

Circuit Engineering
District No. 4
Shawnee, Oklahoma

Financial Statements and Reports of Independent Auditors
For The Years Ended
June 30, 2016

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Circuit Engineering District No. 4
Shawnee, Oklahoma
Board of Directors
June 30, 2016

Board of Directors

President	Justin Roberts -Pontotoc County
Vice-President	Gary Gray -Hughes County
Secretary	Melissa Dennis -Pottawatomie County
Treasurer	Lee Doulen -Lincoln County
Member	Bruce Smith -Okfuskee County
Member	Brock Jones -Coal County
Member	Gary Choate -Seminole County
Member	Mike Thompson -Johnston County

District Manager

Matt Goodson

Circuit Engineering District No. 4
Shawnee, Oklahoma
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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

The Board of Trustees
Circuit Engineering District No. 4
Shawnee, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Circuit Engineering District No. 4, Shawnee, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Circuit Engineering District #4, as of June 30, 2016, and the respective changes in financial position and cash flows thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

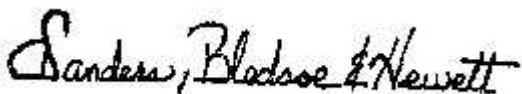
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-8, the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Contributions on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 27, 2017, 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 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* in considering the District's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP
March 27, 2017

Circuit Engineering District No. 4
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Circuit Engineering District No. 3 (hereinafter referred to as "CED4") is a multi-country governmental entity voluntarily comprised of member-counties: Coal, Johnston, Hughes, Pontotoc, Seminole, Okfuskee, Lincoln and Pottawatomie. The District became active on January 1, 2003 with the primary objective to employ professional and technical personnel to provide value-based service and analysis of information in order to maximize the economic benefit of the resources available for the maintenance and construction of their road and bridge inventories.

The District provides this report for readers of the CED4 Fiscal Year 2016 Financial Audit.

Financial Outlook

The financial outlook for the District is positive and on course with the board of directors policy of steady, well-planned maintenance of necessary services. In the 2016/2017 fiscal year, the District will realize the benefit of the primary services of:

Project design engineering, planning and management service. This service provides in-depth expert understanding of the complexities involved in bringing a project from design to actual construction. Subsequently, the district can assist its member-counties in economically maximizing the quality and quantity of projects constructed within its boundaries.

Safety bridge inspection service. This service provides highly trained and certified bridge inspection personnel to insure the district's local government owned bridges are acceptably safe for the driving public. In addition, the district analyzes the obtained inspection data to provide an in-depth report to each inspected entity. This report is designed to be understandable and useful for planning of long-term construction schedules and short-term maintenance schedules. It is important to note safety bridge inspection is a federally mandated and funded program.

Small Footprint Project construction Assistance. This service provides seasoned, experienced personnel to assist in the construction of non-typical small construction and maintenance jobs that require limited engineering. The district also provides a large array of tools and construction equipment for the use in these endeavors that are typically not possessed by individual counties. This crew is available, and has been used as a rapid response team for unexpected work that from time to time can occur.

Sign inventory management. This service is a road sign manufacturing service that is primarily used as an inventory management tool. By consolidating the raw materials needed by the individual member-counties and employing just-in-time output methodology, the on-hand sign inventory (of each county) has been greatly reduced at significant savings. In addition, this service provides the ability to quickly manufacture on-typical signage and provide staff knowledgeable in the interpretation of the Manual on Uniform Traffic Control Devices.

Circuit Engineering District No. 4
Management's Discussion and Analysis
For the Year Ended June 30, 2016

CED4 currently is in the first year of a two year reimbursement agreement with the Oklahoma Department of Transportation that covers the bulk of project design engineering and bridge inspection. Task order funds are encumbered for the future expected Fiscal Year 2017 work of these two services. Construction assistance service currently has a normal six to nine month backlog in requested service from the member-counties. The sign making service workload is steady to above normal. The above described primary services are expected to continue to exceed service expectations and remain within fiscal budget boundaries.

