

**CIRCUIT ENGINEERING
DISTRICT # 7, OKLAHOMA**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2011**

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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

September 23, 2011

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, 2011. 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 2011.

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

The financial statement is divided into three sections:

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

Form of Government and Reporting Entity

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

The District covers an eleven county region including: Beckham, Blaine, Custer, Dewey, Greer, Harmon, Jackson, Kiowa, Roger Mills, Tillman, and Washita counties. During fiscal year 2011, these counties participated together in bridge inspection services, bridge and roadway design and construction engineering services, construction inspection services, sign making, Force account bridge construction and training classes for the member counties.

Factors Affecting Financial Condition

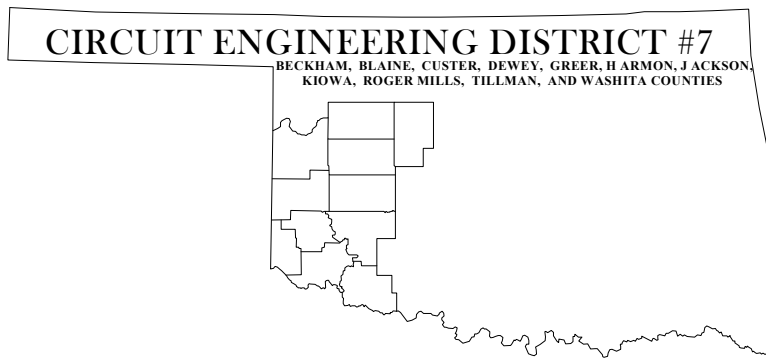
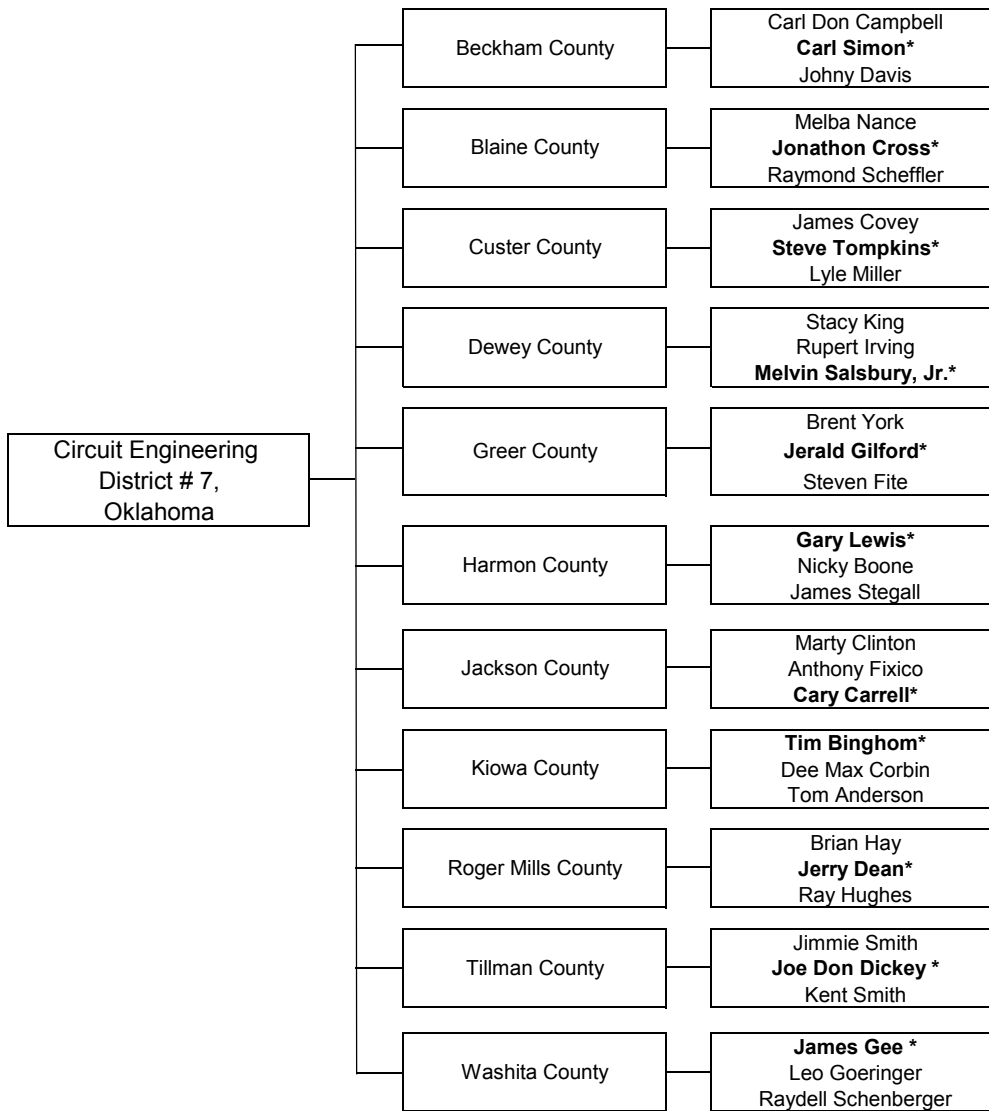
The District operates from four financial sources: Oklahoma Department of Transportation bridge inspection fees, design and construction engineering fees, construction inspection fees, force account bridge construction fees and legislative grants administered by the Association of County Commissioners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

