

**CIRCUIT ENGINEERING
DISTRICT # 7, OKLAHOMA**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017**

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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 18, 2018

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, 2017. 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 2017.

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 which includes: Beckham, Blaine, Custer, Dewey, Greer, Harmon, Jackson, Kiowa, Roger Mills, Tillman, and Washita counties. During fiscal year 2017, 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.

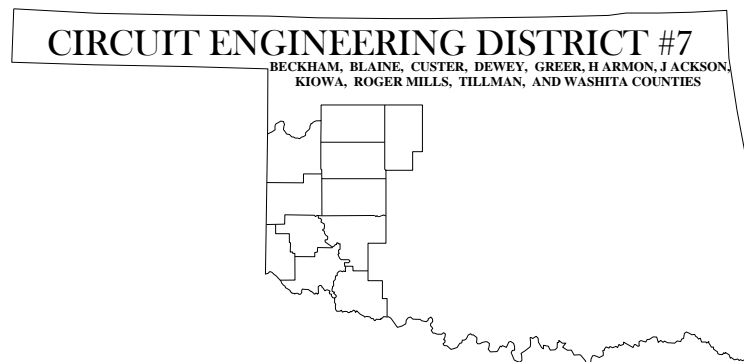
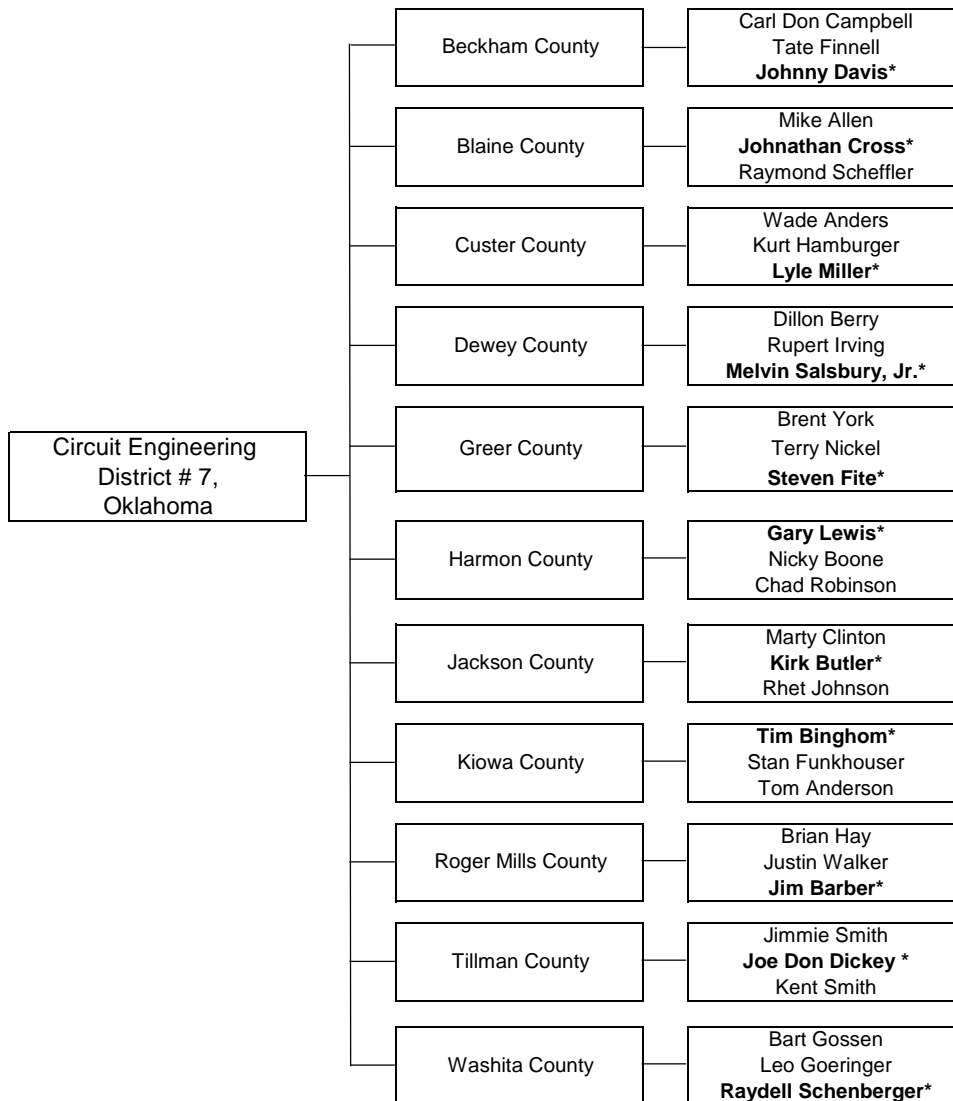
Respectfully submitted,