The financial structure of Circuit Engineering Districts are unique in the fact that they receive no direct dedicated funding source; and, the fact that the member-counties (by way of the CED4 board of directors) set salary ranges, approve agreement parameters, review entity performance and determine the overall budget. However, the primary incomes are from non-member sources. It is important to note that as a governmental entity all service incomes are reimbursements of expensed funds. In the FY 2016 reporting period design engineering and related services accounted for approximately 44% of service income. These funds are primarily generated by the use of CIRB Program state funds through agreement with the Oklahoma Department of Transportation. Bridge inspection service performed for the member countries contributed approximately 23% of service income. Bridge inspection funding is a mix of 80% federal funds and 20% state funds obtained by agreement with the Oklahoma Department of Transportation and Federal Highway Administration. Physical construction and maintenance assistance to the member-counties accounted for approximately 25% of service incomes. These funds are received from member-county accounts. The remaining 8% of service incomes was generated by the sign making department. In FY 2016 CED received \$201,463 in state funds (old state CBRI program) that are passed through from the state-wide Oklahoma Cooperative Circuit Engineering Board. At CED4 these funds are held in separate account. The use of these funds is determined annually by the CED4 member-counties.

Management believes there are only two areas of concern that could cause a negative impact to the continued positive financial outlook of CED4. First, the large reliance on state and federal funding requires diligent monitoring of reimbursement flow from these entities. Currently reimbursements are steady with an approximately 4 week lag between submittal and receipt. However, a slow-down in repayment can result in the diversion of funds that possess a higher and better use. In 2014 this phenomenon was experienced by CED4 when there was an unexplained nine month lag in repayment by ODOT. This lag caused a significant infusion of reserve funds to insure wages were paid and personnel were available to complete in-progress projects. While it appears this issue is resolved management closely monitors the reimbursement schedule for timely intervention should a reoccurrence manifest itself. Second, there is a noted perception of a somewhat divided board in regards to the goals and objectives of CED4. It is noted by management that while this division is evident in the primary appointed CED4 board members it does not appear in the member-county board of commissioners. A division of direction and lack of adherence to fiduciary duty can lead to operational confusion and disintegration of organizational confidence. Management believes a subsequent slow degradation of financial performance will follow if this condition is left unchecked. Board conduct and performance is outside of management's authority. However, management is bound and has been directed by the board of directors to report both the positive conditions and challenges to the continued financial success of CED4. The CED4 board leadership is aware of this situation and to management's knowledge is working on resolution of this matter.

Circuit Engineering District No. 4
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Financial Highlights

Circuit Engineering District No. 4 is operated to function as an independent engineering department for the eight member countries.

Therefore, the District does not have any structured debt. The districts liabilities are limited to current accounts payable.

And, the District's assets, net of cash, are comprised of a building and land, vehicles and equipment and tools related to the construction segment. The building asset is expected to appreciate in value. Due to depreciation, the other assets can be expected to remain functional but, over time, decline in financial value.

Cash and cash equivalents decreased from \$502,334 to \$450,315 (net decrease of \$52,019). The cash position reflects consistency with the budgeted financial goal to remain financially constant during the negative economic conditions occurring in Oklahoma.

Revenue and expense details are presented in the Statement of Income and Retained Earnings. The District's revenue and expenses were relatively stable and consistent with the budgetary parameter approved by the board of directors.

It is significant to note that the one non-operational revenue source decreased from \$370,321 received in Fiscal Year 2015 to \$201,463 received in Fiscal Year 2016. These funds are received from the state-wide Oklahoma Cooperative Circuit Engineering Board. These funds are held in a separate account from other revenue sources.

In conclusion, Circuit Engineering District No. 4 is operated as a provider of value-based asset management services. Following this philosophy, management does not focus on the building of physical capital assets. Instead, management focus is to, when needed, add necessary intellectual-asset value through the careful employment of highly-qualified personnel and use of supplementary contract consultation. Management believes that the District will remain in a steady maintenance stage and continue to use funds available to retain needed personnel and the limited capital assets necessary to support the accomplishment of member-county requested services.

