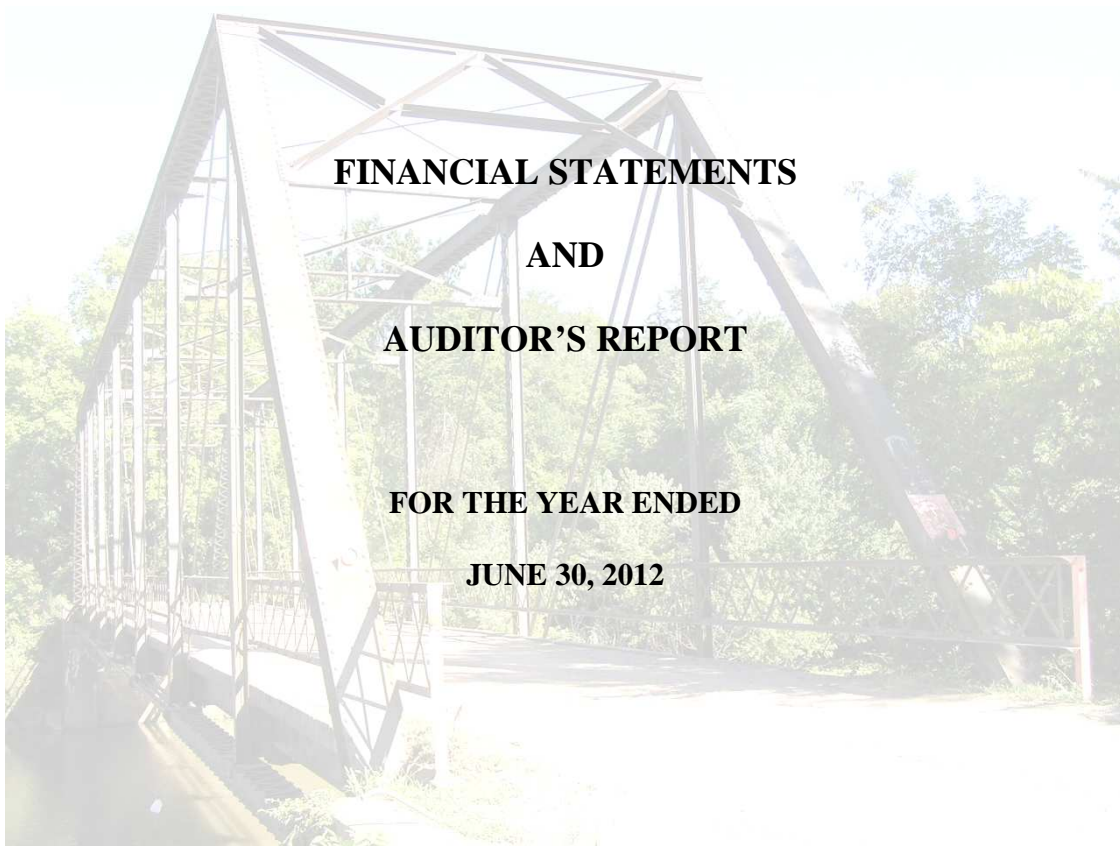


Eastern Oklahoma Circuit Engineering District #2



Clothier & Company CPA's P.C.

P.O. Box 1495 * Muskogee, Ok 74402
(918) 687-0189 FAX (918) 687-3594

cccpa@yahoo.com



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cccpa@yahoo.com

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Muskogee, Oklahoma 74402
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Eastern Oklahoma Circuit Engineering
District #2
Muskogee, Oklahoma

We have audited the accompanying statements on net assets, revenues, expenditures and change in net assets and cash flows of Eastern Oklahoma Circuit Engineering District #2, of Oklahoma, as of and for the year ended June 30, 2012 which comprise the District's basic financial statements. These financial statements are the responsibility of Eastern Oklahoma Circuit Engineering District #2's management. 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Eastern Oklahoma Circuit Engineering District #2 as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2012 on our consideration of the Eastern Oklahoma Circuit Engineering District #2'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.

Eastern Oklahoma Circuit Engineering District #2 has not presented the management's discussion and analysis information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements of Eastern Oklahoma Circuit Engineering District #2. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it or provide any assurance on it.

