

Independent Auditor's Report

Circuit Engineering District No. 6

June 30, 2012

CIRCUIT ENGINEERING DISTRICT NO. 6 OF OKLAHOMA

Duncan, Oklahoma

June 30, 2012

TABLE OF CONTENTS

Page

Independent Auditor's Report

A - 1

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Assets - Modified Cash Basis

B - 1

Statement of Activities - Modified Cash Basis

B - 2

Fund Financial Statements

Statement of Net Assets - Governmental Fund - Modified Cash Basis

B - 3

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund
Modified Cash Basis

B - 4

Reconciliation of Governmental Fund and Government-Wide Financial Statements -
Governmental Funds

B - 5

Notes to Basic Financial Statements

C - 1

Supplementary Information

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

D - 1

Disposition of Prior Year Audit Exceptions

E - 1

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Circuit Engineering District No. 6 of Oklahoma
Duncan, Okla.

We have audited the accompanying modified cash basis financial statements of the governmental activities of the **Circuit Engineering District No. 6 of Oklahoma**, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the District prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities of the Circuit Engineering District No. 6 of Oklahoma as of June 30, 2012, and the respective changes in financial position-modified cash basis, thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Angel, Johnston & Blasingame, P.C.

Angel, Johnston & Blasingame, P.C.
Certified Public Accountants

Chickasha, Oklahoma
October 22, 2012

CIRCUIT ENGINEERING DISTRICT NO. 6 OF OKLAHOMA

Duncan, Oklahoma

Statement of Net Assets - Modified Cash Basis

June 30, 2012

	Governmental Activities
<u>Assets</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 488,723
<i>Total Current Assets</i>	<u>488,723</u>
Noncurrent Assets:	
Other capital assets, net	74,071
<i>Total Noncurrent Assets</i>	<u>74,071</u>
<i>Total Assets</i>	<u>562,794</u>
<u>Liabilities</u>	
Employee Withholdings	1,349
<i>Total Liabilities</i>	<u>1,349</u>
<u>Net Assets</u>	
Invested in Capital Assets, net of related debt	74,071
Unrestricted	<u>487,374</u>
<i>Total Net Assets</i>	<u>\$ 561,445</u>

The accompanying notes are an integral part of the financial statements.

CIRCUIT ENGINEERING DISTRICT NO. 6 OF OKLAHOMA
Duncan, Oklahoma
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2012

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expenses) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:					
Governmental Activities:					
General Government	\$ 639,909	\$ -	\$ 638,011	\$ -	\$ (1,898)
	-				-
<i>Total Governmental Activities</i>	<u>639,909</u>	<u>-</u>	<u>638,011</u>	<u>-</u>	<u>(1,898)</u>
<i>Total Primary Government</i>	<u>639,909</u>	<u>-</u>	<u>638,011</u>	<u>-</u>	<u>(1,898)</u>
General Revenues:					
					318
Investment Income					318
<i>Total General Revenues and Transfers</i>					<u>318</u>
					(1,580)
<i>Change in Net Assets</i>					
					563,025
<i>Net Assets - Beginning</i>					<u>563,025</u>
<i>Net Assets - Ending</i>					\$ <u>561,445</u>

The accompanying notes are an integral part of the financial statements.

CIRCUIT ENGINEERING DISTRICT NO. 6 OF OKLAHOMA
Duncan, Oklahoma
Balance Sheet - Modified Cash Basis
Governmental Funds
June 30, 2012

	<u>General</u>
Assets	
Cash and Cash Equivalents	<u>\$ 488,723</u>
<i>Total Assets</i>	<u><u>488,723</u></u>
 Liabilities	
Employee Withholdings	<u>1,349</u>
<i>Total Liabilities</i>	<u><u>1,349</u></u>
 Fund Balances	
Unreserved	<u>487,374</u>
<i>Total Fund Equity</i>	<u><u>487,374</u></u>
 <i>Total Liabilities and Fund Equity</i>	<u><u>\$ 488,723</u></u>

The accompanying notes are an integral part of the financial statements.