Circuit Engineering District No. 4

Statement of Net Position

June 30, 2016

ASSETS

Current Assets:

Cash in bank	\$ 450,315
Inventory	17,902
Accounts receivable	108,128
Prepaid expenses	8,017
Total current assets	<u>584,362</u>

Fixed Assets

Property, plant and equipment	650,269
Less: accumulated depreciation	<u>(355,637)</u>
Total fixed assets (net)	<u>294,632</u>

Deferred Outflows of Resources	<u>197,063</u>
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Total Assets	<u><u>\$ 1,076,057</u></u>
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LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	\$ 4,883
Payroll	18,434
Total current liabilities	<u>23,317</u>

Non-current Liabilities

Net pension liability	<u>319,812</u>
Total non-current liabilities	<u>319,812</u>

Deferred Inflows of Resources	(30,473)
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Net Position

Invested in Capital Assets	294,632
Unrestricted	468,769
Total net position	<u>763,401</u>

Total Liabilities and Net Position	<u><u>\$ 1,076,057</u></u>
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The accompanying notes are an integral part of the financial statements

Circuit Engineering District No. 4
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

Revenue from Operations:

Constuction	\$ 287,226
Engineering	514,730
Graphics & Sign Design	93,253
Inspection	269,117
Other	223,864
Total revenues from operations	<u>\$ 1,388,190</u>

Expenses from Operations:

Gross wages and salaries	\$ 600,959
Auto repair and fuel	19,915
Bank charges	(26)
Business meeting expenses	3,269
Construction projects	133,667
Contract labor	4,550
Depreciation	55,676
Dues and subscriptions	708
Insurance	128,064
Legal and accounting	16,388
Licenses and permits	3,939
Miscellaneoous	68
Payroll taxes	47,915
Postage and delivery	645
Printing and reproduction	521
Professional development and education	1,083
Professional fees	1,383
Project design	143,071
Rent and lease - equipment	720
Rent and lease - other	4,369
Repairs	55,526
Retirement	85,341
Security	480
Sign shop material and supplies	70,049
Supplies and tools - A team	6,555
Supplies and tools - Constuction team	1,001
Supplies and tools - Field	2,991
Supplies and tools - Office	5,709
Telecommunications	3,548
Travel	8,887
Utilities	5,621
Total operating expenses	<u>\$ 1,412,592</u>

Net Income (Loss) from Operations (24,402)

Other Income 3,648

Net Income (20,754)

Net Position, Beginning of Year 887,288

Prior-period adjustment - see notes (103,133)

Net Position, End of Year \$ 763,401

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

Circuit Engineering District No. 4
Statement of Cash Flows
For The Year Ended June 30, 2016

Cash flows from operating activities:	
Cash received from customers & service users	\$ 1,376,959
Cash payments for goods, services & employees	<u>(1,646,276)</u>
Net cash provided by operating activities	<u>(269,317)</u>
Cash flows from investing activities:	
Purchase of capital assets	<u>619</u>
Total cash flows from investing activities	<u>619</u>
Cash flows from financing activities:	
Net change in pension liability	<u>216,679</u>
Total cash flows from investing activities	<u>216,679</u>
Net Increase (Decrease) in Cash	(52,019)
Cash and cash equivalents, beginning of period	<u>502,334</u>
Cash and cash equivalents, end of period	<u><u>\$ 450,315</u></u>

Cash flows from Operating Activities:	
Income (loss)	\$ (20,754)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	55,676
Net change in deferred inflows/outflows of resources	(227,536)
(Increase) decrease in accounts receivable	(14,879)
(Increase) decrease in prepaid expense	(8,017)
(Increase) decrease in inventory	(2,048)
Increase (decrease) in accounts payable	<u>(51,759)</u>
Total cash flows from operating activities	<u><u>\$ (269,317)</u></u>

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

Circuit Engineering District No. 4
Shawnee, Oklahoma
Notes to the Financial Statements
June 30, 2016

Note A - Significant Accounting Policies

Organization

The District was established in April, 1999, by authority of Title 74, Chapter 31, Interlocal Cooperation Act and Title 69, Section 687.1 Circuit Engineering Districts of Oklahoma Statutes. The District became operational in December 2002. The purposes of the District are to advise and assist its members with how to implement and make an effective transportation plan for the best interest of each member of the Circuit Engineering District. The members of the District are Coal County, Hughes County Johnston County, Lincoln County, Okfuskee County, Pontotoc County, Pottawatomie County and Seminole County.