Respectfully submitted,

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

Circuit Engineering District #7, Oklahoma

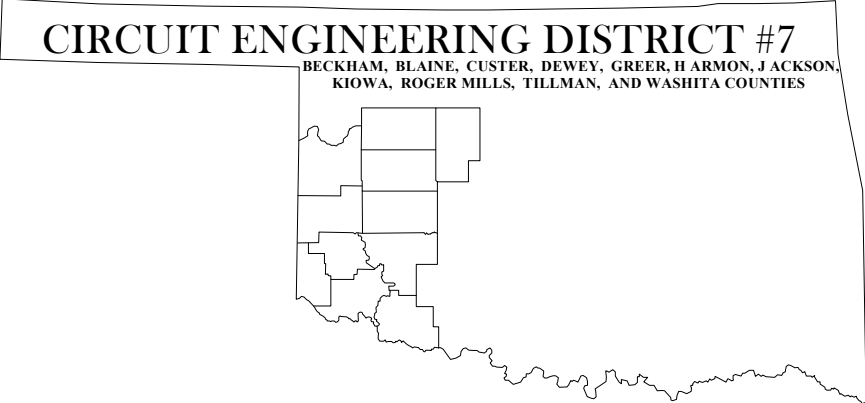
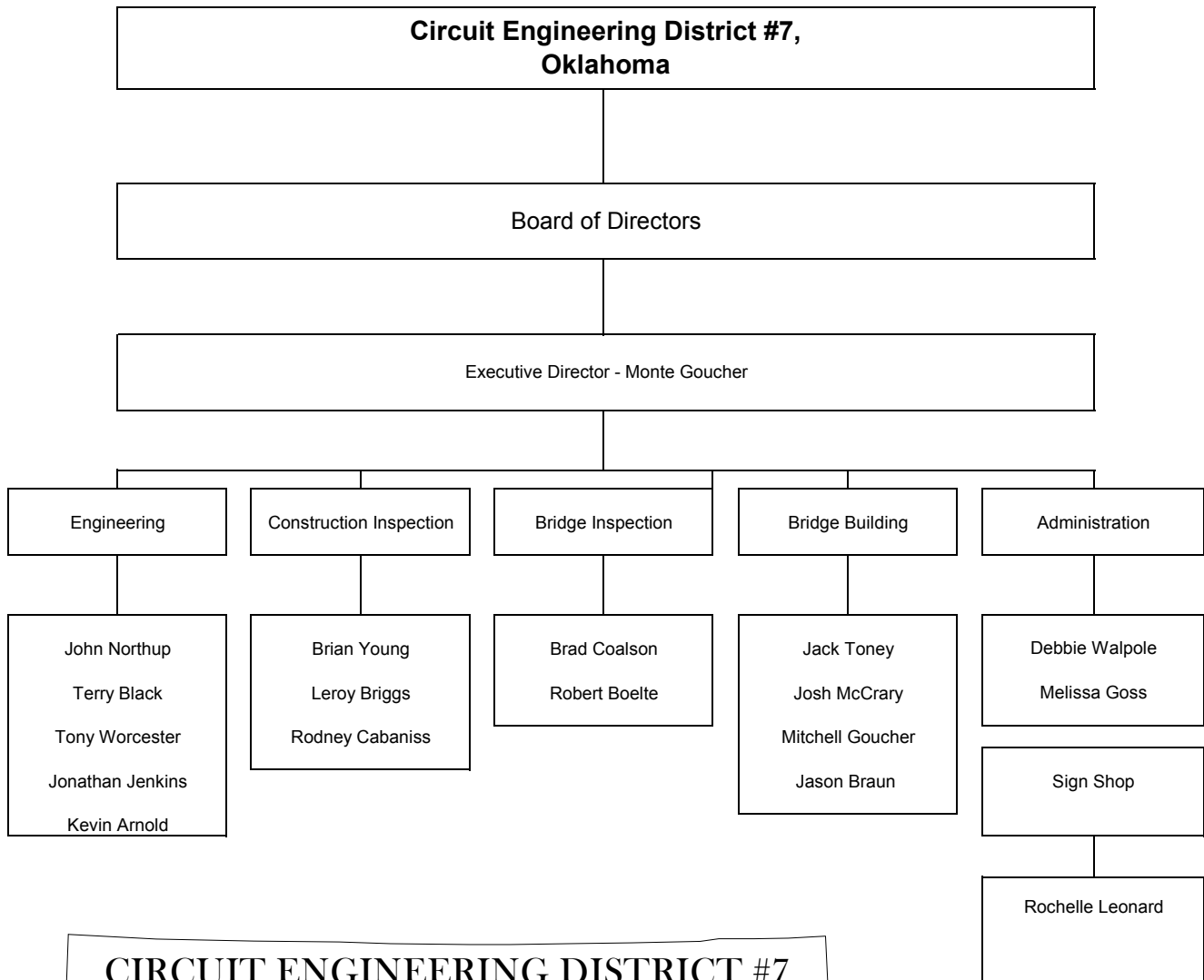
2010-2011 Board of Directors Organizational Chart