CIRCUIT ENGINEERING DISTRICT NO. 6 OF OKLAHOMA
Duncan, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ending June 30, 2012

	<u>General</u>
Revenues	
ACCO revenues	\$ 31,560
OCCEDB revenues	606,451
Investment Income	<u>318</u>
<i>Total Revenues</i>	<u>638,329</u>
Expenditures	
Advertising	112
Auto Expense	4,864
Capital Outlay	77,867
County Project Allocations	480,000
Insurance	8,673
Meetings & Conferences	442
Meals	2,976
Professional/Outside Services	56,128
Retirement Plan	9,862
Salaries - Manager	60,203
Payroll Taxes	4,708
Travel	<u>640</u>
<i>Total Expenditures</i>	<u>706,475</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(68,146)</u>
Net Change in Fund Balances	(68,146)
Fund Balances - Beginning	555,520
Prior period adjustment	<u>-</u>
Fund Balances - Ending	<u><u>\$ 487,374</u></u>

The accompanying notes are an integral part of the financial statements.

CIRCUIT ENGINEERING DISTRICT NO. 6 OF OKLAHOMA
Reconciliation of Governmental Fund and Government-Wide Financial Statements
Governmental Funds
June 30, 2012

Reconciliation to Statement of Net Assets:

Fund balances of governmental funds	\$ 487,374
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds:	<u>74,071</u>
Net assets of governmental activities	<u>\$ 561,445</u>

Reconciliation to Statement of Activities:

Net change in fund balances of governmental funds	\$ (68,146)
Amounts reported for governmental activities on the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized in governmental funds	77,867
Depreciation expense	<u>(11,301)</u>
Change in net assets of governmental activities	<u>\$ (1,580)</u>

The accompanying notes are an integral part of the financial statements.

CIRCUIT ENGINEERING DISTRICT NO. 6 OF OKLAHOMA

Duncan, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1 – Summary of Significant Accounting Policies

The Circuit Engineering District No. 6 complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units with a change for the modified cash basis. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

A. Financial Reporting Entity

Circuit Engineering District No. 6 (the “District”) was incorporated in 1999 under the laws of the State of Oklahoma in accordance with Title Sixty-nine section 687.1 of the Oklahoma Statutes, as a Voluntary Association of County Government of Oklahoma. The District is organized to promote planning and development of transportation within nine counties in Oklahoma. The governing board consists of nine trustees with one acting as the President. The District retains title to all assets which are acquired or constructed with District debt or other District generated resources.

B. Basis of Presentation

Government Wide Financial Statements

The Statement of Net Assets 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. However, all the activities of the District are governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Fund Financial Statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund’s assets, liabilities, fund equity, revenues and expenditures/expenses.

CIRCUIT ENGINEERING DISTRICT NO. 6 OF OKLAHOMA

Duncan, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

B. Basis of Presentation, (continued)

The various funds are grouped, in the financial statements in this report, into one fund type and one generic fund category as follows:

Governmental Fund Types

- 1. General Fund** – This is the only fund of the District. It accounts for all the operations of the public transportation development.

C. Measurement Focus and Basis of Accounting

Measurement Focus

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

In the fund financial statement, the “current financial resources: measurement focus of the “economic resources” measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

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

Basis of Accounting

The government-wide financial statements and the fund financial statements, are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements, proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

CIRCUIT ENGINEERING DISTRICT NO. 6 OF OKLAHOMA

Duncan, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

C. Measurement Focus and Basis of Accounting, (continued)

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities except as noted above) *are not recorded* in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Assets, Liabilities and Equity

Cash & Cash Equivalents

The District considers all cash on hand, demand deposits, interest bearing checking accounts, time deposit accounts and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Capital Assets

Fixed assets acquired by governmental funds are reported as capital assets within the General Fund. Capital assets are stated at cost. Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	10 to 40 years
Improvements	10 to 40 years
Vehicles and Equipment	5 to 15 years
Office Equipment	5 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation expense for the fiscal year ended June 30, 2012 totaled \$11,300.32.

CIRCUIT ENGINEERING DISTRICT NO. 6 OF OKLAHOMA

Duncan, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

D. Assets, Liabilities and Equity, (continued)

Equity Classifications

Equity is classified as net assets and displayed in two components:

Invested in Capital Assets, net of any related debt
Unrestricted Net Assets

E. Revenues, Expenditures and Expenses

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the District are reported as program revenues. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the District, with certain limited exceptions.

The expenses of the governmental fund are those that result from charges for services and the expenses of management of the District. These can include expenses that are related to capital and noncapital related financing, or investing activities and County Auction Allocations.

Note 2 – Detailed Notes on Transactions, Classes/Accounts

A. Investments, Deposits and Collateral

Deposits

Deposits and Investments - Collateral is required for all uninsured deposits of funds in financial institutions. Currently the district does not have any investments.

Custodial Credit Risk - Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of public trust funds in financial institutions. As of June 30, 2012, the District's bank balances of \$490,337 were not exposed to custodial credit risk.