Basis of Accounting and Measurement Focus

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with accounting principles generally accepted in the United States of America.

Cash

The District's accounts are all adequately covered by FDIC coverage or collateral pledged at June 30, 2016.

Inventory

Inventory consists of construction and sign making materials. Inventory is valued at the lower of cost or market by specific identification.

Accounts Receivable

Billings for accounts receivable at June 30, 2016 are \$108,128. No allowance for doubtful accounts was computed which is not considered to be material to the financial statements. The aging of these accounts is detailed as follows:

<u>Days</u>	<u>Amount</u>
00-30	\$ 99,864
31-60	2,207
61-90	2
Over 90	6,055
Total	<u>\$ 108,128</u>

Circuit Engineering District No. 4
Shawnee, Oklahoma
Notes to the Financial Statements
June 30, 2016

Property, Plant and Equipment

Property, Plant and Equipment are valued at cost. Depreciation is computed using the straight-line method. Estimated useful lives of these assets are as follows:

Building	40 years
Office equipment	5 years
Machinery & equipment	7 years
Vehicles	5 years

Property, Plant and Equipment are composed of:

Office Equipment & Furniture	\$ 43,249
Field Equipment	297,451
Vehicles	130,382
Building & Land	179,187
Accumulated Depreciation	<u>(355,637)</u>
Net Property, Plant and Equipment	<u>\$ 294,632</u>

Compensated Absences

The District does not accrue a liability for compensated absences.

Net Position

Net position represents the difference between assets and liabilities in the statement of net position. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are legal limitations on its use by legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

Net Position is classified and displayed in three components:

1. 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 attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred in inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted. Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, with restriction constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.

Circuit Engineering District No. 4
Shawnee, Oklahoma
Notes to the Financial Statements
June 30, 2016

3. Unrestricted. Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Federal Income Tax

The District is exempt from federal and state income taxes.

Employee Retirement Plan

Retirement and Pension

A. Plan Description

On June 17th, 2004, the Board of Directors of CED #4 adopted by resolution the provisions of Title 74 Oklahoma Statute 901 et. Seq. as may be amended for the purpose of providing its employees with a retirement program to accumulate deferred income reserves for themselves and their dependents to provide for old age, death and inactive service. On December 10, 2004 the Oklahoma Public Employees Retirement System (OPERS) notifies Circuit Engineering District No. 4 it would become a participating employer effective January 1, 2005, and advised that said membership was by statute irrevocable. Currently CED#4 is a non-fiduciary OPERS member in good standing. This is a cost-sharing, multi-employer defined benefit retirement system. Pension benefit provisions of the OPERS plan were established by statute and benefit provisions are amended by the State Legislature. Cost-of-living adjustments are provided to plan members at the discretion of the State Legislature. The information and schedules which follow are the representation of OPERS to reflect the total participation of the respective state and local government employer pension plans as well as that of CED#4, all of which are administered through trusts.

B. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the respective pension plans and additions to/deductions from plans fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Circuit Engineering District No. 4
Shawnee, Oklahoma
Notes to the Financial Statements
June 30, 2016

C. Eligibility Factors and Benefit Provisions

Provisions

OPERS as of June 30, 2016

a. Eligible to Participate

All permanent employees of the State of Oklahoma, and any other employer such as a county, county hospital, city or town, conservation districts, circuit engineering districts, and any trust in which a county, city, or town participates and is the primary beneficiary, are eligible to join if:

The employee is not eligible for or participating in another retirement system authorized under Oklahoma law, is covered by Social Security and not participating in the U.S. Civil Service Retirement System.