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

Circuit Engineering District #7, Oklahoma

2017-2018 Board of Directors

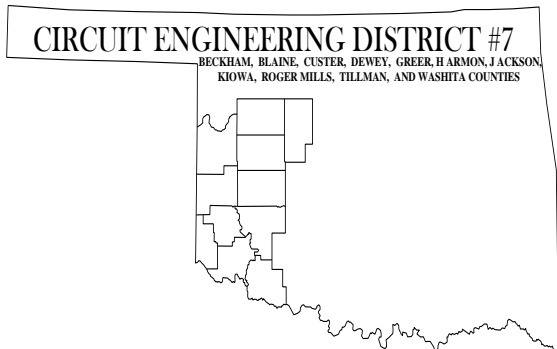
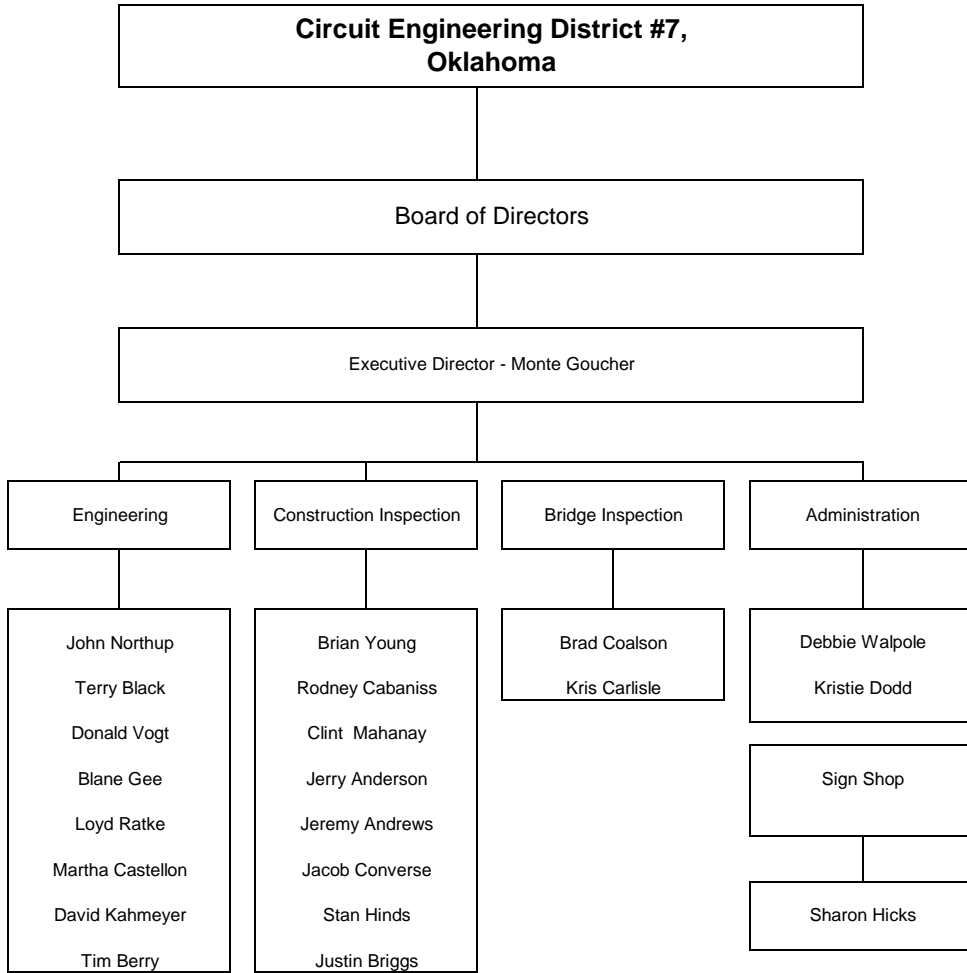
Organizational Chart



* Member of the Circuit Engineering District Board of Directors

Circuit Engineering District #7, Oklahoma

2016-2017 Staff Organizational Chart



Emulsion Plant:
Austin Palmer
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, the business-type activities, and each major fund of the Circuit Engineering District # 7 as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, the business-type activities, and each major fund, of the Circuit Engineering District # 7, as of June 30, 2017, 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 28-30 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 February 26, 2018, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Circuit Engineering District #7's internal control over financial reporting and compliance.

FSW&B CPAs-PLLC

FSW&B CPAs-PLLC
Woodward, Oklahoma

February 26, 2018

**CIRCUIT ENGINEERING DISTRICT #7
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

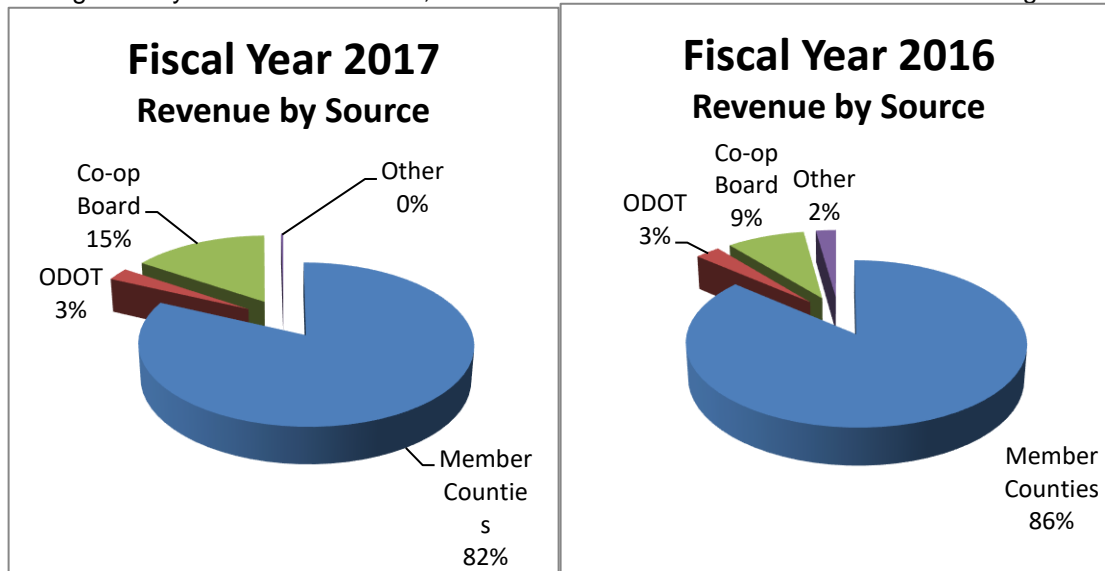
Our discussion and analysis of the Circuit Engineering District #7’s (“District”) performance provides an overview of the District’s financial activities for the fiscal year ended June 30, 2017. Please review it in conjunction with the transmittal letter and the District’s basic financial statements.

Financial Highlights

- The District’s assets exceeded its liabilities by \$4,196,820 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$3,709,603.
- Total net position is comprised of the following:
 - (1) Capital assets, net of related debt, of \$1,506,651 include property and equipment, net of accumulated depreciation. The District had outstanding debt of \$1,607,902 related to capital assets as of June 30, 2017.
 - (2) Unrestricted net assets of \$1,840,845 represent the portion available to maintain the District’s continuing obligations to member counties and creditors. Included in restricted net assets is \$443,968, which the District has restricted internally for capital asset purchases.
- Total liabilities of the District decreased slightly from \$3,878,471 to \$3,874,857 during the fiscal year. The decrease 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 \$360,000 in revenues was generated from CIRB through project management, interest earnings, and CBRI direct allocation per state statute.

