



Eastern Oklahoma Circuit Engineering District No. 2

FINANCIAL STATEMENTS

AND

AUDITOR'S REPORT

FOR THE YEARS ENDED

JUNE 30, 2018 AND 2017



Clothier & Company CPA's P.C.

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

cccpa@yahoo.com

Eastern Oklahoma Circuit Engineering District No. 2
Table of Contents
June 30, 2018

<u>Description</u>	<u>Pg. No.</u>
Independent Auditors' Report	2-3
Statement of Net Assets	4
Statement of Activities	5
Statement of Cash Flows	6
Notes to the Financial Statements	7-17
<i>Required Supplementary Information</i>	
Budgetary Comparison	19
Schedule of Changes in Net Pension Liability	20
Schedule of Proportionate Share of the Net Pension Liability & Contributions	21
Schedule of Changes in Net OPEB Liability	22
Schedule of Proportionate Share of Net OPEB Liability & Contributions	23
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 <i>Government Auditing Standards</i>	24-25



Clothier & Company CPA's P.C.
cccpa@yahoo.com

P.O. Box 1495
Muskogee, Oklahoma 74402
918-687-0189 FAX 918-687-3594

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Eastern Oklahoma Circuit Engineering District No. 2
Muskogee, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities of Eastern Oklahoma Circuit Engineering District No. 2 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Eastern Oklahoma Circuit Engineering District No. 2'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 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 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 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 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 No. 2 as of June 30, 2018, 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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, the schedule of changes in net pension liability, the schedule of proportionate share of net pension liability and contributions, the schedule of net other postemployment benefits (OPEB) and the schedule of proportionate share of net OPEB liability and contributions on pages 20 through 24 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.

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 Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, on our consideration of Eastern Oklahoma Circuit Engineering District No. 2'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 solely 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 effectiveness of the Eastern Oklahoma Circuit Engineering District No. 2's 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 Eastern Oklahoma Circuit Engineering District No. 2's internal control over financial reporting and compliance.



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

December 19, 2018

Eastern Oklahoma Circuit Engineering District No. 2
Statement of Net Assets
June 30, 2018 and 2017

ASSETS		
	2018	2017 (restated)
Current Assets		
Cash and cash equivalents	\$ 711,499	\$ 659,995
Prepaid expenses	9,927	247
Accounts receivable	111,408	81,291
Sign shop inventory	28,553	30,741
Total Current Assets	861,387	772,274
Fixed Assets		
Property and equipment	844,817	771,626
Accumulated depreciation	(409,527)	(370,312)
Total Fixed Assets	435,290	401,314
Other Assets		
Deposits	350	350
Total Other Assets	350	350
Noncurrent Assets		
Deferred Outflows - Pension	93,595	93,595
Deferred Outflows - OPEB	3,305	3,305
Net OPEB Asset	4,585	0
Total Noncurrent Assets	101,485	96,900
Total Assets	\$ 1,398,512	\$ 1,270,838
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 12,156	\$ 370
Payroll liabilities	715	632
Accrued vacation payable	24,180	16,202
Total Current Liabilities	37,051	17,204
Noncurrent Liabilities		
Deferred Inflows - Pension	\$ 34,255	\$ 34,255
Deferred Inflows - OPEB	9,381	9,381
Net Pension Liability	69,102	191,552
Net OPEB Liability	0	4,058
Total Noncurrent Liabilities	112,738	239,246
Net Assets		
Invested in net assets	435,290	401,314
Restricted	0	0
Unrestricted	813,433	613,074
Total Net Assets	1,248,723	1,014,388
Total Liabilities and Net Assets	\$ 1,398,512	\$ 1,270,838

See accompanying notes and independent auditors' report.

Eastern Oklahoma Circuit Engineering District No. 2
Statement of Activities
June 30, 2018 and 2017