The employee is scheduled for 1,000 hours per year and salary is not less than the hourly rate of the monthly minimum wage for state employees (for employees of local government employers, not less than the hourly rate of the monthly minimum wage for such employees).

b. Period Required to Vest

Eight years of credited service.

c. Eligibility for Distribution

Normal retirement:

Member before November 1, 2011, one of the following:

Age 62 with 6 years of credited service. For elected officials age 60.

80 points – The sum of age and years of service equals 80 if member before July 1, 1992.

90 points – The sum of age and years of service equals 90 if member after July 1, 1992.

Circuit Engineering District No. 4
Shawnee, Oklahoma
Notes to the Financial Statements
June 30, 2016

Member on or after November 1, 2011,
one of the following:

Age 65 with 6 years of credited
service. For elected officials age 65
With 8 years of elected service.

90 points – At least age 60 and the
sum of age and years of service
equals 90.

Disability benefit after 8 years of service,
provided member qualifies for disability
benefits from the Social Security
Administration or the Railroad Retirement
Board.

Death benefit of \$5,000 payable upon death
of retiree to the designated beneficiary.

- d. Benefit Determination Base Final average salary – member before July 1, 2013, the average compensation during the highest 3 years out of the last 10 years of service (including highest 3 longevity payments). Member after July 1, 2013, the average highest 5 out of the last 10 years of service (including highest 5 longevity payments).
- e. Benefit Determination Methods:
- | | |
|-----------------------|--|
| Normal Retirement | 2% of member's final average salary multiplied by the years of credited service. |
| Disability Retirement | Same as normal retirement. |
- f. Benefit Authorization Benefits are established in accordance with Title 74 of the Oklahoma Statutes, Chapter 29, Section 901 through 935 as amended.
- g. Form of Benefit Payments Life Annuity, Joint and 50% Survivor, Joint and 100% Survivor Annuity, Life Annuity with a minimum of 120 monthly payments, and Medicare Gap Benefit option.

Circuit Engineering District No. 4
Shawnee, Oklahoma
Notes to the Financial Statements
June 30, 2016

D. Contribution Requirements

Oklahoma Public Employees Retirement System: The authority to set and amend contribution rates is established by ordinance for OPERS defined benefit plan in accordance with Title 74 of the Oklahoma Statutes, Chapter 29, Section 908. The contribution rates for the current fiscal year have been made in accordance with Oklahoma Statute. The rate for state employees is 3.5% of their covered salary and 16.5% of covered payroll for state agencies as of June 30, 2016. Contributions for participating county and local agencies total 20% for employees and employers as of June 3, 2016. For the year ended June 30, 2016, OPERS recognized \$296,423,079 in contributions.

E. Access to Comprehensive Annual Financial Report (CAFR) and Actuarial Valuations

Link to the OPERS June 30, 2016 CAFR

<http://www.opers.ok.gov/Websites/opers/images/pdfs/CAFR-2016-OPERS.pdf>

Line to the June 30, 2016 Actuarial Valuations

<http://www.opers.ok.gov/Websites/opers/images/pdfs/Report-2016OPERSVal.pdf>

F. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows or Resources Related to Pensions.

At June 30, 2016 CED#4 reported a liability of \$319,812 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. CED#4's portion of the net pension liability was based on a projection of CED#4's long-term share of contributions to the pension plan relative to the projected contributions of all participating OPERS employers, actuarially determined. At June 30, 2016, CED#4's proportion was .03223163%.

Schedule of Employer Allocations
For the Year Ended June 30, 2016

	Employer Contributions	Employer Allocation Percentage
Circuit Engineering District No. 4	\$ 95,542	0.0003223163%
Total of All OPERS Participants	\$ 296,423,079	100.00000000%

Circuit Engineering District No. 4
Shawnee, Oklahoma
Notes to the Financial Statements
June 30, 2016

G. Basis of Allocation

In determining the proportionate share of the net pension liability and corresponding employer pension amounts for a cost-sharing plan, the basis should be consistent with the manner in which contributions are made to the Plan, excluding those to separately finance specific liabilities of an individual employer. The Plan has determined that the actual contributions made to the Plan during fiscal year 2016 are appropriate as the allocation basis because they are representative of future contributions. Contributions are reported using the accrual basis of accounting.