* Member of the Circuit Engineering District Board of Directors

Circuit Engineering District #7, Oklahoma

2010-2011 Staff Organizational Chart



FINANCIAL SECTION

Derrel S. White, CPA

P.O. Box 842
Woodward, OK 73802
(580) 256-6830

To the Board of Directors
Circuit Engineering District #7, Oklahoma

We have audited the accompanying financial statements of the governmental activities and the major fund of the Circuit Engineering District #7, Oklahoma (the "District") as of and for the year ended June 30, 2011, 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Circuit Engineering District #7, Oklahoma, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2011 on our consideration of District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents 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 inquires 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.

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

Derrel S. White, CPA

Derrel S. White, CPA
Woodward, OK
September 26, 2011

**CIRCUIT ENGINEERING DISTRICT #7
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

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, 2011. Please review it in conjunction with the transmittal letter and the District's basic financial statements.

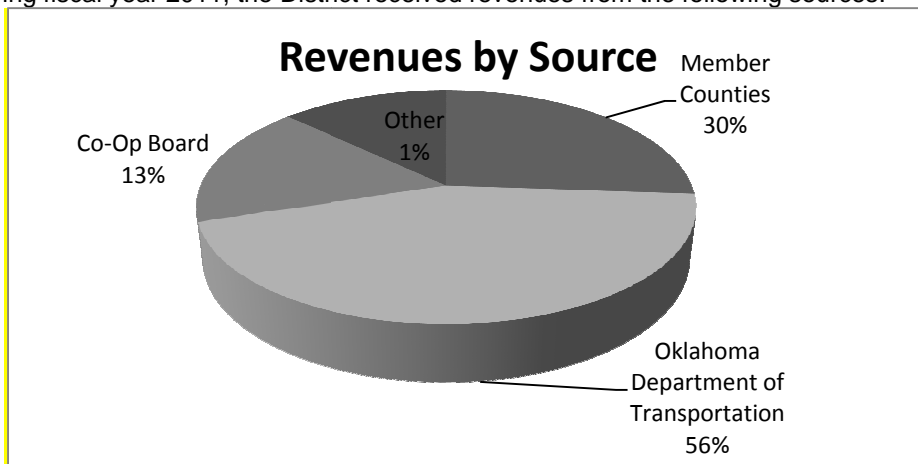
Financial Highlights

- The District's assets exceeded its liabilities by \$2,079,610 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$1,761,693.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$675,846 include property and equipment, net of accumulated depreciation. The District had no outstanding debt related to capital assets as of June 30, 2011.
 - (2) Unrestricted net assets of \$1,403,764 represent the portion available to maintain the District's continuing obligations to member counties and creditors. Included in unrestricted net assets is \$236,346, which the District has restricted internally for capital asset purchases.
- Total liabilities of the District increased from \$93,598 to \$268,831 during the fiscal year related to deferred grant revenue totaling \$154,288. The remaining increase is attributable to compensated absences and accounts payable.
- The District paid back \$359,142 in member contributions. That expense is recorded as part of general government operations.
- Over \$550,000 in revenues was generated from CBRI through project management, interest earnings, and CBRI direct allocation per new statute.

