

Independent Auditor's Report

Circuit Engineering District No. 5

June 30, 2012

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Circuit Engineering District No. 5 of Oklahoma
Oklahoma City, Oklahoma

We have audited the accompanying modified cash basis financial statements of the governmental activities of the **Circuit Engineering District No. 5 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. 5 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 January 29, 2013 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
January 29, 2013

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA
Oklahoma City, Oklahoma
Statement of Net Assets - Modified Cash Basis
June 30, 2012

	Governmental Activities
<u>Assets</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 513,534
<i>Total Current Assets</i>	513,534
Noncurrent Assets:	
Other capital assets, net	6,897
<i>Total Noncurrent Assets</i>	6,897
<i>Total Assets</i>	520,431
<u>Liabilities</u>	
Other Liabilities	-
<i>Total Liabilities</i>	-
<u>Net Assets</u>	
Invested in Capital Assets, net of related debt	6,897
Unrestricted	513,534
<i>Total Net Assets</i>	\$ 520,431

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

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA
Oklahoma City, 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	\$ -	\$ -	\$ -	\$ -	\$ -
Public Works	-	-	-	-	-
	-	-	-	-	-
<i>Total Governmental Activities</i>	-	-	-	-	-
	-	-	-	-	-
<i>Total Primary Government</i>	-	-	-	-	-
		General Revenues:			
			OCCEDB State Fund Proceeds	-	
			ACCO Allocations	-	
			Refunds/Reimbursements	-	
			Investment Income	-	
			<i>Total General Revenues and Transfers</i>	-	
			<i>Change in Net Assets</i>	-	
			<i>Net Assets - Beginning</i>	577,920	
			Prior period adjustments - change in accounting principle	-	
			<i>Net Assets - Ending</i>	\$ 577,920	

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

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA
Oklahoma City, Oklahoma
Balance Sheet - Modified Cash Basis
Governmental Funds
June 30, 2012

	General
Assets	
Cash and Cash Equivalents	\$ 513,534
<i>Total Assets</i>	513,534
Liabilities	
Other Liabilities	-
<i>Total Liabilities</i>	-
Fund Balances	
Unreserved	513,534
<i>Total Fund Equity</i>	513,534
<i>Total Liabilities and Fund Equity</i>	\$ 513,534

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

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA
Oklahoma City, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ending June 30, 2012

	General
Revenues	
ACCO revenues	\$ 10,952
OCCEDB revenues	583,646
Investment Income	1,387
CIRB Project Management	36,949
<i>Total Revenues</i>	632,934
Expenditures	
Auto Expense	456
Bank Service Charges	20
County Distributions	585,000
Dues and Subscriptions	120
Insurance	3,215
Meetings & Conferences	2,027
Office Supplies	1,474
Salaries and Taxes	67,055
Retirement	6,250
Payroll Services	1,578
Professional Fees	3,844
Rent	6,880
Telephone	238
Travel	7,230
Capital Outlay	-
<i>Total Expenditures</i>	685,387
Excess (Deficiency) of Revenues over Expenditures	(52,453)
Net Change in Fund Balances	(52,453)
Fund Balances - Beginning	565,987
Prior period adjustment	-
Fund Balances - Ending	\$ 513,534

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

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA
Oklahoma City, 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	\$ 513,534
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:	6,897
Net assets of governmental activities	\$ 520,431

Reconciliation to Statement of Activities:

Net change in fund balances of governmental funds	\$ (52,453)
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	-
Depreciation expense	(5,036)
Change in net assets of governmental activities	\$ (57,489)

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

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1 – Summary of Significant Accounting Policies

The Circuit Engineering District No. 5 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. In the financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent that they are applicable, 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.

A. Financial Reporting Entity

Circuit Engineering District No. 5 (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 seven counties in Oklahoma. The governing board consists of seven 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.

The member counties of Circuit Engineering District No. 5 (or a duly qualified successor organization as determined by the District’s Board) are beneficiary and will receive all assets upon termination of the District. The accompanying financial statements include all functions and activities over which the District exercises financial accountability. There are no other entities for which the District is considered to be financially accountable, and as such, no other entities are presented. The District is considered to be a component unit of Oklahoma Cooperative Circuit Engineering Districts Board.

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,

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

B. Basis of Presentation, (continued)

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. 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.

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

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

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.

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, while the fund financial statements for proprietary fund types would use the 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 type funds are reported as capital assets within the General Fund. Capital assets are stated at cost. Capital assets used in governmental funds 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.

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA
Oklahoma City, Oklahoma
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

D. Assets, Liabilities and Equity, (continued)

Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation.

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 recorded for the fiscal year ended June 30, 2012 equaled \$5,036.13.

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.

F. Differences from GAAP

As described in Note 1.C., the District reports its financial information on the modified cash basis of accounting rather than the GAAP prescribed accrual basis.

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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 \$564,535.47 were not exposed to custodial credit risk.

The District’s cash deposits at June 30, 2012 are categorized to give an indication of the level of risk assumed by the District at year-end as follows:

- (A) Insured or collateralized with securities held by the District or by its agent in the District’s name.
- (B) Uninsured but collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name.
- (C) Uninsured and uncollateralized.

	Category (A)	Category (B)	Category (C)
Cash	564,535	0	0
Total	564,535	0	0

B. Income Taxes

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

C. Payroll

The District has one employee. The District has outsourced the payroll responsibilities to Paychex, Inc. Paychex, Inc. is responsible for filing all necessary payroll reports and contributions. Circuit Engineering District No. 5 reimburses Paychex, Inc. for these expenses.

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 2 – Detailed Notes on Transactions, Classes/Accounts, (continued)

D. Compensated Absences

The organization does not accrue a liability for compensated absences. This is not in accordance with generally accepted accounting principles. 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.

F. Employee Retirement Plan

The District does not have a retirement plan but is paying into the employee's individual retirement account. The amount contributed to the IRA for the fiscal year ended June 30, 2012 was \$6,250.

G. 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.

H. 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:

Machinery & Equipment	3 – 10 years
Vehicles	5 years

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 2 – Detailed Notes on Transactions, Classes/Accounts, (continued)

H. Capital Assets, (continued)

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

<u>Governmental-type Activities</u>	Beginning Balance	Additions	Deductions	Ending Balance
Depreciable Assets:				
Machinery & Equipment	5,180	0	0	5,180
Vehicles	20,000	0	0	20,000
Total Depreciable Assets	25,180	0	0	25,180
Less: Accumulated Depreciation				
Machinery & Equipment	(2,246)	(1,037)	0	(3,283)
Vehicles	(11,000)	(4,000)	0	(15,000)
Total Accumulated Depreciation	(13,246)	(5,037)	0	(18,283)
Net Depreciable Assets	11,934	(5,037)	0	6,897

Note 3 – Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts, errors and omissions. The District carries property and general liability insurance for major risks.

B. Commitments and Contingencies.

The District is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. Therefore, the financial statements do not include accruals or provisions for loss contingencies. While legal proceedings cannot be foreseen, the District feels that any settlement or judgment not covered by insurance would not have a material effect on the financial condition of the District.

**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. 5 of Oklahoma
Oklahoma City, Oklahoma

We have audited the accompanying modified cash basis financial statements of the governmental activities of the **Circuit Engineering District No. 5 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 January 29, 2013. 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. 5 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. 5 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.

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 significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

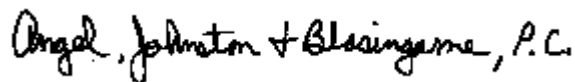
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination 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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 12-01.

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. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 12-01 and 12-02.

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.



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

Chickasha, Oklahoma
January 29, 2013

CIRCUIT ENGINEERING DISTRICT NO. 5

Oklahoma City, Oklahoma

Schedule of Findings and Responses

June 30, 2012

12-01 Criteria - A good system of internal control provides for a proper segregation of the accounting functions.

Condition - The District has a small number of employees that perform the duties that would normally be divided among a large number of employees.

Cause and Effect – The lack of internal control surrounding the accounting functions could result in more than a low risk that errors or irregularities may occur and not be detected within a timely period.

Recommendation – The District should assess the advantages of segregating the accounting functions in order to determine whether hiring personnel would be cost effective.

Management response – At this time it is not cost effective to hire administrative staff that would be necessary in order to adequately segregate duties.

12-02 Criteria – The District has agreed to pay the District manager a retirement contribution equal to 10% of base salary. Total contributions for the year should total \$6,000.

Condition – It appears that the retirement contribution has been overpaid by \$500. During the 2010-11 year, 25 payments of \$250 were made totaling \$6,250. This included one (1) advance payment for July 2011. Had the District again paid in advance for July 2012, 24 payments would have been made in the 2011-12 year. Because the District did not advance payment for July 2012, they should have only made 23 payments during the current year. However, they again made 25 payments of \$250. It appears that two (2) duplicate payments were made in December 2011.

Cause and Effect – Lack of reconciliation of approved retirement contributions resulting in an overpayment of \$500.

Recommendation – We recommend the District monitor the number of yearly retirement contribution payments to ensure that only 24 payments of \$250 are made, totaling \$6,000 per year. The District should reconcile at this point and adjust the current year payments accordingly.

Management response – Management agrees.

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

Disposition of Prior Year Audit Exceptions

June 30, 2012

11-01 Finding - A good system of internal control provides for a proper segregation of the accounting functions. The District has a small number of employees that perform the duties that would normally be divided among a large number of employees.

Recommendation – The District should assess the advantages of segregating the accounting functions in order to determine whether hiring personnel would be cost effective.

Disposition – **This continues to be a finding.*