The fiscal year 2016 actual employer contributions total used as the denominator for the allocation calculation in the Schedule of Employer Allocations can be reconciled to the Plan's CAFR for the fiscal year ended June 30, 2016, as follows:

	2016 OPERS Totals	2016 CED #4
Contributios fro state and local agencies per CAFR	\$ 296,249,191	\$ 95,486
Employer withdrawal pursuant to 74 O.S. 910(1)	680,512	219
Employer contributions from the Plan	(506,624)	(163)
	<u>\$ 296,423,079</u>	<u>\$ 95,542</u>

H. Net Pension Liability & actuarial info.

The net pension liability (NPL) is the portion of the actuarial present value of projected benefit payments related to past periods. The NPL for CED#4 is based on the allocation percentage from the Schedule of Employer Allocations.

- (a) The net pension liability for fiscal year 2016 is calculated as set forth below in the following table:

	Total OPERS Plan	CED #4
Net pension liability - July 1, 2015	\$ 359,683,917	\$ 103,133
Total pension expense	201,043,857	64,636
Changes of assumption	-	(46,619)
Change in deferred outflows of resources	577,996,727	195,630
Change in deferred inflows of resources	149,755,406	98,580
Defined benefit plan employer contributions-CAFR total	(96,249,191)	(95,548)
Net pension liability - June 30, 2016	<u>\$ 1,192,230,716</u>	<u>\$ 319,812</u>

Circuit Engineering District No. 4
Shawnee, Oklahoma
Notes to the Financial Statements
June 30, 2016

Actuarial Methods and Assumptions

The total pension liability as of June 30, 2016 and 2015, was determined based on an actuarial valuation prepared as of July 1, 2016 and July 1, 2015, respectively, using the following actuarial assumptions:

- Investment return – 7.25% for 2016 and 7.50% for 2015, compounded annually net of investment expense and including inflation
- Salary increases – 4.5% to 8.4% per year including inflation
- Mortality rates – Active participants and nondisabled pensioners-RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)
- No annual post-retirement benefit increases
- Assumed inflation rate – 3.0%
- Payroll growth – 4.0% per year
- Actuarial cost method – Entry age
- Select period for the termination of employment assumptions – 10 years

With the exception of the long-term rate of return used in the July 1, 2016, valuation, the actuarial assumptions used in the July 1, 2016 and 2015, valuations are based on the results of the most recent actuarial experience study, which covers the three-year period ending June 30, 2013. The experience study report is dated May 9, 2014. The long-term rate of return was modified by the Board during 2016.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The Target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2016 and 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	38.0%	5.3%
U.S. Small Cap Equity	6.0%	5.6%
U.S. Fixed Income	25.0%	0.7%
International Stock	18.0%	5.6%
Emerging Market Stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate Anticipation	3.5%	1.5%
Total	100.0%	

Circuit Engineering District No. 4
Shawnee, Oklahoma
Notes to the Financial Statements
June 30, 2016

(b) Discount rate

The discount rate used to measure the total pension liability was 7.25% for 2016 and 7.5% for 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of the net pension liability to changes in the discount rate.

The following presents the net pension liability of the employer calculated using the discount rate of 7.25% for 2016 and 7.50% for 2015, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	June 30, 2016			June 30, 2015		
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
OPERS Net pension liability (asset)	\$ 2,031,143,062	\$ 992,230,716	\$ 110,282,781	\$ 1,340,274,323	\$ 359,683,917	\$ (473,973,456)
CED#4	\$ 654,670	\$ 319,812	\$ 35,546	\$ 384,299	\$ 103,133	\$ (135,903)

I. Average Expected Remaining Service Life

The average expected remaining service life of the Plan is determined by taking the calculated total future service years of the Plan divided by the number of people in the Plan including retirees. The total future service years of the plan are determined using the mortality, termination, retirement and disability assumptions associated with the Plan.

June 30, 2016 Years
3.08

J. Deferred Outflows and Inflows of Resources

Deferred outflows of resources are the consumption of net position that is applicable to future reporting periods. Deferred inflows of resources are the acquisition of net position that is applicable to future reporting periods.

