



Eastern Oklahoma Circuit Engineering District #2

FINANCIAL STATEMENTS

AND

AUDITOR'S REPORT

FOR THE YEAR ENDED

JUNE 30, 2016



Clothier & Company CPA's P.C.

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Eastern Oklahoma Circuit Engineering District #2
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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 financial statements of the business-type activities of Eastern Oklahoma Circuit Engineering District #2, of Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which comprise the District's basic financial statements.

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.

Auditors' 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. 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 auditors' judgment, including the assessment of the risk 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 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 of the business-type activities of Eastern Oklahoma Circuit Engineering District #2 as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Eastern Oklahoma Circuit Engineering District #2's basic financial statements. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Clothier & Company, CPA's, P.C.

August 29, 2016

Eastern Oklahoma Circuit Engineering 2
Statement of Net Assets
June 30, 2016

ASSETS

Current Assets

Cash and cash equivalents	\$ 720,939
Prepaid expenses	246
Accounts receivable	243,622
Sign shop inventory	28,904
	993,711

Total Current Assets 993,711

Fixed Assets

Property and equipment	717,394
Accumulated depreciation	(319,821)
	397,573

Total Fixed Assets 397,573

Other Assets

Deposits	350
	350

Total Other Assets 350

Total Assets \$ 1,391,634

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 6,247
Payroll liabilities	476
Accrued vacation payable	14,614
	21,337

Total Current Liabilities 21,337

Net Assets

Invested in net assets	397,573
Restricted	0
Unrestricted	972,724
	1,370,297

Total Net Assets 1,370,297

Total Liabilities and Net Assets \$ 1,391,634

See accompanying notes and independent auditors' report.

Eastern Oklahoma Circuit Engineering 2
Statement of Activities
June 30, 2016

Revenue	
State equipment auction	\$ 2,138
Oklahoma coop CED	202,758
Bridge inspection	556,612
Consulting engineering	601,788
Sign shop income	33,626
Other income	2,926
Total Revenue	1,399,848
 Cost of Sales	
Cost of sales/job costs	283,569
Gross Profit	1,116,279
 Operating Expenses	
Wage Expenses	521,591
Employee benefits	143,614
Professional fees	5,212
Auto/truck expense	18,297
Engineering service expense	209
Depreciation expense	50,361
Inurance	13,384
Travel/meals	6,068
Office expenses	10,480
License Expense	1,691
Sign shop expense	36,081
Utilities/telephone	15,215
Repairs/maintenance/supplies	12,859
Miscellaneous Expense	2,323
Postage/freight	1,267
Safety/medical expense	645
Total Operating Expense	839,297
 Increase (Decrease) in Net Assets	
Temporarily Restricted	0
Permanently Restricted	0
Unrestricted	276,982
	1,093,315
Beginning Net Assets	
	\$ 1,370,297

See accompanying notes and independent auditors' report.

Eastern Oklahoma Circuit Engineering 2
Statement of Cash Flows
June 30, 2016

Cash Flows From Operating Activities:	
Cash received from funding sources	\$ 574,816
Cash received from other sources	73,294
Cash paid to employees	(521,591)
Cash paid to suppliers	(3,310)
Net Cash Flows from Operating Activities	<u>123,209</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of capital assets	(8,920)
Net cash Used for Capital and Related Financing Activities	<u>(8,920)</u>
Cash Flows from Investing Activities:	
Net Cash Provided by Investing Activities	<u>0</u>
Net increase in cash and cash equivalents	114,289
Cash and cash equivalents at beginning of year	<u>606,650</u>
Cash and cash equivalents at end of year	<u><u>\$ 720,939</u></u>
Interest expense	<u><u>\$ 0</u></u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Net income (loss)	\$ 276,982
Add Depreciation expense	50,361
(Increases)/Decreases in Current Assets:	
Accounts receivable	(186,692)
Inventory	(6,236)
Prepays	0
Increases/(Decreases) in Current Liabilities:	
Accounts payable	4,154
Accrued expenses	(15,360)
Net Cash Flows from Operating Activities	<u><u>\$ 123,209</u></u>

See accompanying notes and independent auditors' report.

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

Eastern Oklahoma Circuit Engineering District #2

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, 2016.