Operations for the fiscal year 2017 were mainly supported by engineering fees and construction inspection fees, which both provided 39% of revenues. This division of revenues is a switch from prior year in which construction inspection fees made up the largest bulk of revenues, followed by engineering fees. 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 2017 and 2016, the District received revenues from the following sources:

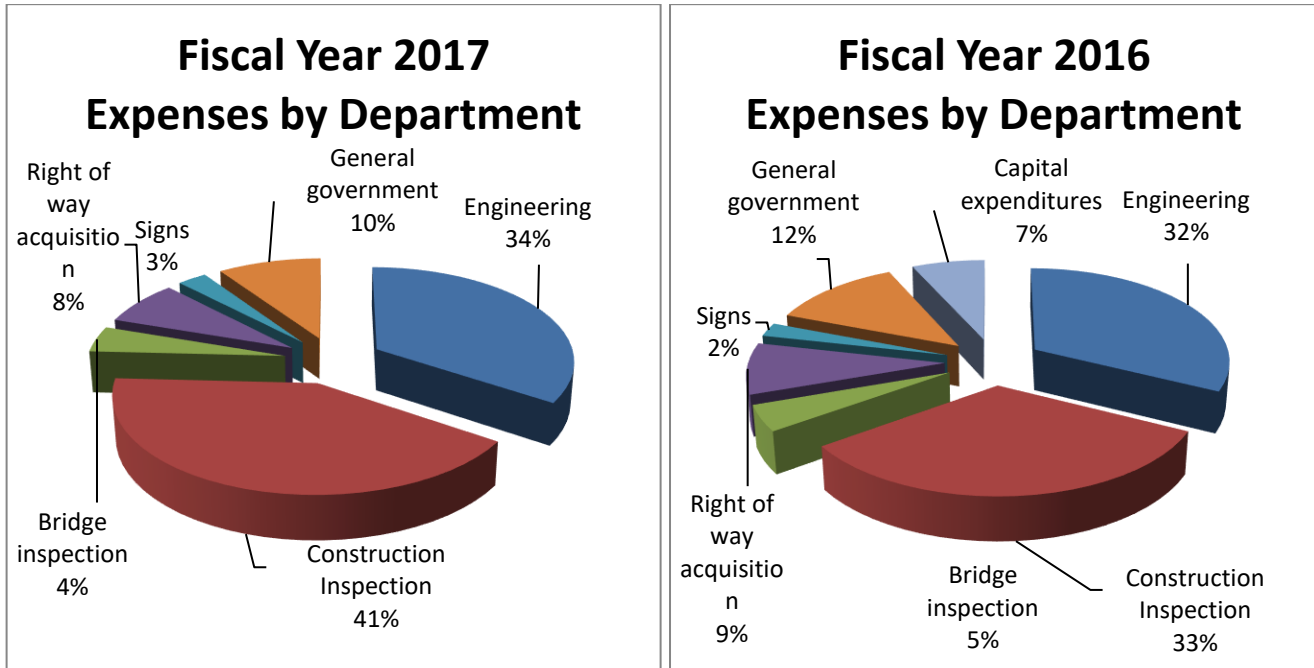


Total Revenues \$2,900,560

Total Revenues \$2,675,160

**CIRCUIT ENGINEERING DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

Expenses were allocated by the following departments as of June 30, 2017 and 2016:



Operating expenses for 2017 decreased 4% over prior year. The following chart displays the change in expenses when compared to prior year.

	2017	2016	Change	
			\$	%
General Government	\$ 210,908	\$ 304,858	\$ (93,950)	-31%
Engineering	757,641	795,659	(38,018)	-5%
Construction inspection	915,185	809,881	105,304	13%
Bridge inspection	96,876	110,528	(13,652)	-12%
Right of Way	166,223	216,687	(50,464)	-23%
Signs	60,311	57,706	2,605	5%
	<u>\$2,207,144</u>	<u>\$2,295,319</u>	<u>\$ (88,175)</u>	<u>-4%</u>

General government expenses experienced a 31% decrease this fiscal year after a 12% decrease the preceding fiscal year. This reduction in General Government expense is attributed to the annual increase of emulsion oil sales. The emulsion plant experienced a successful season with new clientele and a 25% increase in oil sales. As the Energy District gains cash flow stability the district will be relied upon less to cover cash shortfalls. Another factor in the decrease is the allocation of the Executive Directors payroll liability which has been allocated between 3 departments (General Govt., Engineering, & Construction). Approximately ½ of the Directors payroll liability remains in General Government.

Engineering department expenses experienced a 5% decline which can be attributed to the decline in outside consultant contracts needed to help advance the district's CIRB five year plan. CED7 has awarded numerous design contracts during the last three fiscal years to help deliver the five year plan when CED staff was overloaded and could not complete the work.

**CIRCUIT ENGINEERING DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

Construction inspection experienced an increase in expenses of 13%. As expected, the expenses increased due to a large number of projects under construction this fiscal year. In addition, a portion of the Executive Directors payroll liability was allocated to the Construction Department.

Right of way acquisition experienced a significant reduction of expenses of 23%. This decrease was due to projects that required less purchases of landowner property or the properties being acquired were of lesser value than the preceding year. Right of way acquisition will be prone to changes each fiscal year.

Bridge Inspection expenses decreased 12% after being up by 13% the previous fiscal year which can be attributed to fewer mandated "Fracture Critical Inspections" performed this fiscal year than the previous fiscal year. It should be noted that a member counties bridge inspections are performed every other year on a rotation basis and, as the number of total bridge inspections performed each fiscal year changes, these changes will account for the annual increases and decreases.

The sign department experienced a 5% increase in expenses after experiencing a 31% decrease in the year before. The sign shop incurred a large amount of inventory previously and has depleted this past fiscal year while adding some inventory.