Operations for the fiscal year 2011 were mainly supported by engineering fees and construction inspection fees, which provided 44% and 17% of revenues for the year. Bridge inspection fees (8%), sign shop proceeds (2%), and bridge building proceeds (7%) also contributed to the operations for the year. Investment earnings, OCCEDB distributions and auction proceeds provided the remainder of the support for the year.

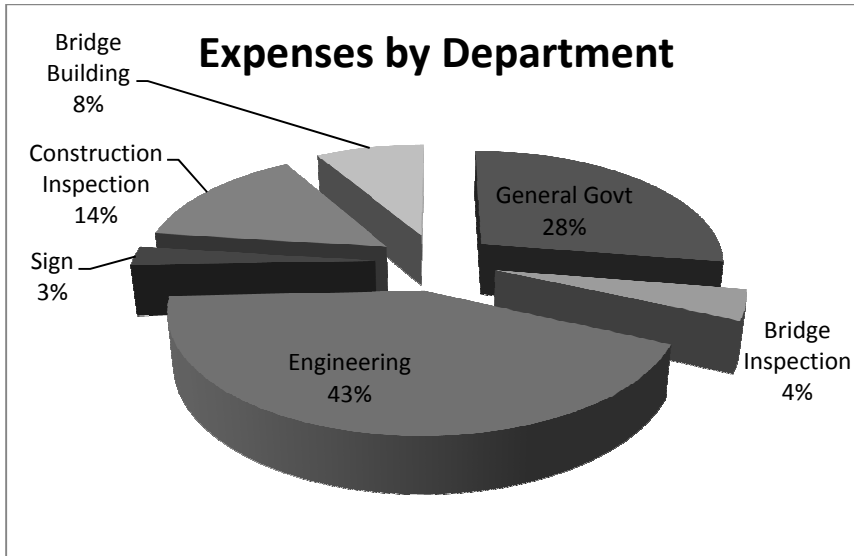
The District, as a whole, noted an increase in total revenue produced when compared to prior year. This year over year increase is largely attributable to an increase in revenues earned in the areas of bridge construction and construction inspection.

During fiscal year 2011, the District received revenues from the following sources:



**CIRCUIT ENGINEERING DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Expenses were allocated by the following departments as of June 30, 2011:



Operating expenses for 2011 increased 29% over prior year. The following chart displays the change in expenses when compared to prior year.

Expenses by department

	2011	2010	Change	
			\$	%
General government	\$ 676,565	\$ 405,671	\$ 270,894	67%
Engineering	1,049,309	537,137	512,172	95%
Construction inspection	357,341	405,236	(47,895)	-12%
Bridge inspection	101,511	102,978	(1,467)	-1%
Bridge building	206,423	395,194	(188,771)	-48%
Signs	64,192	61,339	2,853	5%
	\$ 2,455,341	\$ 1,907,555	\$ 547,786	29%

The increase in expenditures for General government can be attributed to a recent building renovation that added office and meeting space plus additional equipment needed to support the new addition. The significant increase in engineering expenses was due to the addition of engineering staff needed for the CIRB workload and surveying subcontractor work that was ordered in advance to prepare the CED to meet the overall district 5 year construction plan. Construction Inspection expenses experienced a decrease due to a reduction in the number of inspection projects and the timing and location of the inspection work which allowed a reduction of employee comp time earned and overall expenses. The Bridge Inspection expenses were very consistent with the previous fiscal year. The bridge building crew was terminated during this fiscal year therefore expenses were significantly decreased. The small increase in sign shop expenses was due to re-making 911 signs for Roger Mills County.