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

Clothier & Company, CPA's, P.C.
October 25, 2012

Eastern Oklahoma Circuit Engineering 2
Statement of Net Assets
As of June 30, 2012

ASSETS

CURRENT ASSETS

Cash and Cash Equivalants	\$ 550,628
Prepaid Expenses	3,507
Accounts Receivable	9,169
Sign Shop Inventory	<u>23,934</u>
Total Current Assets	<u>587,238</u>

PROPERTY AND EQUIPMENT

Property & Equipment	111,976
Furniture & Fixtures	7,217
Building	282,678
Vehicles	66,544
Land	100,988
Less: Accumulated Depreciation	<u>(87,783)</u>
Net Property and Equipment	<u>481,620</u>

OTHER ASSETS

Deposits	<u>350</u>
Total Other Assets	<u>350</u>
TOTAL ASSETS	<u><u>\$ 1,069,208</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 9,421
Payroll Liabilities	1,279
Retirement Payable	<u>5,253</u>
Total Current Liabilities	<u>15,953</u>
Total Liabilities	<u>15,953</u>

NET ASSETS

Invested in Fixed Assets	481,620
Unrestricted Net Assets	<u>571,635</u>
Total Net Assets	<u>1,053,255</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,069,208</u></u>

See accompanying footnotes and auditors' report.

Eastern Oklahoma Circuit Engineering 2
Statement of Revenues, Expenditures and Change in Net Assets
June 30, 2012

Revenues

State Equipment Auction	\$ 6,473
Oklahoma Coop CED	564,433
Bridge Inspection Income	106,403
Consulting Engineering Income	103,992
Sign Shop Income	55,337
Less Returns & Allowances	<u>0</u>

Total Revenues 836,638

Expenditures

Wages	297,490
Retirement Expense	48,743
Accounting/Auditing Fees	8,500
Auto/Truck Expenses	21,662
Conference/Seminar	2,326
Depreciation Expense	36,460
Insurance	3,471
Employee Medical Insurance	31,698
Meals/Entertainment	2,014
Bridge Inspection Expense	3,925
Payroll Taxes	23,884
Engineering Services Expense	18,180
Office Supplies	9,501
Travel/Meals/Training Expense	1,385
Miscellaneous Expenses	2,461
Sign Shop Materials	45,375
Security Expense	180
Advertising	1,434
Supplies Expense	384
Maintenance & Repairs	762
Telephone/Internet Expense	7,007
Utilities	<u>5,413</u>

Total Expenditures 572,255

Change in Net Assets 264,383

Beginning Net Assets 788,872

Ending Net Assets \$ 1,053,255

See accompanying footnotes and auditors' report.

Eastern Oklahoma Circuit Engineering 2
STATEMENT OF CASH FLOWS
As of June 30, 2012

Cash Flows From Operating Activities:	
Cash received from funding sources	\$ 587,387
Cash received from other sources	394,490
Cash paid to employees	(297,490)
Cash paid to suppliers	(394,469)
Net Cash Flows from Operating Activities	<u>289,918</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of capital assets	<u>(108,694)</u>
Net cash Used for Capital and Related Financing Activities	(108,694)
Cash Flows from Investing Activities:	
Net Cash Provided by Investing Activities	<u>0</u>
Net increase in cash and cash equivalents	181,224
Cash and cash equivalents at beginning of year	<u>369,404</u>
Cash and cash equivalents at end of year	<u>\$ 550,628</u>
Interest expense	<u>\$ 0</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Net income (loss)	\$ 264,383
Add Depreciation expense	36,460
(Increases)/Decreases in Current Assets:	
Accounts receivable	16,481
Inventory	(5,340)
Other assets	(647)
Increases/(Decreases) in Current Liabilities:	
Accounts payable	(15,667)
Accrued expenses	<u>(5,752)</u>
Net Cash Flows from Operating Activities	<u>\$ 289,918</u>

See accompanying footnotes and auditors' report.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

1- NATURE OF THE ORGANIZATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Eastern Oklahoma Circuit Engineering District #2 is a voluntary association of county governments of Oklahoma. The objective of this Circuit Engineering District is to allow county governments to make the most efficient use of their powers by enabling them to cooperate with each other and other units of governments on a basis of mutual advantage and thereby to provide services and facilities in a manner and pursuant to forms of governmental organizations that will accord best with geographic, economic, population and other factors influencing the needs of development of county government.

Basis of Accounting

The accompanying financial statements of Eastern Oklahoma Circuit Engineering District #2 have been prepared on an accrual basis of accounting.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Deposits not covered by FDIC insured are to be collateralized.

Restricted and Unrestricted Revenue and Support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost when purchased or constructed. Donated property or equipment is recorded at fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially

Eastern Oklahoma Circuit Engineering District #2

extend assets lives are not capitalized. Major outlays for capital assets are capitalized when construction is completed.

Depreciation is recorded on a straight-line basis over the useful lives of the assets. Equipment is depreciated over 5 to 7 years and buildings are depreciated for 40 years. Assets having a value of \$250 or greater are capitalized.

Inventory

The sign shop inventory is recorded at cost when purchased. The inventory was counted June 30, 2012.