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

**CIRCUIT ENGINEERING DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

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

2017 Operations and Future Plans

Fiscal Year 2017 was a busy year for the district striving to implement the district's aggressive 5-year road and bridge construction plan, given the money that was swept from the CIRB fund for the 3rd consecutive year. The district successfully completed several road and bridge projects from a design and construction standpoint. The emulsion plant experienced a better year of oil sales, building on the successful preceding year. There was significant repeat customers and new clients added. The district is still working on becoming a qualified vendor with TXDOT in anticipation of selling oil to them next season. 7 Oil emulsion was successful in gaining AASHTO certification for its chipping oil. 7 Oil management anticipates increased sales and new clients for 2018.

For the third year in a row the districts' CIRB program, which was created by the legislature in 2006, took another financial hit during the past legislative session. The State of Oklahoma experienced another revenue failure and the legislature swept another \$50 million from the county CIRB accounts. This action by the legislature resulted in another \$6.25 million loss to the District, which created the need to re-structure and fiscally re-balance the districts 5-year plan. This recent action by the legislature has resulted in the previous 5-year construction plan being stretched to 10-years, with several projects falling outside the plan. It is anticipated that additional cuts to the CIRB program could be forthcoming given the economic forecast for the State of Oklahoma and the legislature's unwillingness to implement more revenue making measures.

The District continues to be successful with the creation of the right of way acquisition department. Utility relocation coordination, which has been a problem in previous fiscal years, has improved significantly through the previously increased CED7 staff. The district utilizes two employees and one part time employee to coordinate the identification and relocation of utilities. As stated last fiscal year, the District will see a decrease in the solicitation of services by private sector engineering consultants due to now having enough projects "ready to let" and the previously enacted funding cuts and anticipated future funding reductions by the legislature.

The anticipated budgeted revenues for FY2018 are expected to be \$3,261,000 compared to the prior year budgeted amount of \$3,380,000 or a 3.5% decrease. The decrease in revenue is anticipated to occur with engineering fees earned, due to projects already designed and waiting for construction funding. The design staff will continue to work on current projects and will not be working ahead of the current five year plan.

**CIRCUIT ENGINEERING DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,218,298	\$ 43,058	\$ 1,261,356
Restricted cash	443,968	-	443,968
Restricted investments	405,356	-	405,356
Accounts receivable, net	517,626	12,980	530,606
Unbilled receivables	115,836	-	115,836
Due from Energy District	2,111,283	-	2,111,283
Inventory	12,465	74,977	87,442
Other Assets	1,277	-	1,277
<i>Total current assets</i>	<u>4,826,109</u>	<u>131,015</u>	<u>4,957,124</u>
Non-current assets:			
Land	35,214	14,786	50,000
Other capital assets, net of depreciation	375,093	2,689,460	3,064,553
<i>Total non-current assets</i>	<u>410,307</u>	<u>2,704,246</u>	<u>3,114,553</u>
Total assets	<u>\$ 5,236,416</u>	<u>\$ 2,835,261</u>	<u>\$ 8,071,677</u>
LIABILITIES			
Current liabilities:			
Accounts Payable	\$ 58,610	\$ 27,562	\$ 86,172
Accrued expenses payable	-	-	-
Compensated absences	68,032	1,468	69,500
Due to CED #7	-	2,111,283	2,111,283
Notes payable	-	570,312	570,312
<i>Total current liabilities</i>	<u>126,642</u>	<u>2,710,625</u>	<u>2,837,267</u>
Non-current liabilities:			
Notes payable	-	1,037,590	1,037,590
<i>Total non-current liabilities</i>	<u>-</u>	<u>1,037,590</u>	<u>1,037,590</u>
Total liabilities	<u>126,642</u>	<u>3,748,215</u>	<u>3,874,857</u>
NET POSITION			
Invested in capital assets, net of related debt	410,307	1,096,344	1,506,651
Restricted	849,324	-	849,324
Unrestricted	3,850,143	(2,009,298)	1,840,845
<i>Total net position</i>	<u>5,109,774</u>	<u>(912,954)</u>	<u>4,196,820</u>
Total liabilities and net position	<u>\$ 5,236,416</u>	<u>\$ 2,835,261</u>	<u>\$ 8,071,677</u>

See accompanying notes to the basic financial statements

CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) / Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
General government	\$ 254,729	\$ 27,786	\$ 361,042	\$ 134,099
Engineering	779,573	971,226	-	191,653
Construction inspection	1,013,398	1,096,753	-	83,355
Bridge inspection	112,940	234,795	-	121,855
Right of way acquisition	166,223	149,223	-	(17,000)
Signs	60,663	32,242	-	(28,421)
Total governmental activities	<u>\$ 2,387,526</u>	<u>\$ 2,512,025</u>	<u>\$ 361,042</u>	<u>\$ 485,541</u>
Business-type activities:				
Energy District	\$ 1,147,920	\$ 1,130,921	-	\$ (16,999)
Total business-type activities	<u>1,147,920</u>	<u>1,130,921</u>	<u>-</u>	<u>(16,999)</u>
Total primary government	<u>\$ 3,535,446</u>	<u>\$ 3,642,946</u>	<u>\$ 361,042</u>	<u>\$ 468,542</u>

Primary Government

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in Net Assets:			
Net (expense) / revenue	\$ 485,541	\$ (16,999)	\$ 468,542
General revenues:			
Auction proceeds	\$ 25,310	\$ -	\$ 25,310
Unrestricted investment earnings	2,182	72	2,254
Extraordinary Items:			
Embezzlement Losses	(8,889)	-	(8,889)
Total general revenues and transfers	<u>18,603</u>	<u>72</u>	<u>18,675</u>
Change in net assets	504,144	(16,927)	487,217
Net position-beginning	4,605,630	(896,027)	3,709,603
Net position-ending	<u>\$ 5,109,774</u>	<u>\$ (912,954)</u>	<u>\$ 4,196,820</u>