Capital additions during the year totaled \$364,699 and included significant improvements to the CED building and a 2011 Ford Taurus.

**CIRCUIT ENGINEERING DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Using This Annual Report

The annual report consists of a series of financial statements. The Statement of Net Assets 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 Assets 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 Assets 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 assets and changes in them. You can think of the District's net assets 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 assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's availability of capital projects and continuing local government support to assess the overall health of the District.

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

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

Notes:

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

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.

**CIRCUIT ENGINEERING DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

2011 Operations and Future Plans

Fiscal year 2011 was a strong year for the District, building on the growth noted in prior years. The District continued assisting the member counties with their transportation needs, performing all required design engineering for bridge and road construction projects including construction management services. During the year, the District partnered with the Oklahoma Department of Transportation to complete several projects. The District also partnered with the U.S Fish & Wildlife to administer a grant award to construct a bridge project within the district.

The District continues to prepare and grow with the impact of Oklahoma House Bill 1176 creating the County Improvements for Road and Bridges Program (CIRB). The possibility of additional staffing and/or subcontract services in the engineering departments is anticipated as a result of these new construction funds. The impact and passage of Oklahoma Senate Bill 2173 is now in full effect providing a perpetual dedicated revenue source for Circuit Engineering Districts. The anticipated budgeted revenues are expected at \$1,980,000 compared to the prior year budgeted amount of 2,252,000 or a 12.1% decrease. This decrease in revenue is a direct reflection of the absence of the Force Account Bridge Construction Crew which is presently inactive. Due to the absence of the bridge construction crew and completion of building renovations there will be a significant reduction in expenses for the upcoming fiscal year projected to be a 42.7% decrease. The district has budgeted \$196,000 in capital purchases, which includes \$151,000 in vehicles and \$45,000 in equipment.

Request for Information

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

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

CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,223,377
Restricted cash	236,346
Accounts receivable	90,262
Unbilled receivables	84,171
Inventory	38,439
<i>Total current assets</i>	<u>1,672,595</u>
Non-current assets:	
Land	50,000
Other capital assets, net of depreciation	625,846
<i>Total non-current assets</i>	<u>675,846</u>
Total assets	<u><u>\$ 2,348,441</u></u>
LIABILITIES	
Current liabilities:	
Accounts Payable	\$ 35,555
Other liabilities	8
Deferred Grant Revenue	154,228
<i>Total current liabilities</i>	<u>189,791</u>
Non-current liabilities:	
Compensated absences	79,040
<i>Total non-current liabilities</i>	<u>79,040</u>
Total liabilities	<u>268,831</u>
NET ASSETS	
Invested in capital assets, net of related debt	675,846
Unrestricted	1,403,764
<i>Total net assets</i>	<u>2,079,610</u>
Total liabilities and net assets	<u><u>\$ 2,348,441</u></u>

See accompanying notes to the basic financial statements

CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2011

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,223,377
Restricted cash	236,346
Net receivables	90,262
Unbilled receivables, net	84,171
Inventory	38,439
Total assets	<u><u>\$ 1,672,595</u></u>
LIABILITIES	
Accounts Payable	\$ 35,555
Accrued payroll liabilities	8
Compensated absences	79,040
Deferred Grant Revenue	154,228
Total liabilities	<u><u>268,831</u></u>
FUND BALANCE	
Unreserved	1,403,764
Total fund balance	<u><u>1,403,764</u></u>
Total liabilities and fund balance	<u><u>\$ 1,672,595</u></u>
 Total Governmental Fund Balance	 1,403,764
 <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. See Note 4.C for additional detail.	
Land	50,000
Capital assets	1,086,903
Less: Accumulated depreciation	<u>(461,057)</u>
	<u>675,846</u>
 <i>Net assets of Governmental Activities</i>	 <u><u>\$ 2,079,610</u></u>

