u>	
Receipts from customers	\$ 1,454,659
Payments to suppliers	(1,351,389)
Payments to employees	(148,964)
Other operating revenues	-
Net cash provided (used) by operating activities	<u>(45,694)</u>
<u>Cash flows from non-capital financing activities:</u>	
Due to CED#7	927,117
Net cash provided (used) by non-capital financing activities	<u>927,117</u>
<u>Cash flows from capital and related financing activities:</u>	
Purchase of capital assets	(12,500)
Principal paid on capital debt	(793,857)
Interest paid on capital debt	(29,526)
Net cash provided (used) by capital and related financing activities	<u>(835,883)</u>
<u>Cash flows from investing activities:</u>	
Investment income	74
Net cash provided (used) by investing activities	<u>74</u>
 Net increase (decrease) in cash and cash equivalents	 45,614
Cash and cash equivalents, July 1, 2018	<u>1,318</u>
Cash & cash equivalents, June 30, 2019	<u>\$ 46,932</u>
Cash, including time deposits	<u>\$ 46,932</u>
Total cash and cash equivalents, end of year	<u>\$ 46,932</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (139,900)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	171,485
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	88,645
(Increase) decrease in inventory	(27,527)
Increase (decrease) in accounts payable	(135,739)
Increase (decrease) in accrued expenses	(2,658)
Total adjustments	<u>94,206</u>
Net cash provided (used) by operating activities	<u>\$ (45,694)</u>

See accompanying notes to the basic financial statements

**CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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, 2019, 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

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

counties in the negotiation and preparation of Wind Farm Road Maintenance agreements and sells emulsified asphalt to member counties for use in resurfacing roadways. 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

Circuit Engineering District #7 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 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

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

objectives of this measurement focus are the determination of operating income, 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

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 right-of-way acquisitions, construction inspection and engineering fees.

In the fund financial statements, material receivables in the governmental fund include revenue accruals such as right-of-way acquisitions, 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.

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

Inventory

Inventory consists of materials, including aluminum, film, and posts to construct regulatory signs for member counties. Inventory for the Authority consists of resurfacing asphalt. Amounts 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. Restricted assets and liabilities current in nature are reported with current assets and current liabilities in the financials.

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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 current liabilities in the government-wide statements. In the fund financial statements, the governmental fund reports only the compensated absence liability payable from expendable available financial resources.

Interfund Balances

Outstanding balances between funds reported and due to/due from other funds include outstanding charges by one fund to another for debt service and miscellaneous receivables/payables between funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as due to/due from other funds.

At June 30, 2019, \$3,697,318 was due from the Authority to the District related to debt financing and operational expenses. The balance is not expected to be repaid within one year.

Long-Term Debt

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as a liability.

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

Contracts are accounted for based upon hourly billing performance. Hours worked on a project are billed as incurred. Hourly billing is considered to be the most 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, 2019 the District has \$43,571 in unbilled receivables, which is attributable to bridge 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.

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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. 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. The District is reimbursed at an agreed hourly rate for actual work performed for each project.

Right of Way Acquisition Fees

Right of Way Acquisition 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.

Contributions

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

Sale of asphalt

The Authority sells asphalt emulsion product to members and municipalities within the district area for roadway construction and repair.

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."

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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 listed 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. Balances are identified by the District's Board, and

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.

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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, 2019.

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, 2019, the member counties contributed the following funds to the District for services provided:

	Revenue Earned
Beckham County	\$ 149,413
Blaine County	156,552
Custer County	594,563
Dewey County	104,252
Greer County	177,317
Harmon County	25,487
Jackson County	193,527
Kiowa County	259,204
Roger Mills County	344,236
Tillman County	135,280
Washita County	233,496
Total Member Contributions	\$ 2,373,327

At June 30, 2019, amounts due from related parties were as follows:

	June 30, 2019
Beckham County	\$ 36,922
Blaine County	71,467
Custer County	426,579
Dewey County	45,113
Greer County	36,584
Harmon County	11,687
Jackson County	54,961
Kiowa County	42,793
Roger Mills County	39,408
Tillman County	48,787
Washita County	25,561
Total Member County Receivable	\$ 839,862

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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, 2019, 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 held no certificates of deposit or other investments at June 30, 2019.

4.B. ACCOUNTS RECEIVABLE

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

Allowance for Doubtful Accounts – The District has established an allowance for doubtful accounts of \$494 based on management's prior experience using amounts past due more than 30 days. Management does not believe there are significant losses in excess of the allowance.

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

4.C. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

Governmental Activities:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2019</u>
Land	\$ 35,214	\$ -	\$ -	\$ 35,214
Equipment	426,202	9,943	18,894	417,251
Vehicles	420,011	-	31,849	388,162
Building improvements	417,748	4,600	-	422,348
Building	201,140	-	-	201,140
	<u>1,500,315</u>	<u>14,543</u>	<u>50,743</u>	<u>1,464,115</u>
Less accumulated depreciation	<u>1,039,340</u>	<u>130,109</u>	<u>50,743</u>	<u>1,118,706</u>
Net capital assets	<u>\$ 460,975</u>			<u>\$ 345,409</u>

Business-type Activities:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2019</u>
Land	\$ 14,786	\$ -	\$ -	\$ 14,786
Equipment	2,071,055	12,500	-	2,083,555
Site development	604,210	-	-	604,210
Building	69,877	-	-	69,877
Emulsion recipe	575,000	-	-	575,000
	<u>3,334,928</u>	<u>12,500</u>	<u>-</u>	<u>3,347,428</u>
Less accumulated depreciation	<u>789,611</u>	<u>171,485</u>	<u>-</u>	<u>961,096</u>
Net capital assets	<u>\$ 2,545,317</u>			<u>\$ 2,386,332</u>

Depreciation was charged to governmental functions as follows:

Governmental activities:

General government	\$ 43,154
Engineering	-
Construction inspection	75,324
Bridge inspection	11,279
Bridge building	-
Sign	352
Total governmental activities depreciation expense	<u>\$ 130,109</u>

Depreciation for the Authority is reported on the face of the Statement of Revenues, Expenses, and Changes in Fund Net Position for the Proprietary Fund.

**CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

4.D. NOTES PAYABLE

Notes payable for the Authority for the year ended June 30, 2019 was as follows:

Business-Type Activities

Notes Payable:

\$2,350,000 payable to Interbank dated December 2012, due in semi-annual installments over 8 years plus interest of 5%. Loan matures in December 2020. Proceeds were used to fund the CED #7 Energy District Authority initial operations. \$ 77,196

\$575,000 payable to Paul Beavers amended October 2014 payable in installments, carrying a 0% interest rate. Loan matures October 2019. Proceeds were used for the purchase of title and interest in the rubber asphalt formula. 59,375

\$170,376 Lease-Purchase Agreement with De Lage Landen Public Finance LLC dated April 5, 2018, carrying a 3.165% interest rate. Payments are due in annual installments in October, maturing on October 5, 2019. Proceeds were used to purchase a 40,000 gallon vertical asphalt tank. 57,675

\$194,246

Changes in Long-Term Debt

	<u>Balance at June 30, 2018</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2019</u>	<u>Due Within One Year</u>
Business-type activities					
<i>Notes Payable</i>					
Interbank	\$ 765,148	\$ -	\$ 687,952	\$ 77,196	\$ 77,196
Paul Beavers	109,375	-	50,000	59,375	59,375
De Lage Landen Public Finance	113,580	-	55,905	57,675	57,675
Total primary government	<u>\$ 988,103</u>	<u>\$ -</u>	<u>\$ 793,857</u>	<u>\$ 194,246</u>	<u>\$ 194,246</u>

**CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Annual Debt Service Requirements

Year Ending June 30	Notes Payable	
	Principal	Interest
2020	194,246	3,755
Totals	\$ 194,246	\$ 3,755

NOTE 5. OTHER NOTES

5.A. EMPLOYEE BENEFIT PLANS

The District & Authority has a defined contribution plan (a "401a plan") which covers all District & Authority 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 \$192,976 in fiscal year 2019. The plan is administered by Lincoln Life.