2 – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial Credit Risk is the risk that in the event of a bank failure, the Districts deposits may not be returned. Deposits are exposed to custodial credit risk if they are not covered by depository insurance. The District maintains deposits in Armstrong Bank in Muskogee, Oklahoma.

A public unit is insured through its official custodian. If the same individual or individuals are official custodian for more than one public unit, they are treated as one official custodian if action or consent by all of these individuals is required for the exercise of control over the funds of a single public unit. Deposits insured by the Federal Deposit Insurance Corporation up to \$250,000 for each public unit or \$250,000 total as of June 30, 2012. The FDIC's Transaction Account Guarantee Program that Armstrong Bank participates in covers the remaining \$300,627. There were no uninsured or unsecured receipts as of June 30, 2012.

3 – PROPERTY, PLANT & EQUIPMENT

	Beginning Balance	Additions/ Deletions	Accumulated Depreciation	Book Balance
Vehicles	66,543	0	(36,151)	30,392
Furniture/Fixtures	4,243	2,974	(2,007)	5,210
Equipment	88,654	23,322	(33,792)	78,184
Building	200,281	82,398	(15,833)	266,846
Land	100,988	0	0	100,988
	<u>460,709</u>	<u>108,694</u>	<u>(87,783)</u>	<u>481,620</u>

Depreciation expense for the year ending June 30, 2012 was \$36,460.

4 – SOURCE OF INCOME

The District receives revenue from the Statewide Circuit Engineering District Revolving Fund created by the state treasury of the State of Oklahoma from gasoline excise taxes. The fund receives one-third of one percent of the total tax. The state treasurer allocates the fund to the districts to use for county bridge and road improvements. The districts do not have to file any forms to receive the funds.

The District also started a sign shop that makes street and highway type signs in 2010 and has consulting, bridge inspection, and surveying income. The surveying income is through the Oklahoma Department of Transportation (ODOT). The District contracts out the surveying to Harden & Associates for the same amount as the income from ODOT.

5 – ACCOUNTS RECEIVABLE

At June 30, 2012 the District's receivables were all current. Since the majority of the receivable is with Oklahoma Department of Transportation and the balance is more than likely to be received, there is no allowance for doubtful accounts on the financial statements.

6 – EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 25, 2012, the date which the financial statements were available to be issued with none found.



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cccpa@yahoo.com

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

To the Board of Directors
Eastern Oklahoma Circuit Engineering
District #2
Muskogee, Oklahoma

We have audited the financial statements of Eastern Oklahoma Circuit Engineering District #2 as of and for the year ended June 30, 2012, and have issued our report thereon dated October 25, 2012. 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

Management of Eastern Oklahoma Circuit engineering District #2 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Eastern Oklahoma Circuit Engineering District #2'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 Eastern Oklahoma Circuit Engineering District #2 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Eastern Oklahoma Circuit Engineering District #2's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant

deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eastern Oklahoma Circuit Engineering District #2'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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, other within the entity, and the Office of the State Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

Clothier & Company, CPA's, P.C.
October 25, 2012

Eastern Oklahoma Circuit Engineering 2
Budgetary Comparison
June 30, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Revenue:				
CED Allowance	\$0	\$0	\$564,433	(\$564,433)
State Equipment Sale	0	0	6,473	(6,473)
Sign Shop Income	0	0	55,337	(55,337)
Consulting Engineering Inc.	0	0	103,992	(103,992)
Bridge Inspection Income	0	0	106,403	(106,403)
Total Revenue	0	0	836,638	(836,638)
Personnel:				
Employee Cost/Benefits	\$479,904	\$479,904	\$401,815	\$78,089
Total Personnel	479,904	479,904	401,815	78,089
Operating:				
Insurance	0	5,000	3,471	1,529
Vehicle expense	36,000	36,000	21,662	14,338
Telephone/Internet	5,340	5,588	7,007	(1,419)
Utilities	4,222	4,668	5,593	(925)
Office Exp/Postage/Dues	5,760	5,760	9,501	(3,741)
Travel/Meals/Training	6,850	6,850	5,725	1,125
Bridge/Engineering Exp	0	0	22,105	(22,105)
Sign Shop Materials	0	0	45,375	(45,375)
Other Expenses	0	3,000	5,041	(2,041)
Accountant/Audit	7,600	7,600	8,500	(900)
Total Operating	65,772	74,466	133,980	(59,514)
Total Expenses	545,676	554,370	535,795	18,575
Revenue Over Expenses	<u>(\$545,676)</u>	<u>(\$554,370)</u>	\$300,843	<u>(\$855,213)</u>

Reconciliation to the Statement of Revenues,
Expenses, and Changes in Net Assets:

Less: Depreciation Expense	<u>(36,460)</u>
	<u>\$264,383</u>

See accompanying footnotes and auditors' report.