See accompanying notes to the basic financial statements

CIRCUIT ENGINEERING DISTRICT # 7, OKLAHOMA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund
Revenues:	
Engineering fees	\$ 1,223,804
Construction inspection	464,908
Bridge inspection fees	220,466
Bridge building fees	190,792
Intergovernmental	564,510
Signs	59,775
Auction proceeds	41,610
Interest income	7,393
<i>Total Revenues</i>	<u>2,773,258</u>
Expenditures:	
Current operations:	
Engineering	1,038,343
Construction Inspection	335,110
Bridge inspection	97,958
Bridge building	162,210
Signs	63,112
General government	631,768
Capital expenditures	318,125
<i>Total Expenditures</i>	<u>2,646,626</u>
Excess revenues over (under) expenditures	<u>126,632</u>
Net Change in Fund Balance	126,632
Fund balance at beginning of year	1,277,132
Fund balance at end of year	<u>\$ 1,403,764</u>
Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:	
Net change in Fund Balances - Total Governmental Funds	\$ 126,632
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	318,125
Depreciation expense	<u>(126,840)</u>
Change in Net Assets of Governmental Activities	<u>\$ 317,917</u>

See accompanying notes to the basic financial statements

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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, 2011, 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 no component units.

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1.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. 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 only one fund, the governmental fund. The fund of the financial reporting entity is described below:

Governmental Funds

General Fund

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

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

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

**CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Basis of Accounting

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

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

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, "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. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventory

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

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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 Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

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

Fund Financial Statements

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

Restricted Assets

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

Compensated Absences

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

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

amounts of assets and liabilities and related disclosures at the date of the financial statements and the reports amounts of revenues and expenses during the reporting period. Estimates made by the District include accounts receivable and inventories. Actual results could differ from the estimates.

Unbilled Receivables and Revenue Recognition

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

Revenues recognized prior to invoicing the client are recorded as unbilled receivables, where the collection of the receivable is probable. Unbilled amounts will be invoiced in subsequent periods. As of June 30, 2011 the District has \$84,171 in unbilled receivables. Of this amount, \$35,970, is attributable to engineering fees, \$321 to sign fees and \$47,880 is attributable to construction inspection fees.

Bridge Inspection Fees

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

Engineering Fees

The District performs most required design engineering for the bridge and road construction projects within the district; fees for the services are based on a percentage of the total estimated cost of construction for each project and billed directly to the county responsible for the construction.

Construction Inspection Fees

The District performs most required construction inspection for bridge and road construction projects within the district; fees for the services are based on a percentage of the total estimated cost of construction for each project and billed directly to the county responsible for the construction.

Bridge Building Fees

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

Sign Fees

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

Auction Proceeds

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

Contributions

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

**CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Equity Classifications

Government-wide Statements

Equity is classified as net assets 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 net assets – consists of net assets 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 net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

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, 2011.

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

**CIRCUIT ENGINEERING DISTRICT #7
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2011**

inspection, and county road signs. During the year ended June 30, 2011, the member counties contributed the following funds to the District for services provided:

	<u>Revenue Earned</u>
Beckham County	125,501
Blaine County	48,621
Custer County	188,816
Dewey County	77,189
Greer County	57,661
Harmon County	89,001
Jackson County	107,970
Kiowa County	79,007
Roger Mills County	61,346
Tillman County	142,014
Washita County	<u>229,604</u>
Total Member Contributions	\$ 1,206,730

At June 30, 2011, amounts due from related parties were as follows:

	<u>June 30, 2011</u>
Beckham County	\$ -
Blaine County	78
Custer County	447
Dewey County	4,405
Greer County	5,592
Harmon County	700
Jackson County	12,762
Kiowa County	\$ 1,389
Roger Mills County	-
Tillman County	<u>1,395</u>
Total Member County Receivable	\$ 26,768

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, 2011, 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 \$1,300,000 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, 2011

The District invests in certificates of deposit which are reported as Cash and cash equivalents in the Statement of Net Assets. At June 30, 2011, the District held one certificates of deposit in the amount of \$116,269 with an interest rate of 1.20% and maturity date of August 22, 2011 and two certificates of deposit in the amount of \$253,637 with an interest rate of 0.5% and a maturity date of November 17, 2011. Cost equates to fair value of the certificate of deposit. This investment is included in Cash and cash equivalents on the Statement of Net Assets. 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 percentage of completion for construction inspection and engineering projects.