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, 2016. The District has pledged securities that cover \$533,189. There were no uninsured or unsecured receipts as of June 30, 2016.

1. 3 – PROPERTY, PLANT & EQUIPMENT

	Beginning Balance	Additions/ Deletions	Accumulated Depreciation	Book Balance
Vehicles	162,902	0	(127,922)	34,980
Furniture/Fixtures	10,284	2,913	(9,718)	3,479
Equipment	149,831	6,008	(128,359)	27,480
Building	284,469	0	(53,822)	230,647
Land	100,988	0	0	100,988
	<u>708,474</u>	<u>8,921</u>	<u>(319,821)</u>	<u>397,574</u>

Depreciation expense for the year ending June 30, 2016 was \$50,361.

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.

Eastern Oklahoma Circuit Engineering District #2

In 2010 the District started a sign shop that makes street and highway type signs. The District also has contract engineering, bridge inspection, and construction inspection income. The construction inspection and engineering income is through the Oklahoma Department of Transportation (ODOT). The District has a three year, \$3.6 million professional services agreement with ODOT to provide professional services necessary to facilitate the implementation of transportation improvements as directed by the member counties. Because of this agreement CED is required to have an overhead rate audit every two years. The District had this audit prepared for the 2015 fiscal year.

5 – ACCOUNTS RECEIVABLE

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 July 31, 2016, the date which the financial statements were available to be issued with none found.



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INDEPENDENT AUDITORS' 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, 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 financial statements of the business-type activities of Eastern Oklahoma Circuit Engineering District #2 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Eastern Oklahoma Circuit Engineering District #2's basic financial statements, and have issued our report thereon dated August 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Eastern Oklahoma Circuit Engineering District #2'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 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 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 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*.

Purpose of this Report

This 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Clothier & Company, CPA's, P.C.
August 29, 2016

SUPPLEMENTAL INFORMATION

Eastern Oklahoma Circuit Engineering #2
Budgetary Comparison
June 30, 2016

	Original	Final	Actual	Variance
Revenue:				
CED Allowance	\$202,800	\$202,800	\$202,758	\$42
State Equipment Sale	430,000	430,000	2,138	427,862
Sign Shop Income	33,800	33,800	33,626	174
Consulting Engineering Inc.	2,300	2,300	601,788	(599,488)
Bridge Inspection Income	563,000	563,000	556,612	6,388
Other	900	900	2,926	(2,026)
	<u>1,232,800</u>	<u>1,232,800</u>	<u>1,399,848</u>	<u>(167,048)</u>
Operating:				
Salaries/Wages	430,000	430,000	521,591	(91,591)
Benefits	110,500	110,500	143,614	(33,114)
Professional fees	5,900	5,900	5,212	688
Auto/truck expense	46,000	46,000	18,297	27,703
Conference/seminar	1,700	1,700	209	1,491
Depreciation Expense	25,000	25,000	50,361	(25,361)
Insurance Expense	6,800	6,800	13,384	(6,584)
Meales/travel	7,300	7,300	6,068	1,232
Office Supplies	16,000	16,000	10,480	5,520
Licenses	1,800	1,800	1,691	109
Utilities/telephone	16,700	16,700	15,215	1,485
Misc/other expenses	100	100	1,922	(1,822)
Repairs/mainten/supplies	36,400	36,400	12,859	23,541
Advertising	800	800	401	399
Postage/Freight	1,100	1,100	1,267	(167)
Safety/medical	0	0	645	(645)
Cost of Sales	526,700	526,700	319,650	207,050
Total Operating	<u>1,232,800</u>	<u>1,232,800</u>	<u>1,122,866</u>	<u>109,934</u>
Capital Outlay	0	0	0	0
Equipment	0	0	2,913	(2,913)
Trucks	0	0	6,008	(6,008)
Total Capital Outlay	<u>0</u>	<u>0</u>	<u>8,921</u>	<u>(8,921)</u>
Change in Net Assets	<u>\$0</u>	<u>\$0</u>	<u>\$276,982</u>	<u>(\$167,048)</u>
Add: Capital Outlay			<u>8,921</u>	
			<u>\$285,903</u>	

See accompanying footnotes and auditors' report.