Circuit Engineering District No. 4
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June 30, 2016

Difference between expected and actual experience: the actuary uses assumptions such as future salary increases and inflation to develop what they expect to be the experience of the Plan. Each year the difference between the expected experience and the actual experience is amortized over the average expected remaining service life of the Plan.

Net difference between projected and actual investment earnings: the actuary uses the Plan's long term rate of return to project investment earnings net of investment expenses. The difference between the expected and the actual investment earnings is deferred and amortized over five years.

Changes in assumptions: the impact of changes in assumptions used by the actuary is amortized over the average expected remaining service life of the Plan.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 2,587
Changes in assumptions	49,523	
Net difference between projected and actual earnings on pension plan investments	147,540	(33,060)
Changes in proportion and differences between CED#4 contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurment date	-	-
	<u>\$ 197,063</u>	<u>\$ (30,473)</u>

Circuit Engineering District No. 4
Shawnee, Oklahoma
Notes to the Financial Statements
June 30, 2016

Risk Management

The District is exposed to various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
General Liability <ul style="list-style-type: none"> - Torts - Error and Omissions - Officer Liability - Vehicle 	The District participates in ACCO-SIG, a public entity risk pool.	If claims exceed pool assets, the District would be required to pay its share of the pool deficit.
Physical Plant <ul style="list-style-type: none"> - Theft - Damages to Assets - Natural Disaster 	The District participates in ACCO-SIG, a public entity risk pool.	If claims exceed pool assets, the District would be required to pay its share of the pool deficit.
Worker's Compensation <ul style="list-style-type: none"> - Employee Injury 	The District participates in ACCO-SIF, a public entity Risk pool.	If claims exceed pool assets, the District would be required to pay its share of the pool deficit.
Health and Life Insurance <ul style="list-style-type: none"> - Medical - Dental - Vision - Life 	The District participates in OPEH&W, a public entity risk pool	If claims exceed pool assets, the District would be required to pay its share of the pool deficit.

Pool entity descriptions listed below:

Association of County Commissioners of Oklahoma – Self Insurance Group (ACCO-SIG)

The pool operates as a common risk management and insurance program and is self-sustaining through member premiums. Each 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 consistently performed at acceptable industry norms.

Circuit Engineering District No. 4
Shawnee, Oklahoma
Notes to the Financial Statements
June 30, 2016

Association of County Commissioners of Oklahoma-Self Insurance Fund (ACCO-SIF)

The pool operates as a common risk management and insurance program and is self-sustaining through member premiums. The risk pool pays legitimate workers compensation claims up to \$500,000 per incident. A reinsurance policy pays claims that exceed \$500,000 per incident. The pool, established in 1986, consistently performs at acceptable industry norms.

Oklahoma Public Employees Health and Welfare Trust (OPEH&W)

The pool operates as a common risk management trust formed to provide healthcare services to its members and be self-sustaining through member premiums. The trust was formed in 1992 and currently has over 100 participating Oklahoma governmental entity members. The trust has consistently performed at acceptable industry norms.

Management believes the above risk coverages are sufficient to preclude any significant risk exposure. More detailed information, about each of the described entities is available at their respective websites.

NOTE B – Credit Concentrations

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. The District's cash deposits at June 30, 2016, were \$450,315, at financial institutions, and were completely insured or collateralized by federal depository insurance, direct obligations of the U.S. Government, or securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. Due to the required liquidity for those investments, these funds have no defined maturity dates. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates. District had no investments at year end.

Investment Credit risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a formal policy limiting its investment choices. District had no investments at year end.

Prior-period adjustment

The adoption of FASB 68 in Fiscal year ended June 30, 2015 resulted in a restatement of the prior-period Net Pension liability, retirement expenses, and Net Position in the prior year. The net result was an increase in non-current liabilities of \$103, 133 and a reduction of Net Position by the same amount.

Circuit Engineering District No. 4
Shawnee, Oklahoma
Notes to the Financial Statements
June 30, 2016

Evaluation of Subsequent Events

Circuit Engineering District No. 4 management has evaluated subsequent events through March 27, 2017, the date which the financial statements were available to be issued.