See accompanying notes to the basic financial statements

CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2017

	General Fund
ASSETS	
Cash and cash equivalents	\$ 1,218,298
Restricted cash	443,968
Restricted investments	405,356
Net receivables	517,626
Unbilled receivables, net	115,836
Due from Energy District	2,111,283
Inventory	12,465
Other Assets	1,277
Total assets	\$ 4,826,109
LIABILITIES	
Accounts Payable	\$ 58,610
Compensated absences	68,032
Total liabilities	126,642
FUND BALANCE	
Nonspendable	2,758,487
Restricted	405,356
Committed	443,968
Unassigned	1,091,656
Total fund balance	4,699,467
Total liabilities and fund balance	\$ 4,826,109
 Total Governmental Fund Balance	 4,699,467
 <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	1,473,778
Less: Accumulated depreciation	(1,098,685)
	410,307
 Net assets of Governmental Activities	 \$ 5,109,774

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, 2017**

	General Fund
Revenues:	
Engineering fees	\$ 1,126,004
Construction inspection	1,116,735
Bridge inspection fees	234,795
Intergovernmental	361,042
Signs	32,242
Auction proceeds	25,310
Miscellaneous Income	2,250
Interest income	2,182
<i>Total Revenues</i>	2,900,560
Expenditures:	
Current operations:	
Engineering	757,641
Construction Inspection	915,185
Bridge inspection	96,876
Right of way acquisition	166,223
Signs	60,311
General government	210,908
<i>Total Expenditures</i>	2,207,144
Net Change in Fund Balance	693,416
Fund balance at beginning of year	4,006,051
Fund balance at end of year	\$ 4,699,467
 <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	\$ 693,416
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	-
Depreciation expense	(189,272)
	(189,272)
 <i>Change in Net Assets of Governmental Activities</i>	 \$ 504,144

See accompanying notes to the basic financial statements

CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

JUNE 30, 2017

	Business-type Activities	
	Energy District	
ASSETS		
Current assets:		
Cash and cash equivalents	\$	43,058
Investments		-
Restricted cash		-
Accounts receivable		12,980
Unbilled receivables		-
Inventory		74,977
<i>Total current assets</i>		<u>131,015</u>
Non-current assets:		
Land		14,786
Other capital assets, net of depreciation		2,689,460
<i>Total non-current assets</i>		<u>2,704,246</u>
Total assets	\$	<u><u>2,835,261</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$	27,562
Accrued payroll liabilities		-
Accrued interest payable		-
Compensated absences		1,468
Due to CED #7		2,111,283
Notes payable		570,312
<i>Total current liabilities</i>		<u>2,710,625</u>
Non-current liabilities:		
Notes payable		1,037,590
<i>Total non-current liabilities</i>		<u>1,037,590</u>
Total liabilities		<u>3,748,215</u>
NET POSITION		
Invested in capital assets, net of related debt		1,096,344
Restricted		-
Unrestricted		(2,009,298)
<i>Total net position</i>		<u>(912,954)</u>
Total liabilities and net position	\$	<u><u>2,835,261</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, 2017**

	<u>Business-type Activities</u>
	<u>Energy District</u>
Operating Revenues:	
Sale of asphalt emulsion product	\$ 1,130,921
Reimbursed expenses	
Interest income	-
<i>Total Operating Revenues</i>	<u>1,130,921</u>
Operating Expenses:	
Current operations:	
Cost of goods sold	513,302
Personal services	136,486
Materials and supplies	15,295
Other services and charges	240,419
Depreciation and amortization	172,321
<i>Total Operating Expenses</i>	<u>1,077,823</u>
Net Operating Income	53,098
Nonoperating Revenue (Expense):	
Investment income	72
Interest expense	(70,097)
<i>Total Nonoperating Revenue (Expense)</i>	<u>(70,025)</u>
Net Income (Loss) before contributions and transfers	(16,927)
Transfers from other funds	-
Transfers to other funds, net	-
Change in Net Position	(16,927)
Net Position - beginning of year	(896,027)
Net Position - end of year	<u>\$ (912,954)</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, 2017**

	Business-type Activities
	Energy District
<u>Cash flows from operating activities:</u>	
Receipts from customers	\$ 1,224,086
Payments to suppliers	(772,933)
Payments to employees	(136,486)
Other operating revenues	-
Net cash provided (used) by operating activities	314,667
<u>Cash flows from non-capital financing activities:</u>	
Due to CED#7	351,967
Net cash provided (used) by non-capital financing activities	351,967
<u>Cash flows from capital and related financing activities:</u>	
Purchase of capital assets	(70,487)
Principal paid on capital debt	(529,209)
Interest paid on capital debt	(70,097)
Net cash provided (used) by capital and related financing activities	(669,793)
<u>Cash flows from investing activities:</u>	
Investment income	72
Net cash provided (used) by investing activities	72
Net increase (decrease) in cash and cash equivalents	(3,087)
Cash and cash equivalents, July 1, 2016	46,145
Cash & cash equivalents, June 30, 2017	\$ 43,058
Cash, including time deposits	\$ 43,058
Total cash and cash equivalents, end of year	\$ 43,058
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</u>	
Operating income (loss)	\$ 53,098
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	172,321
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	93,165
(Increase) decrease in inventory	9,476
Increase (decrease) in accounts payable	(11,594)
Increase (decrease) in accrued expenses	(1,799)
Total adjustments	261,569
Net cash provided (used) by operating activities	\$ 314,667

See accompanying notes to the basic financial statements

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017, 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 emulsified asphalt to member counties for use in resurfacing roadways. Accounts of the Authority are recorded in business-type activities.

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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 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.

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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 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.

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-

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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 investments include a certificate of deposit pledged as security on the Energy District's note payable. Restricted assets and liabilities current in nature are reported with current assets and current liabilities in the financials.

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.

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017, \$2,111,283 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, 2017 the District has \$115,836 in unbilled receivables, which is attributable to engineering and 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. 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.

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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.”

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),

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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.

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, 2017.

