

CIRCUIT ENGINEERING DISTRICT #5
OKLAHOMA CITY, OKLAHOMA
June 30, 2015

TABLE OF CONTENTS

	Page
Independent Auditor's Report	A – 1
Basic Financial Statements	
<i><u>Government-Wide Financial Statements</u></i>	
Statement of Net Position – Modified Cash Basis	B – 1
Statement of Activities – Modified Cash Basis	B – 2
<i><u>Fund Financial Statements</u></i>	
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 the Financial Statements	C – 1
Internal Control and Compliance Report	
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

INDEPENDENT AUDITOR'S REPORT

To the 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 each major fund of Circuit Engineering District #5, Oklahoma City, Oklahoma, as of and for the year ended June 30, 2015, 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 opinions 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

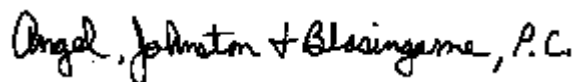
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities and each major fund of Circuit Engineering District #5 as of June 30, 2015, and the respective changes in financial position-modified cash basis, thereof for the year then ended in accordance with the 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, January 26, 2016, 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 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 & Blasingame, P.C.
Chickasha, Oklahoma
January 26, 2016

CIRCUIT ENGINEERING DISTRICT #5
Statement of Net Position - Modified Cash Basis
June 30, 2015

	Governmental Activities
<u>Assets</u>	
Cash and cash equivalents	\$ 511,382
Capital assets, net of accumulated depreciation	1,107
<i>Total Assets</i>	512,489
<u>Liabilities</u>	
Employee withholdings	-
<i>Total Liabilities</i>	-
<u>Net Position</u>	
Net investment in capital assets	1,107
Unrestricted	511,382
<i>Total Net Position</i>	\$ 512,489

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

CIRCUIT ENGINEERING DISTRICT #5
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:					
Governmental Activities:					
General government	\$ 456,934	\$ -	\$ 423,584	\$ -	\$ (33,350)
<i>Total Governmental Activities</i>	456,934	-	423,584	-	(33,350)
<i>Total Primary Government</i>	\$ 456,934	\$ -	\$ 423,584	\$ -	(33,350)
		General Revenues:			
					746
					746
					(32,604)
					545,093
					\$ 512,489

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, 2015

	General
Assets	
Cash and cash equivalents	\$ 511,382
<i>Total Assets</i>	511,382
 Liabilities	
Employee withholdings	-
<i>Total Liabilities</i>	-
 Fund Balance	
Unassigned	511,382
<i>Total Fund Balance</i>	511,382
<i>Total Liabilities and Fund Balance</i>	\$ 511,382
 Reconciliation to Statement of Net Position:	
Fund Balance of Governmental Fund	\$ 511,382
 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	1,107
Net Position of Governmental Activities	\$ 512,489

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 Ending June 30, 2015

	General
Revenues	
County auction revenues	\$ 11,756
OCCEDB revenues	411,828
Interest	746
<i>Total Revenues</i>	424,330
Expenditures	
Current operations:	
Auto expense	77
Conference fees	45
County distributions	356,857
Education, dues and subscriptions	770
Employee benefits	255
Insurance	6,410
Meetings and meals	230
Office supplies	659
Salaries and taxes	69,109
Retirement	6,300
Payroll services	1,855
Professional fees	3,200
Rent	7,150
Travel, meals and lodging	3,479
Capital outlay	920
<i>Total Expenditures</i>	457,316
Excess (Deficiency) of Revenues over Expenditures	(32,986)
Net Change in Fund Balance	(32,986)
Fund Balance - Beginning	544,368
Fund Balance - Ending	\$ 511,382
 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	\$ (32,986)
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	920
Depreciation expense	(538)
Change in Net Position of Governmental Activities	\$ (32,604)

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

CIRCUIT ENGINEERING DISTRICT #5
Notes to the Financial Statements
June 30, 2015

Note 1 – Summary of Significant Accounting Policies

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 7 voting members. Of the seven, 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, Murray, Oklahoma, and Payne County.

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.

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:

CIRCUIT ENGINEERING DISTRICT #5
Notes to the Financial Statements
June 30, 2015

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

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.

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 government-wide financial statements of the District are prepared on a modified cash basis of accounting. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis, cash receipts are recognized as revenue at the date of receipt and cash payments are recognized as expenses at the date of payment with the following modifications:

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

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. 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.

CIRCUIT ENGINEERING DISTRICT #5
Notes to the Financial Statements
June 30, 2015

D. Assets, Liabilities and Equity, (continued)

Capital Assets

Capital assets, which include vehicles and equipment, are stated at cost. Donated capital assets are recorded at estimated fair market value at the date of donation. 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.”

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.

CIRCUIT ENGINEERING DISTRICT #5
Notes to the Financial Statements
June 30, 2015

D. Assets, Liabilities and Equity, (continued)

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 the Financial Statements
June 30, 2015

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.

F. 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.

G. Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Note 2 - Investments, Deposits and Collateral

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, 2015, the District’s bank balances of \$533,007 were not exposed to custodial credit risk.

Note 3 – Retirement

The District does not have a retirement plan but is paying into the employee’s individual retirement account. The amount paid on behalf of the employee as of June 30, 2015 was included in taxable wages and totaled \$6,300.

CIRCUIT ENGINEERING DISTRICT #5
Notes to the Financial Statements
June 30, 2015

Note 4 - Capital Assets

Capital assets as of June 30, 2015, 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>5,180</u>	<u>920</u>	<u>(3,180)</u>	<u>2,920</u>
Total capital assets, being depreciated	25,180	920	(3,180)	22,920
Less: accumulated depreciation	<u>(24,455)</u>	<u>(538)</u>	<u>3,180</u>	<u>(21,813)</u>
Total capital assets, being depreciated, net	<u>\$ 725</u>	<u>\$ 382</u>	<u>\$ -</u>	<u>\$ 1,107</u>

Depreciation expense of \$538 was charged to the District's general government activity.

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.

**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***

To the 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 accompanying modified cash basis financial statements of the Circuit Engineering District #5, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated, January 26, 2016. 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 comprehensive 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'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. 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 deficiency described in the accompanying schedule of findings and responses to be a material weakness. 15-01.

Compliance and Other Matters

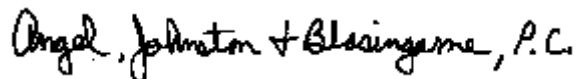
As part of obtaining reasonable assurance about whether Circuit Engineering District #5's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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*.

Circuit Engineering District #5's Response to Findings

Circuit Engineering District #5's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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.



Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
January 26, 2016

CIRCUIT ENGINEERING DISTRICT #5
Schedule of Findings and Responses
For the Year Ended June 30, 2015

15-01 Criteria – The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the District’s assets and ensure accurate financial reporting.

Condition – Presently the same individual performs all accounting functions; posts transactions to the general ledger, makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial summaries. In May 2015, the District began the transition of separating some of the manager’s duties, such as posting transactions and monthly bank reconciliations. These duties will be prepared by the secretary/treasurer of the board.

Cause – The District’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

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 – Management agrees.