4.C. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

Governmental activities:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2011</u>
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Equipment	436,906	-	19,043	417,863
Vehicles	135,912	20,999	-	156,911
Building improvements	41,175	269,596	-	310,771
Building	201,357	-	-	201,357
	<u>861,828</u>	<u>290,595</u>	<u>19,043</u>	<u>1,136,902</u>
Less accumulated depreciation	<u>380,789</u>	<u>142,172</u>	<u>61,905</u>	<u>461,056</u>
Net capital assets	<u>\$ 541,583</u>			<u>\$ 675,846</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 44,797
Engineering	10,965
Construction inspection	22,231
Bridge inspection	3,553
Bridge building	44,214
Sign	1,080
Total governmental activities depreciation expense	<u>\$ 126,840</u>

NOTE 5. OTHER NOTES

5.A. EMPLOYEE BENEFIT PLANS

The District has a defined contribution plan (a "457 plan") which covers all of its employees. The District contributes 12% of the covered employee's payroll. Employees are 100% vested in employer contributions upon entering the plan. Total contribution expense was \$84,405 in fiscal year 2011. The plan is administered by Lincoln Life.

**CIRCUIT ENGINEERING DISTRICT #7
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2011**

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 – ACCO-SIG.	If claims exceed pool assets, the District would have to pay its share of the pool deficit.
- Theft		
- Damages to Assets		
- Natural Disasters		
Worker’s Compensation	Thee 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.
- Employees’ Injuries		
Health and Life	The District carries commercial insurance for these types of risk.	None
- Medical		
- Disability		
- Dental		
- Life		

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.

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

5.C. COMMITMENTS AND CONTINGENCIES

As of June 30, 2011, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

**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, 2011

	<u>Budgeted Amounts</u>			<u>Actual</u>	<u>Variance with Final Budget Favorable / (Unfavorable)</u>
	<u>Original Budget</u>	<u>Amendments</u>	<u>Final Budget</u>		
Revenues:					
Intergovernmental	\$ 440,000	\$ 559,637	\$ 999,637	\$ 564,510	\$ (435,127)
Bridge inspection fees	160,000	-	160,000	220,466	60,466
Engineering fees	615,000	60,000	675,000	1,223,804	548,804
Signs	65,000	-	65,000	59,775	(5,225)
Construction inspection	500,000	(100,000)	400,000	464,908	64,908
Bridge construction fees	437,000	(252,000)	185,000	190,792	5,792
Auction proceeds	35,000	(10,000)	25,000	41,610	16,610
Interest income	-	-	-	7,393	7,393
<i>Total Revenues</i>	<u>2,252,000</u>	<u>257,637</u>	<u>2,509,637</u>	<u>2,773,258</u>	<u>263,621</u>
Expenditures:					
Current operations:					
General government					
Personal services	92,284	9,516	101,800	100,190	1,610
Maintenance and operation	466,410	238,687	705,097	515,358	189,739
Bridge inspection					
Personal services	97,022	4,000	101,022	90,879	10,143
Maintenance and operation	48,200	(1,150)	47,050	7,079	39,971
Engineering					
Personal services	297,307	79,672	376,979	354,686	22,293
Maintenance and operation	244,200	15,350	259,550	689,661	(430,111)
Signs					
Personal services	38,992	-	38,992	34,014	4,978
Maintenance and operation	60,410	390	60,800	29,098	31,702
Construction Inspection					
Personal services	327,507	3,000	330,507	310,128	20,379
Maintenance and operation	59,050	(6,050)	53,000	24,982	28,018
Bridge building					
Personal services	261,756	(152,468)	109,288	101,301	7,987
Maintenance and operation	115,500	(21,100)	94,400	60,909	33,491
Capital expenditures	51,250	15,000	66,250	318,125	(251,875)
<i>Total Expenditures</i>	<u>2,159,888</u>	<u>184,847</u>	<u>2,344,735</u>	<u>2,636,410</u>	<u>(291,675)</u>
Excess revenues over (under) expenditures	<u>92,112</u>	<u>72,790</u>	<u>164,902</u>	<u>136,848</u>	<u>(28,054)</u>
Fund balance, beginning (Non-GAAP budgetary basis):					
	-	-	-	1,509,151	
Prior period adjustment					
	-	-	-		
Fund balance, ending (Non-GAAP budgetary basis):					
	<u>\$ 92,112</u>	<u>\$ 72,790</u>	<u>\$ 164,902</u>	<u>\$ 1,645,999</u>	
<u>Adjustments to Generally Accepted Accounting Principles</u>					
Revenue and transfer accruals				(221,230)	
Expenditure and transfer accruals				(21,005)	
Fund balance, ending (GAAP basis)				<u>\$ 1,403,764</u>	

See accompanying notes to the basic financial statements

CIRCUIT ENGINEERING DISTRICT #7
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary Process

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

1. Estimated Resources

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

2. Appropriations

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

3. Budgetary Basis of Accounting

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

For the year ended June 30, 2011, the District exceeded net budgeted expenditures by \$28,054.