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, 2017, the member counties contributed the following funds to the District for services provided:

**CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

	Revenue Earned
Beckham County	\$ 234,341
Blaine County	199,132
Custer County	106,543
Dewey County	112,202
Greer County	217,138
Harmon County	20,409
Jackson County	317,662
Kiowa County	35,259
Roger Mills County	542,812
Tillman County	439,363
Washita County	150,442
Total Member Contributions	\$ 2,375,303

At June 30, 2017, amounts due from related parties were as follows:

	June 30, 2017
Beckham County	\$ 125,673
Blaine County	66,936
Custer County	5,120
Dewey County	13,672
Greer County	-
Harmon County	1,050
Jackson County	22,531
Kiowa County	-
Roger Mills County	226,987
Tillman County	67,398
Washita County	10,200
Total Member County Receivable	\$ 539,567

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, 2017, 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.

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

The District invests in certificates of deposit which are reported as Cash and Cash Equivalents and Restricted Investments in the Statement of Net Position. At June 30, 2017, the District held two certificates of deposit in the amount of \$508,313 each with an interest rate of 0.3% and a total 3.8 weighted average months to maturity. 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.

Allowance for Doubtful Accounts – The District has established an allowance for doubtful accounts of \$20,943 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.

4.C. CAPITAL ASSETS

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

Governmental Activities:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2017</u>
Land	\$ 35,214	\$ -	\$ -	\$ 35,214
Equipment	433,957	-	-	433,957
Vehicles	420,933	-	-	420,933
Building improvements	417,748	-	-	417,748
Building	201,140	-	-	201,140
	<u>1,508,992</u>	<u>-</u>	<u>-</u>	<u>1,508,992</u>
Less accumulated depreciation	909,413	189,272	-	1,098,685
Net capital assets	<u>\$ 599,579</u>			<u>\$ 410,307</u>

Business-type Activities:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2017</u>
Land	\$ 14,786	\$ -	\$ -	\$ 14,786
Equipment	1,771,750	240,863	-	2,012,613
Site development	604,210	-	-	604,210
Building	69,877	-	-	69,877
Emulsion recipe	575,000	-	-	575,000
	<u>3,035,623</u>	<u>240,863</u>	<u>-</u>	<u>3,276,486</u>
Less accumulated depreciation	399,919	172,321	-	572,240
Net capital assets	<u>\$ 2,635,704</u>			<u>\$ 2,704,246</u>

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Depreciation was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 52,711
Engineering	21,932
Construction inspection	98,213
Bridge inspection	10,616
Bridge building	5,448
Sign	352
Total governmental activities depreciation expense	<u>\$ 189,272</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.

4.D. NOTES PAYABLE

Notes payable for the Authority for the year ended June 30, 2017 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.	\$ 1,278,151
\$575,000 payable to Paul Beavers amended October 2014 payable in installments, carrying a 0% interest rate. Loan matures October 2017. Proceeds were used for the purchase of title and interest in the rubber asphalt formula.	159,375
\$110,000 payable to CEI Enterprises, Inc. dated October 2014, carrying a 0% interest rate. Payments are due in annual installments in October. The Note matured on October 31, 2016. Proceeds were used to purchase a 30,000 gallon vertical asphalt tank.	0
\$170,376 Lease-Purchase Agreement with De Lage Landen Public Finance LLC dated April 5, 2017, 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.	170,376
	<u>\$1,607,902</u>

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Changes in Long-Term Debt

	<u>Balance at July 1, 2016</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2017</u>	<u>Due Within One Year</u>
Business-type activities					
<i>Notes Payable</i>					
Interbank	\$ 1,603,985	-	\$ 325,834	\$ 1,278,151	\$ 514,234
Paul Beavers	318,750	-	159,375	159,375	159,375
CEI Enterprises, Inc.	44,000	-	44,000	-	-
De Lage Landen Public Finance		170,376	-	170,376	59,500
Total primary government	<u>\$ 1,966,735</u>	<u>\$ 170,376</u>	<u>\$ 529,209</u>	<u>\$ 1,607,902</u>	<u>\$ 733,109</u>

Annual Debt Service Requirements

Year Ending June 30	Notes Payable	
	Principal	Interest
2018	733,109	58,204
2019	425,289	37,230
2020	445,757	16,761
2021	3,747	161
Totals	<u>\$ 1,607,902</u>	<u>\$ 112,356</u>

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 \$146,984 in fiscal year 2017. 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	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.
- Torts		
- Error and Omissions		
- Officer Liability		
- Vehicle		
Physical Plant	The District participates in a public entity risk pool –	If claims exceed pool assets, the District would
- Theft		

**CIRCUIT ENGINEERING DISTRICT #7
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2017**

<ul style="list-style-type: none"> - Damages to Assets - Natural Disasters 	ACCO-SIG.	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

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:

In July 2017, an employee disclosed to management that he/she engaged in activities from 2010-2017 that might be considered to be embezzlement. The employee was placed on leave, and later terminated. An investigation was conducted into these activities. The investigation revealed the misappropriation of funds, the misuse of the company debit card, and the repayment of employee loans (for this particular employee and 9 other employees) through reduced company contributions. The total amount believed to be misappropriated and directly benefiting this employee is \$99,300. Of this amount, the current year amount is displayed as an extraordinary item in the Statement of Activities.

5.D. COMMITMENTS AND CONTINGENCIES

The CED #7 may have a potential material liability related to the repayment of employee loans from the retirement plan and related lost earnings, as described in the above section "5.C. EXTRAORDINARY ITEMS". This amount is unknown at this time. The liability, if material, will be recognized in future years once the amount is determined. As of June 30, 2017, 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.

**CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

5.E. Date of Management's Review

Subsequent events were evaluated through February 26, 2018, 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, 2017**

	Budgeted Amounts			Actual	Variance with Final Budget Favorable / (Unfavorable)
	Original Budget	Amendments	Final Budget		
Revenues:					
Intergovernmental	\$ 295,000	\$ -	\$ 295,000	\$ 361,042	\$ 66,042
Bridge inspection fees	170,000	-	170,000	234,795	64,795
Engineering fees	1,800,000	-	1,800,000	1,126,004	(673,996)
Signs	40,000	-	40,000	32,242	(7,758)
Construction inspection	1,050,000	-	1,050,000	1,116,735	66,735
Bridge construction fees	-	-	-	-	-
Auction proceeds	25,000	-	25,000	25,310	310
Proceeds from sale of assets	-	-	-	-	-
Miscellaneous Income	-	-	-	2,250	2,250
Interest income	-	-	-	2,182	2,182
<i>Total Revenues</i>	<u>3,380,000</u>	<u>-</u>	<u>3,380,000</u>	<u>2,900,560</u>	<u>(479,440)</u>
Expenditures:					
Current operations:					
General government					
Personal services	171,100	-	171,100	81,010	90,090
Maintenance and operation	340,037	-	340,037	129,898	210,139
Bridge inspection					
Personal services	122,560	-	122,560	86,975	35,585
Maintenance and operation	11,800	-	11,800	9,901	1,899
Engineering					
Personal services	590,200	-	590,200	671,871	(81,671)
Maintenance and operation	1,099,428	-	1,099,428	251,994	847,434
Signs					
Personal services	40,967	-	40,967	41,719	(752)
Maintenance and operation	10,300	-	10,300	18,592	(8,292)
Construction Inspection					
Personal services	765,700	-	765,700	842,001	(76,301)
Maintenance and operation	124,000	-	124,000	73,183	50,817
Capital expenditures	53,000	-	53,000	-	53,000
<i>Total Expenditures</i>	<u>3,329,092</u>	<u>-</u>	<u>3,329,092</u>	<u>2,207,144</u>	<u>1,121,948</u>
Excess revenues over (under) expenditures	<u>50,908</u>	<u>-</u>	<u>50,908</u>	<u>693,416</u>	<u>642,508</u>
Fund balance, beginning (Non-GAAP budgetary basis):	-	-	-	4,451,266	
Fund balance, ending (Non-GAAP budgetary basis):	<u>\$ 50,908</u>	<u>\$ -</u>	<u>\$ 50,908</u>	<u>\$ 5,144,682</u>	
<u>Adjustments to Generally Accepted Accounting Principles</u>					
Transfer and expense accruals, net				(445,215)	
Fund balance, ending (GAAP basis)				\$ 4,699,467	

See accompanying notes to the basic financial statements

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

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 not 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, 2017, the District did not exceed total budgeted expenditures.

STATISTICAL SECTION

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 – 9
Sign Shop – 1

Emulsion Plant: Number of Full-time Employees - 1

Source: Circuit Engineering District #7

CIRCUIT ENGINEERING DISTRICT # 7
MISCELLANEOUS STATISTICS
August 3, 2017

	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)	128	54	122	34	28	29	54	115	51	72	78	765
County **	183	231	274	138	202	76	245	350	101	217	301	2,318
Total Bridges	311	285	396	172	230	105	299	465	152	289	379	3,083
Substandard Bridges inside the District:												
State (includes Interstates)	14	3	14	-	-	1	1	6	1	1	5	46
County **	16	37	24	10	15	3	34	43	-	25	67	274
Total Substandard Bridges	30	40	38	10	15	4	35	49	1	26	72	320
Replacement Cost of All Deficient State Bridges												
	\$ 25,813,000	\$ 6,129,000	\$ 54,312,000	\$ -	\$ -	\$ 5,545,000	\$ 6,456,000	\$ 8,024,000	\$ 1,965,000	\$ 1,690,000	\$ 8,788,000	\$ 118,722,000
Replacement Cost of All Deficient County Bridges												
	\$ 4,476,000	\$ 10,305,000	\$ 7,822,000	\$ 2,941,900	\$ 9,177,628	\$ 941,000	\$ 11,074,000	\$ 13,127,000	\$ -	\$ 6,732,000	\$ 21,002,000	\$ 87,598,528
Total Replacement Cost of All Deficient Bridges	30,289,000	16,434,000	62,134,000	2,941,900	9,177,628	6,486,000	17,530,000	21,151,000	1,965,000	8,422,000	29,790,000	206,320,528
Number of Road/Bridge Projects* inside the District:												
State (includes Interstates)	1	-	1	-	1	1	3	4	-	-	5	16
County	2	1	-	-	2	1	2	1	-	2	1	12
Total Projects	3	1	1	-	3	2	5	5	-	2	6	28
\$'s of Road/Bridge Projects* inside the District:												
State	\$ 9,629,728	\$ -	\$ 5,247,626	\$ 15,149,370	\$ -	\$ 1,447,468	\$ 2,833,095	\$ 6,552,168	\$ 6,620,117	\$ 4,488,840	\$ 7,455,942	\$ 59,424,354
County	\$ 7,004,437	\$ 251,613	\$ -	\$ 282,269	\$ 304,575	\$ -	\$ 4,792,437	\$ -	\$ 968,211	\$ 3,585,473	\$ -	\$ 17,189,015
Total \$'s of Projects	\$ 16,634,165	\$ 251,613	\$ 5,247,626	\$ 15,431,639	\$ 304,575	\$ 1,447,468	\$ 7,625,532	\$ 6,552,168	\$ 7,588,328	\$ 8,074,313	\$ 7,455,942	\$ 76,613,369

*Amounts based on Oklahoma Department of Transportation contracts awarded from lettings of July 1, 2016 to June 30, 2017

** 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 Bridge Division's "Summary Bridge Report, May 2016", 3) ODOT Website-Bid Letting- Projects Awarded

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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Circuit Engineering District # 7, as of and for the year ended June 30, 2017, 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 February 26, 2018.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses are Findings 2017-1 and 2017-2.

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 instances of noncompliance or other matters that

are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 2017-3 and 2017-4.

Circuit Engineering District #7's Response to Findings

Circuit Engineering District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Circuit Engineering District #7's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 PPLC

FSW&B CPAs-PPLC

Woodward, OK

February 26, 2018

Finding 2017-1 Ineffective Oversight and Management Override of Controls

Criteria: Governmental entities are required to have controls in place over financial reporting that mitigate the risk of a misstatement of financial statements to an acceptable level. Those controls in order to be operating effectively must not be overridden by management or staff and are often only effective when other complementary controls are also in place and working effectively. Management is responsible for the design and monitoring of the internal control functions.