CIRCUIT ENGINEERING DISTRICT NO. 6 OF OKLAHOMA

Duncan, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 2 – Other Notes

A. Income Taxes

The District as a governmental entity is exempt for income taxes under Section 501(C)(12) of the Internal Revenue Code.

B. Payroll

Compensation

The District had one employee as of June 30, 2012. All payroll preparation and calculations are prepared by the District's accountant.

Employee Pension Plans

Oklahoma Public Employees Retirement – The District participates in the Oklahoma Public Employees Retirement System's (OPERS) deferred compensation-defined benefit plan. The District has no responsibility or authority for the operation and administration of the pension program. Information regarding the Oklahoma Public Employees Retirement System can be obtained online at www.opers.ok.gov or by calling 405-858-6737.

The contribution rate for the District is established by Statute. The District is required to contribute 11.5% - 16.5% and the employee is required to contribute 3.5% - 8.5%. The total employer and employee contribution must equal 20% for the year ended June 30, 2012. The District is responsible for determining how much the employer and employee pays within the given range.

The District's employee also participates in the 2.5% Step-Up program. This program allows members to take advantage of a 2.5% computation factor instead of the traditional 2% factor.

As of June 30, 2012, the District contributed 16.5% and the employee contributed 6.4%, which included the step up percentage. This District also had a temporary employee that contributed 3.5%.

C. Compensated Absences

As a result of the District's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (accumulated but unused vacation leave and compensatory time earned but unpaid at year-end, and any employer-related costs earned and unpaid) are not reflected in the financial statements. However, because of the limited number of people employed by the organization, any liability for compensated absences at June 30, 2012 would not be material to the financial statements taken as a whole.

CIRCUIT ENGINEERING DISTRICT NO. 6 OF OKLAHOMA**Duncan, Oklahoma****NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

Note 2 – Other Notes, (continued)**D. Estimates**

In preparing the District's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statement, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Capital Assets

Capital assets purchased or acquired are recorded at historical cost or estimated historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Vehicles	5 years
Equipment	5-15 years

The following is a summary of the capital assets of the Governmental Activities at June 30, 2012:

<u>Governmental-type Activities</u>	Beginning Balance	Additions	Deductions	Ending Balance
Depreciable Assets:				
Vehicles	23,699	34,433	0	58,132
Equipment	0	43,434	0	43,434
Total Depreciable Assets	23,699	77,867	0	101,566
Less: Accumulated Depreciation				
Vehicles	(16,195)	(11,052)	0	(27,247)
Equipment	0	(248)	0	(248)
Total Accumulated Depreciation	(16,195)	(11,300)	0	(27,495)
Net Depreciable Assets	7,504	66,567	0	74,071

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

Board of Directors
Circuit Engineering District No. 6 of Oklahoma
Duncan, Oklahoma

We have audited the accompanying modified cash basis financial statements of the governmental activities of the **Circuit Engineering District No. 6 of Oklahoma** as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 22, 2012. The report was a special report on the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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.

Internal Control over Financial Reporting

The management of Circuit Engineering District No. 6 of Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Circuit Engineering District No. 6 of Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

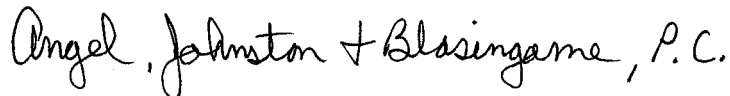
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the board, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Angel, Johnston & Blasingame, P.C." in a cursive, flowing script.

Angel, Johnston & Blasingame, P.C.
Certified Public Accountants

Chickasha, Oklahoma
October 22, 2012

CIRCUIT ENGINEERING DISTRICT NO. 6

Duncan, Oklahoma

Disposition of Prior Year Audit Exceptions

June 30, 2012

- 11 – 1 Finding – Although the District did have adequate collateral coverage at June 30, 2011, the District was under collateralized by more that \$250,000 from August through Feb of the year under audit.

Recommendation – The District should obtain a written collateral agreement with the bank and the Treasurer should review the sufficiency of collateral pledged as needed, but not less than on a quarterly basis.

Disposition – This issue has been corrected and is no longer a finding.

- 11 – 2 Finding – It appears that the District may have misclassified Clark Mitchell as an independent contractor when he should be considered an employee of the District.

Recommendation – We recommend that the District re-evaluate the employee/independent contractor relationship based on IRS guidelines.

Disposition – This issue has been corrected and is no longer a finding.