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"> - Torts - Error and Omissions - Officer Liability - Vehicle 	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"> - Theft - Damages to Assets - Natural Disasters 	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"> - Employees' Injuries 	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"> - Medical - Disability - Dental - Life 	The District carries commercial insurance for these types of risk.	None

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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. EXTRAORDINARY ITEMS:

No extraordinary items occurred in the current fiscal year.

5.D. COMMITMENTS AND CONTINGENCIES

As of June 30, 2019, the District did not have any pending litigation nor any additional potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

5.E. Date of Management's Review

Subsequent events were evaluated through January 22, 2020, which is the date the financial statements were available to be issued.

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, 2019**

	Budgeted Amounts			Actual	Variance with Final Budget Favorable / (Unfavorable)
	Original Budget	Amendments	Final Budget		
Revenues:					
Intergovernmental	\$ 360,000	\$ -	\$ 360,000	\$ 612,092	\$ 252,092
Bridge inspection fees	175,000	-	175,000	234,511	59,511
Engineering fees	1,571,000	4,000	1,575,000	1,441,669	(133,331)
Signs	46,000	2,000	48,000	48,866	866
Construction inspection	825,000	-	825,000	615,967	(209,033)
Bridge construction fees	-	-	-	-	-
Auction proceeds	25,000	-	25,000	21,116	(3,884)
Proceeds from sale of assets	-	-	-	18,000	18,000
Miscellaneous income	-	-	-	508	508
Interest income	-	-	-	1,967	1,967
Total Revenues	3,002,000	6,000	3,008,000	2,994,696	(13,304)
Expenditures:					
Current operations:					
General government					
Personal services	165,500	-	165,500	238,765	(73,265)
Maintenance and operation	438,450	31,000	469,450	193,575	275,875
Bridge inspection					
Personal services	161,000	-	161,000	102,487	58,513
Maintenance and operation	10,750	-	10,750	13,518	(2,768)
Engineering					
Personal services	772,114	-	772,114	519,975	252,139
Maintenance and operation	605,750	160,000	765,750	990,031	(224,281)
Signs					
Personal services	43,149	-	43,149	38,538	4,611
Maintenance and operation	16,300	16,000	32,300	33,995	(1,695)
Construction Inspection					
Personal services	570,900	-	570,900	475,661	95,239
Maintenance and operation	92,550	(1,000)	91,550	49,939	41,611
Capital expenditures	29,500	-	29,500	14,543	14,957
Extraordinary Items:	-	-	-	-	-
Debt Service	-	-	-	-	-
Total Expenditures	2,905,963	206,000	3,111,963	2,671,027	440,936
Excess revenues over (under) expenditures	96,037	(200,000)	(103,963)	323,669	427,632
Fund balance, beginning (Non-GAAP budgetary basis):	-	-	-	5,643,256	
Fund balance, ending (Non-GAAP budgetary basis):	<u>\$ 96,037</u>	<u>\$ (200,000)</u>	<u>\$ (103,963)</u>	<u>\$ 5,966,925</u>	
Adjustments to Generally Accepted Accounting Principles					
Transfer and expense accruals, net				(445,216)	
Fund balance, ending (GAAP basis)				<u>\$ 5,521,709</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, 2019

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 any 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.

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, 2019, the District did not exceed total budgeted expenditures.

STATISTICAL SECTION

**CIRCUIT ENGINEERING DISTRICT #7
STATISTICAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019**

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 Construction Inspection – 7 Sign Shop – 1
Emulsion Plant:	Number of Full-time Employees - 1

Source: Circuit Engineering District #7

CIRCUIT ENGINEERING DISTRICT # 7

MISCELLANEOUS STATISTICS

October 1, 2019

	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	1,154	1,306	1,393	1,124	845	772	1,200	1,547	1,227	1,424	1,671	13,663
Total Road Miles	1,463	1,483	1,550	1,262	973	875	1,353	1,760	1,391	1,573	1,849	15,532
Number of Bridges inside the District:												
State (includes Interstates maintained by Div. 5)	129	56	147	34	28	29	53	117	51	72	80	796
County **	184	234	270	135	201	75	241	353	102	215	301	2,311
Total Bridges	313	290	417	169	229	104	294	470	153	287	381	3,107
Substandard Bridges inside the District:												
State (includes Interstates)	12	-	18	-	1	1	-	1	1	-	1	35
County **	10	26	18	3	11	1	20	26	-	33	54	202
Total Substandard Bridges	22	26	36	3	12	2	20	27	1	33	55	237
Replacement Cost of All Deficient State Bridges	\$ 21,415,974	\$ -	\$ 63,739,893	\$ -	\$ 2,516,063	\$ 3,498,997	\$ -	\$ 644,000	\$ 1,965,000	\$ 1,690,000	\$ 644,000	\$ 96,113,927
Replacement Cost of All Deficient County Bridges	\$ 2,802,000	\$ 8,052,000	\$ 4,992,000	\$ 1,097,900	\$ 7,938,628	\$ 480,000	\$ 6,631,000	\$ 8,816,000	\$ -	\$ 8,745,000	\$ 16,645,000	\$ 66,199,528
Total Replacement Cost of All Deficient Bridges	24,217,974	8,052,000	68,731,893	1,097,900	10,454,691	3,978,997	6,631,000	9,460,000	1,965,000	10,435,000	17,289,000	162,313,455
Number of Road/Bridge Projects* inside the District:												
State (includes Interstates)	4	2	3	-	-	1	2	2	-	1	1	16
County	1	2	1	-	1	-	1	-	-	1	2	9
Total Projects	5	4	4	-	1	1	3	2	-	2	3	25
\$'s of Road/Bridge Projects* inside the District:												
State	\$ 34,115,652	\$ 3,539,512	\$ 8,066,244	\$ -	\$ -	\$ 4,064,494	\$ 3,434,255	\$ 21,112,622	\$ -	\$ 4,260,389	\$ 1,299,500	\$ 79,892,668
County	\$ 450,626	\$ 4,302,746	\$ 661,389	\$ -	\$ 211,010	\$ -	\$ 895,543	\$ -	\$ -	\$ 974,723	\$ 903,821	\$ 8,399,858
Total \$'s of Projects	\$ 34,566,278	\$ 7,842,258	\$ 8,727,633	\$ -	\$ 211,010	\$ 4,064,494	\$ 4,329,798	\$ 21,112,622	\$ -	\$ 5,235,112	\$ 2,203,321	\$ 88,292,526
*Amounts based on Oklahoma Department of Transportation contracts awarded from lettings of July 1, 2018 to June 30, 2019												
** Most of the temporary pipes were removed from the inventory, as mandated by the FHWA, in 2013												
Sources: 1) Circuit Engineering District #7, 2) ODOT Website-Bid Letting- Projects Awarded, 3) Assoc. of Co. Commissioners, 4) ODOT BrM bridge database												

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
Circuit 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 and the business-type activities of the Circuit Engineering District #7, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Circuit Engineering District #7's basic financial statements, and have issued our report thereon dated January 22, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Circuit 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 the Circuit Engineering District #7's internal control. Accordingly, we do not express an opinion on the effectiveness of the Circuit 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 Circuit 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

FSW&B CPA's-PLC

Stillwater, OK

January 22, 2020