Circuit Engineering District No. 4
Shawnee, Oklahoma
Notes to the Financial Statements
June 30, 2016

Required Supplementary Information
Pension Schedules and Related Ratios

Schedule 1
Oklahoma Public Employees Retirement System
Schedule of Proportionate Shares

	2016	2015
CED4 proportion of the net pension liability	0.03223163%	0.02867319%
CED4 proprtional share of the net pension liability	\$ 319,812	\$ 103,133
CED4 covered employee payroll	\$ 579,049	\$ 506,873
CED4 proportionate share of net penion liability as a percentage of covered payroll	55.23%	20.35%
OPERS fiducary net porision as a percentage of the total pension liability	89.48%	96.00%

Schedule 2
Oklahoma Public Employees Retirement System
Schedule of Contributions

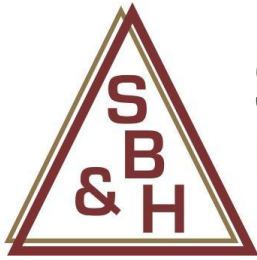
	2016	2015
Contractually required contribution	\$ 95,542	\$ 83,634
Contribution in relation to the contractually required contributions	\$ 95,542	\$ 83,634
Contributions deficiency (excess)	\$ -	\$ -
CED#4's covered employee payroll	\$ 579,049	\$ 506,873
Contributions as a percentage of covered employee payroll	16.50%	16.50%

Notes to Schedule:

GASB Statement 68 requires the information presented in the "Schedules of Required Supplementary Information" cover the 10 most recent fiscal years. The information above covers the period retroactive to the adoption of GASB statement 68 and is the latest information available.

Benefit Changes: Information to present a 10-year history is not readily available.

Changes in Actuarial Assumptions: Information to present a 10-year history is not readily available.



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLAINTS AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STANDARDS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors
Circuit Engineering District No. 4
Shawnee, Oklahoma

We have audited 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, the financial statements of the business-type activities, of the Circuit Engineering District #4, as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

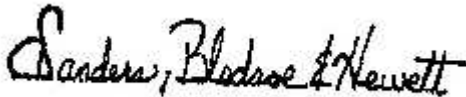
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The script is cursive and somewhat stylized, with the first letters of each name being capitalized and prominent.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

March 27, 2017

**Circuit Engineering District No. 4
Schedule of Audit Results
For the Year Ended June 30, 2016**

None

**Circuit Engineering District No. 4
Disposition of Prior Year's Audit Results
For the Year Ended June 30, 2016**

None



SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Stephen H. Sanders, CPA
Eric M. Bledsoe, CPA
Jeffrey D. Hewett, CPA

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March 27, 2017

Mr. Matt Goodson, Manager
Circuit Engineering District No. 4
40002 Benson Park Road
Shawnee, Oklahoma 74801

Dear Mr. Goodson:

The following section contains the observations relayed to management that are control deficiencies, which we feel need to be communicated to you so appropriate action may be taken to correct these deficiencies. These items are not included in your audit report, as they are not considered material or immaterial in nature. They are simply observations of some minor findings that could evolve into immaterial or material findings if not addressed or corrected.

Adjusting Entries

We observed during the audit that the proposed adjusting journal entries, for the year ended June 30, 2015, that were provided by the accounting firm that prepares the annual compilation had not been entered into the accounting system, nor had the proposed adjusting entries for the year ended June 30, 2016, been entered as of final audit work. We recommend that procedures be implemented to ensure that the year-end adjusting entries will be entered in a timely manner and that an individual who is independent of the bookkeeping process review the entries and confirm that they have been properly recorded, and entered, in a timely manner. Also, due to the complexities of implementation of *GASB Statement #68 Accounting and Financial Reporting for Pensions*, we recommend that the District consider presenting its financial statements on a modified cash basis of accounting.

We take this opportunity to thank you and your professional staff for the outstanding cooperation and invaluable assistance you gave us during our recent onsite audit work.

Sincerely,

Jeff Hewett

For

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP