

Independent Auditor's Report

Circuit Engineering District #5

Year Ended June 30, 2019

**CIRCUIT ENGINEERING DISTRICT #5
OKLAHOMA CITY, OKLAHOMA
June 30, 2019**

TABLE OF CONTENTS

	Page
Independent Auditor's Report	A – 1

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

Statement of Net Position – Modified Cash Basis	B – 1
---	-------

Statement of Activities – Modified Cash Basis	B – 2
---	-------

Fund Financial Statements

Statement of Assets, Liabilities and Fund Balance Governmental Fund – Modified Cash Basis	B – 3
--	-------

Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Fund – Modified Cash Basis	B – 4
--	-------

Notes to Basic Financial Statements	C – 1
-------------------------------------	-------

REPORT ON INTERNAL CONTROL AND COMPLIANCE

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 <i>Government Auditing Standards</i>	D – 1
---	-------

Schedule of Findings and Responses	E – 1
------------------------------------	-------

District's Corrective Action Plan	
-----------------------------------	--

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Directors
Circuit Engineering District #5
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities and major fund of Circuit Engineering District #5, Oklahoma City, Oklahoma, as of and for the year ended June 30, 2019, 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for 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 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 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 District'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 District'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 modified cash basis financial position of the governmental activities and major fund of the Circuit Engineering District #5, Oklahoma City, Oklahoma as of June 30, 2019, and the changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2019, on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Angel, Johnston + Blessingame, P.C.

Chickasha, Oklahoma
November 19, 2019

CIRCUIT ENGINEERING DISTRICT #5
Statement of Net Position - Modified Cash Basis
June 30, 2019

	Governmental Activities
<u>Assets</u>	
Cash and cash equivalents	\$ 791,295
Capital assets, net of accumulated depreciation	468
<i>Total Assets</i>	791,763
 <u>Liabilities</u>	
	-
<i>Total Liabilities</i>	-
 <u>Net Position</u>	
Net investment in capital assets	468
Unrestricted	791,295
<i>Total Net Position</i>	\$ 791,763

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

CIRCUIT ENGINEERING DISTRICT #5
Statement of Activities - Modified Cash Basis
For the Year Ended June 30, 2019

<u>Functions/Programs</u>	Program Revenues				<u>Net (Expenses)</u> <u>Revenues and</u> <u>Changes in</u> <u>Net Position</u>
<u>Primary Government:</u>	<u>Expenses</u>	<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	
Governmental Activities:					
General government	\$ 88,336	\$ -	\$ 472,078	\$ -	\$ 383,742
<i>Total Governmental Activities</i>	88,336	-	472,078	-	383,742
<i>Total Primary Government</i>	\$ 88,336	\$ -	\$ 472,078	\$ -	383,742
			General Revenues:		
			Investment income		1,819
			<i>Total General Revenues and Transfers</i>		1,819
			<i>Change in Net Position</i>		385,561
			<i>Net Position - Beginning</i>		406,202
			<i>Net Position - Ending</i>		\$ 791,763

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

CIRCUIT ENGINEERING DISTRICT #5
Statement of Assets, Liabilities and Fund Balance
Governmental Fund - Modified Cash Basis
June 30, 2019

	General
Assets	
Cash and cash equivalents	\$ 791,295
<i>Total Assets</i>	791,295
 Liabilities	 -
<i>Total Liabilities</i>	-
 Fund Balance	
Unassigned	791,295
<i>Total Fund Balance</i>	791,295
<i>Total Liabilities and Fund Balance</i>	\$ 791,295
 Reconciliation to Statement of Net Position:	
Fund Balance of Governmental Fund	\$ 791,295
 Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the fund	468
Net Position of Governmental Activities	\$ 791,763

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

CIRCUIT ENGINEERING DISTRICT #5
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund - Modified Cash Basis
For the Year Ended June 30, 2019

	General
Revenues	
County auction revenues	\$ 8,327
OCCEDB revenues	463,751
Interest income	1,819
<i>Total Revenues</i>	473,897
Expenditures	
Current:	
Conference fees	115
Education, dues and subscriptions	375
Employee benefits	250
Insurance	3,846
Office supplies	71
Office/general administration expense	20
Payroll expenses	71,010
Payroll taxes	4,517
Payroll services	2,119
Rent	5,227
Travel, meals and lodging	422
<i>Total Expenditures</i>	87,972
Excess (Deficiency) of Revenues over Expenditures	385,925
Net Change in Fund Balance	385,925
Fund Balance - Beginning	405,370
Fund Balance - Ending	\$ 791,295
Reconciliation of the change in fund balance-total governmental fund to change in net position of governmental activities:	
Net change in Fund Balance of Governmental Fund	\$ 385,925
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Depreciation expense	(364)
Change in Net Position of Governmental Activities	\$ 385,561

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

CIRCUIT ENGINEERING DISTRICT #5
Notes to Basic Financial Statements
June 30, 2019

Note 1 – Summary of Significant Accounting Policies

1.A. Reporting Entity

Circuit Engineering District #5 (the “District”) was created under Title 69, Section 687.1 Oklahoma Statutes; and complies with Title 74, Section 1001 et seq, 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 of 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 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 Directors (the “Board”) that acts as the authoritative and legislative body of the entity. The Board is comprised of 6 voting members. Of the six, 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.

The members of the District are Cleveland, Garvin, Logan, McClain, Oklahoma, and Payne County.

1.B. Basis of Presentation Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Net Position-Modified Cash Basis and Statement of Activities-Modified Cash Basis 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-Modified Cash Basis 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 charges for services, 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.

CIRCUIT ENGINEERING DISTRICT #5
Notes to Basic Financial Statements
June 30, 2019

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

1.B. Basis of Presentation Government-Wide and Fund Financial Statements, (continued)

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

Governmental Fund Types

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

1.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.

Basis of Accounting

The District's government-wide financial statements use the economic resources measurement focus and are presented on a modified cash basis of accounting. Revenues are recognized when they are received and expenses are recorded when paid with the following modifications:

- Capital assets are recorded when purchased and related depreciation is recorded.

This is a basis of accounting other than accounting principles generally accepted in the United States of America. If the District utilized the basis of accounting recognized as generally accepted, the government-wide financial statements would use 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.

The fund financial statements use the current financial resources measurement focus and the modified cash basis of accounting. Revenues are recognized when they are received. Expenditures are recorded when paid. 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. Under the modified accrual basis of accounting, revenues would be recognized when susceptible to accrual (i.e. both measurable and available) and expenditures would be recorded when the current liability is incurred.

CIRCUIT ENGINEERING DISTRICT #5
Notes to Basic Financial Statements
June 30, 2019

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

1.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

The District's assets are capitalized and stated at cost. If an expenditure results in an asset having an estimated useful life which extends substantially beyond the year of acquisition, then the cost of the expenditure is capitalized and depreciated over the estimated useful life of the asset utilizing the straight-line method. The range of estimated useful lives by type of asset is as follows:

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 expensed in the current year.

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.

Equity

Government-Wide Financial Statements

Equity is classified as Net Position and displayed in three components:

- a. *Net Investment in Capital Assets* – 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 attributed to the acquisition, construction, or improvements of those assets.
- b. *Restricted Net Position* – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted Net Position* – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

CIRCUIT ENGINEERING DISTRICT #5
Notes to Basic Financial Statements
June 30, 2019

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

1.D. Assets, Liabilities and Equity, (continued)

It is the District's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Financial Statements

In the governmental fund financial statements, fund balance is classified as follows:

Nonspendable fund balance represents amounts that cannot be spent either because they are in non-spendable form or because they are legally required to be maintained intact.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amounts that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment.

Assigned fund balance represents amounts that are intended to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds other than the general fund, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

Resource Use Policy

It is the District's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the District considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the District's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the District considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

CIRCUIT ENGINEERING DISTRICT #5
Notes to Basic Financial Statements
June 30, 2019

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

1.E. Source of Revenue

The District receives revenue from the Oklahoma Cooperative Circuit Engineering Districts Board (“OCCEDB”). OCCEDB manages the Statewide Circuit Engineering District Revolving Fund created under Title 69, Section 687.2 Oklahoma Statutes. The Revolving Fund’s sources of revenue are the gasoline and diesel tax, special fuel tax and gross production tax on oil. The District decides how and where to spend these allocations.

1.F. Use of Estimates

Certain estimates are made in the preparation of these modified cash basis financial statements. Estimates are based on management’s best judgements and may vary from actual results.

Note 2 – Deposits, Investments and Collateral

Deposits and Investments - 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 policy for custodial credit risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of public funds in financial institutions. As of June 30, 2019, the District was not exposed to custodial credit risk.

Note 3 - Capital Assets

Capital assets as of June 30, 2019, consist of the following:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Vehicles	\$ 20,000	\$ -	\$ -	\$ 20,000
Equipment	<u>3,820</u>	<u>-</u>	<u>-</u>	<u>3,820</u>
Total capital assets, being depreciated	23,820	-	-	23,820
Less: accumulated depreciation	<u>(22,988)</u>	<u>(364)</u>	<u>-</u>	<u>(23,352)</u>
Total capital assets, being depreciated, net	<u>\$ 832</u>	<u>\$ (364)</u>	<u>\$ -</u>	<u>\$ 468</u>

Depreciation expense of \$364 was charged to the District’s general government activity.

Note 4 – Retirement

The District does not have a retirement plan but is paying an additional 10% of the employee’s base salary in lieu of a retirement plan. The amount paid on behalf of the employee as of June 30, 2019 was included in taxable wages and totaled \$6,360.

CIRCUIT ENGINEERING DISTRICT #5
Notes to Basic Financial Statements
June 30, 2019

Note 5 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District participates in a risk pool to cover these risks, including general and auto liability, property damage, public officials' liability and blanket bond coverage. The risk pool is the Association of County Commissioners of Oklahoma-Self Insured Group (ACCO-SIG) that operates as a common risk management and insurance program and is to be self-sustaining through member premiums. If claims exceed pool assets, the District would have to pay its share of the pool deficit. The lines of coverage and limits of liability afforded by ACCO-SIG are subject to a \$10,000 deductible and are as follows: Blanket Bond Coverage \$100,000, Comprehensive General Liability \$1,000,000, and Public Officials Wrongful Acts, \$2,000,000. The pool has not assessed additional premiums to be paid by its members in the past three years.

The District also participates in a risk pool for Workers' Compensation coverage. The risk pool is the Association of County Commissioners of Oklahoma-Self Insured Fund that operates as a common risk management and insurance program and is to be self-sustaining through member premiums. If claims exceed pool assets, the District would have to pay its share of the pool deficit. The pool has not assessed additional premiums to be paid by its members in the past three years.

Note 6 – Subsequent Events

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

***REPORT ON INTERNAL CONTROL
AND COMPLIANCE***

**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**

The Honorable Board of Directors
Circuit Engineering District #5
Oklahoma City, Oklahoma

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 modified cash basis financial statements of the governmental activities and major fund of the Circuit Engineering District #5, Oklahoma City, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated, TBD. Our report on the financial statements disclosed, that, as described in Note 1 to the financial statements, the District prepares its financial statements on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Circuit Engineering District #5, Oklahoma City, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2019-001

Compliance and Other Matters

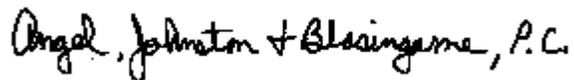
As part of obtaining reasonable assurance about whether Circuit Engineering District #5, Oklahoma City, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 responses as item 2019-001.

Circuit Engineering District #5, Oklahoma City, Oklahoma's, Response to Findings

Circuit Engineering District #5, Oklahoma City, Oklahoma's response to the findings identified in our audit is described in the attached corrective action plan. The District'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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with the *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Chickasha, Oklahoma
November 19, 2019

CIRCUIT ENGINEERING DISTRICT #5
Schedule of Findings and Responses
For the Year Ended June 30, 2019

2019-001 *Criteria* – Proper purchasing procedures indicate that the signature of the person receiving the goods or services should be denoted on the face of the invoice or packing slip.

Condition – During our testing of the expenditures program, we noted that 5 of the 13 transactions tested did not have a signature denoting receipt of goods or services.

Cause – Employees are not always following purchasing procedures.

Effect or Potential Effect – Failure to provide acknowledgment of receipt of goods or services could lead to fraudulent or incorrect invoices being paid.

Recommendation – We recommend that all invoices be signed to denote receipt of goods or services prior to payment being made.

Management Response – See corrective action plan.

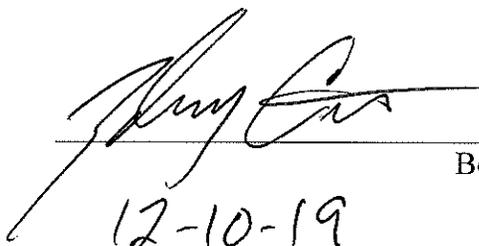
DISTRICT'S CORRECTIVE ACTION PLAN

**AUDIT FINDINGS
CORRECTIVE ACTION PLAN**

AUDIT YEAR 2019

AUDIT FINDING REFERENCE NUMBER: 2019-001

MANAGEMENT RESPONSE: The board will recommend that all invoices be signed to show receipt of goods or services.



Board President

12-10-19

Date