STATISTICAL SECTION

CIRCUIT ENGINEERING DISTRICT # 7
MISCELLANEOUS STATISTICS
June 30, 2011

	Beckham	Blaine	Custer	Dewey	Greer	Harmon	Jackson	Kiowa	Roger Mills	Tillman	Washita	Total
Miles of Roads inside the District:												
State (includes Interstates)	201	154	178	139	113	101	115	198	166	131	184	1,680
County	1,153	1,321	1,398	1,148	859	779	1,210	1,574	1,258	1,437	1,681	13,818
Total Road Miles	1,354	1,475	1,576	1,287	972	880	1,325	1,772	1,424	1,568	1,865	15,498
Number of Bridges inside the District:												
State (includes Interstates)	130	53	123	34	28	29	54	121	52	72	82	778
County	190	246	302	148	205	82	260	356	103	225	373	2,490
Total Bridges	320	299	425	182	233	111	314	477	155	219	455	3,268
Substandard Bridges inside the District:												
State (includes Interstates)	19	5	26	3	1	1	-	19	11	1	11	97
County	23	75	67	19	20	8	53	60	4	40	147	516
Total Substandard Bridges	42	80	93	22	21	9	53	79	15	41	158	613
Replacement Cost of All Deficient State Bridges												
	\$ 39,175,000	\$ 11,004,000	\$ 83,630,000	\$ 12,672,000	\$ 2,516,000	\$ 2,092,000	\$ -	\$ 40,294,000	\$ 34,000,000	\$ 1,690,000	\$ 19,314,000	\$ 246,387,000
Replacement Cost of All Deficient County Bridges												
	\$ 6,797,000	\$ 21,936,000	\$ 19,775,000	\$ 5,996,900	\$ 10,854,628	\$ 3,341,000	\$ 18,627,000	\$ 17,396,000	\$ 1,097,000	\$ 10,663,000	\$ 43,986,000	\$ 160,469,528
Total Replacement Cost of Bridges	45,972,000	32,940,000	103,405,000	18,668,900	13,370,628	5,433,000	18,627,000	57,690,000	35,097,000	12,353,000	63,300,000	406,856,528
Number of Road/Bridge Projects* inside the District:												
State (includes Interstates)	10	1	4	1	1	1	1	5	2	-	1	27
County	1	5	1	1	1	-	1	1	-	3	2	16
Total Projects	11	6	5	2	2	1	2	6	2	3	3	43
\$'s of Road/Bridge Projects* inside the District:												
State	\$ 20,365,013	\$ 7,695,490	\$ 2,879,199	\$ 2,495,827	\$ 3,760,595	\$ 1,765,815	\$ 733,665	\$ 10,826,075	\$ 3,162,604	\$ -	\$ 3,023,437	\$ 56,707,720
County	345,335	1,951,212	498,657	474,381	288,122	-	440,964	336,867	-	2,196,018	397,316	6,928,872
Total \$'s of Projects	\$ 20,710,348	\$ 9,646,702	\$ 3,377,856	\$ 2,970,208	\$ 4,048,717	\$ 1,765,815	\$ 1,174,629	\$ 11,162,942	\$ 3,162,604	\$ 2,196,018	\$ 3,420,753	\$ 63,636,592

*Amounts based on Oklahoma Department of Transportation contracts awarded from July 1, 2010 to June 30, 2011

Source: Circuit Engineering District #7, ODOT

**CIRCUIT ENGINEERING DISTRICT #7
STATISTICAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011**

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 – 5 Bridge building - 4 Construction Inspection – 3 Sign Shop – 1

Source: Circuit Engineering District #7

OTHER REPORTS

Derrel S. White, CPA

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

To the Board of Directors
Civil Engineering District #7, Oklahoma

We have audited the financial statements of the governmental activities and the major fund of Civil Engineering District #7 (The District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 28, 2011. 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

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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 management, Board of Directors, 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.

Derrel S. White, CPA

Derrel S. White, CPA

Woodward, OK

September 26, 2011