Condition: There was a fraud perpetrated by a key staff member who was responsible for many financial reporting functions. That fraud was not timely discovered by management or others until the fraud had exceeded material amounts. The fraud was able to be perpetrated and concealed in part due to many controls that were in place were overridden by that staff member. Additionally, lack of effective reconciliation procedures and controls resulted in liabilities that were owed by the District that were not timely paid. The failure to timely discover this fraud was in part due to the perpetrator utilizing methods including but not limited to creating fictitious supporting documents with document editing software. However, there was also ineffective oversight by management to monitor the activities of the individual involved in the fraud.

Effect: As reported in our separate report of Agreed Upon Procedures for special investigative procedures, the District was a victim of a fraud that involved losses of a material amount and was perpetrated and concealed through a number of different methods.

Recommendation: While it is acknowledged that the entity has embarked on significant improvements in additional controls to prevent this from re-occurring in the future, it is vital as part of any effective control system that management take an active role in monitoring the activities of all employees involved in the financial reporting process. As the internal control system continues to be evaluated and additional controls are implemented, there should be specific monitoring duties assigned to management who are not directly involved in the reporting process.

Response of CED #7: We have evaluated the initial conclusions of the agreed upon procedures report and will work with the accounting consultants to ensure that the ability of either management or employees to override existing controls is limited and to implement effective monitoring activities of all employees involved in the financial reporting function.

Finding 2017-2 Failure to follow established policies related to payroll.

Criteria: Organizations are required to implement effective controls that ensure that established payroll policies are observed and that timely remittances are made for funds withheld from employee checks including payroll taxes and salary deferrals to retirement plans. Those controls should monitor use of vacation and sick pay as well as ensuring that unused PTO is paid in accordance with established policies of the organization.

Condition: We observed several instances where established policies of payment of unused PTO were not followed resulting in overpayments to employees. These overpayments also lacked proper approval from the board of directors in many instances because the board packet did not include those payments for approval. However, the information that was provided to external auditors and to the accounting consultant was modified to make it appear that those payments had actually received board approval prior to payment. There were also several instances where unused vacation was paid when only an employee and the manager signed the checks. Per the policy that was in place at that time, those checks should have been approved by the board and had one signature from a board member.

Effect: Material overpayments of unused vacation pay were made to several employees including but not limited to the employee involved in an embezzlement scheme. There was ineffective monitoring of controls that were in place. There are required payments to the retirement plan that were not timely made and there were loan payments on employee retirement plans that were not withheld from employees checks as required under ERISA. This failure could result in a material penalty being assessed for the organization not performing their fiduciary duties under ERISA.

Recommendation: The organization adopted a revised employee benefit policy manual in July 2017. We have reviewed the changes made in that policy manual as well as observing the additional controls that have been implemented and concur with those changes. We recommend however that additional monitoring procedures be implemented to ensure that those policies are followed and that the person(s) responsible for monitoring are made accountable for their responsibilities to perform those monitoring activities in a timely, thorough and professional manner. We recommend that the organization engage someone who is familiar with ERISA rules and regulations to assist them in identifying the corrective actions needed to make the employee benefit plan whole and to apply for a reduction in the penalties that could be assessed under the DFVCP program.

Response: CED #7 is continuing to evaluate the effects of these failures and to make corrective actions as quickly as possible.

Finding 2017-3 Compliance Finding-Lack of Approval for Indebtedness

Criteria: 60 O.S. § 176E states “No Trust in which a county or municipality is beneficiary shall hereafter create an indebtedness or obligation until the indebtedness or obligation has been approved by a two-thirds (2/3) vote of the governing body of the beneficiary. In the event a trust has more than one beneficiary, as authorized by this section, the trust cannot incur an indebtedness or obligation until the indebtedness or obligation has been approved by a two-thirds (2/3) vote of the beneficiaries of the trust.

Condition: The minutes provided by the organization do not show that a vote was taken to approve the lease purchase agreement with De Lage Landen on April 5, 2017 in the amount of \$ 170,376.00.

Recommendation: We recommend that all indebtedness that is going to be incurred by the organization be listed as a separate agenda item and a vote recorded to approve that indebtedness prior to the contracts being signed.

Response: CED #7 will consider the procedures it has in place to ensure that agenda items are included in scheduled meetings to ensure that votes are taken and recorded for all transactions that statutorily require an approval by the governing body.

Finding 2017-4 Compliance Finding-Acts Impermissible by Government Officials

Criteria: 67 O.S. § 209 states “All records made or received by or under the authority of or coming into the custody, control or possession of public officials of this state in the course of their public duties shall not be mutilated, destroyed, transferred, removed, altered or otherwise damaged or disposed of, in whole or in part, except as provided by law. 21 O.S. § 341 states “ Every public officer of the state or any county, city, town, or member or officer and every other person receiving any money or other thing of value on behalf of or for account of this state or any department of the government of this state or any bureau or fund created by law and in which this state or the people hereof, are directly or indirectly interested who either: Second: Knowingly keeps any false account, or makes any false entry, or erasure in any account of or relating to any moneys so received by him, on behalf of the state, city, town, district, or county purposes.....Third: Fraudulently alters, falsifies, cancels, destroys, or obliterates any such account, shall upon conviction, thereof, be deemed guilty of a felony and shall be punished by.....”

Condition: As described in more detail in the agreed upon procedures report related to a special investigation involved alleged embezzlement by one of the District’s former employees, there was a systemic and widespread modification and alteration of many source records of the District in an attempt to conceal embezzlement activities. We also believe based upon the evidence accumulated during our audit and investigation that there was a significant amount of documents, many of them most likely falsified, that were destroyed by the former employee. While the punishment of this act is on the individual perpetrator not the government agency or trust, we believe based on a preponderance of evidence obtained in our investigation that the amount of losses incurred by this alleged embezzlement and

concealed by an intentional disregard for the above-mentioned statutes had a direct and material effect on the financial statements and therefore should be included as a compliance finding of the organization.

Recommendation: We recommend that the report on agreed upon procedures that details the alleged specific violations of trust by the former employee be reviewed and approved for acceptance by the governing body and referred to appropriate law enforcement for prosecution.

Response of CED #7: We will consider the recommendation and take appropriate action as determined by the board of directors.