	2018	2017 (restated)
Revenue		
State equipment auction	\$ 3,327	\$ 9,203
Oklahoma coop CED	289,335	242,381
Bridge inspection	580,168	437,661
Consulting engineering	420,850	253,684
Sign shop income	36,677	32,934
Other income	5,444	1,884
Total Revenue	1,335,801	977,747
Cost of Sales		
Cost of sales/job costs	224,569	200,924
Gross Profit	1,111,232	776,823
Operating Expenses		
Wage Expenses	660,326	668,539
Employee benefits	59,206	204,628
Professional fees	17,378	7,263
Auto/truck expense	30,319	23,910
Insurance expense	6,378	0
Depreciation expense	39,214	50,491
Interest expense	0	112
Travel/meals	8,720	6,274
Office expenses	5,667	11,608
License Expense	1,661	1,790
Utilities/telephone	29,804	13,799
Repairs/maintenance/supplies	9,708	13,875
Miscellaneous Expense	4,153	4,590
Postage/freight	1,432	802
Rent/lease	2,931	2,672
Total Operating Expense	876,897	1,010,353
Increase (Decrease) in Net Assets		
Temporarily Restricted	0	0
Permanently Restricted	0	0
Unrestricted	234,335	(233,530)
Beginning Net Assets	1,014,388	1,247,918
Ending Net Assets	\$ 1,248,723	\$ 1,014,388

See accompanying notes and independent auditors' report.

Eastern Oklahoma Circuit Engineering District No. 2
Statement of Cash Flows
June 30, 2018 and 2017

	2018	2017 (restated)
Cash Flows From Operating Activities:		
Cash received from funding sources	\$ 1,007,578	\$ 886,610
Cash received from other sources	298,106	253,468
Cash paid to employees	(660,326)	(668,539)
Cash paid to suppliers	(520,539)	(478,250)
Net Cash Flows from Operating Activities	124,819	(6,711)
Cash Flows from Capital and Related Financing Activities:		
Purchase of capital assets	(73,190)	(54,233)
Net cash Used for Capital and Related Financing Activities	(73,190)	(54,233)
Cash Flows from Investing Activities:	0	0
Net Cash Provided by Investing Activities	0	0
Net increase in cash and cash equivalents	51,629	(60,944)
Cash and cash equivalents at beginning of year	659,995	720,939
Cash and cash equivalents at end of year	\$ 711,624	\$ 659,995
Interest expense	\$ 0	\$ 112
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:		
Net income (loss)	\$ 234,335	\$ (233,530)
Add Depreciation expense	39,214	50,491
(Increases)/Decreases in Current Assets:		
Accounts receivable	(30,117)	162,331
Inventory	2,188	(1,837)
Prepays	(9,681)	0
Other assets	0	58,389
Increases/(Decreases) in Current Liabilities:		
Accounts payable	11,786	(5,877)
Accrued expenses	(122,906)	(36,678)
Net Cash Flows from Operating Activities	\$ 124,819	\$ (6,711)

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 District 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.

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, 2018.

2. 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. 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 are insured by the Federal Deposit Insurance Corporation up to \$250,000 as of June 30, 2018. The District has pledged securities that cover \$890,000. There were no uninsured or unsecured receipts as of June 30, 2018.

3. PROPERTY, PLANT, & EQUIPMENT

	Beginning Balance	Additions/ Deletions	Accumulated Depreciation	Book Balance
Vehicles	200,055	63,232	(174,600)	88,687
Furniture/Fixtures	14,547	850	(12,303)	3,094
Equipment	171,567	8,495	(150,620)	29,442
Building	284,469	614	(72,004)	213,079
Land	100,988	0	0	100,988
	771,626	73,191	(409,527)	435,290

Depreciation expense for the year ending June 30, 2018 was \$39,214.

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.

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 2017 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. PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The District participates in the following plans:

Name of Plan/System	Type of Plan
Oklahoma Public Employees Retirement System	Cost Sharing Multiple Employers' Public Employee Retirement System – Defined Benefit Plan
Oklahoma Public Employees Retirement System	Cost Sharing Multiple Employers Health Insurance Subsidy Plan – Defined Benefit OPEB Plan

Reporting Entity

The Oklahoma Public Employees Retirement System (OPERS)(the System) is a defined benefit cost-sharing multiple employer plan consisting of a retirement plan and a cost-sharing multiple employer health insurance subsidy plan (HISP) both held in irrevocable trusts. The System, together with other similar fiduciary pension trust funds of the state of Oklahoma (the State), is a component unit of the State. The System is administered by the Oklahoma Public Employees Retirement System (OPERS). As set forth in Title 74, of the Oklahoma Statutes, at Section 921, administrative expenses are paid with funds provided by operations of the System.

Summary of Significant Accounting Policies

Basis of Accounting

The fiduciary net position, as well as additions to and deductions from the fiduciary net position, of the Plan have been determined on the same basis as they are reported by the System.

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade dates. Member and employer contributions are established by statute as a percentage of salaries and are recognized when due, pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Investments

The System is authorized to invest in eligible investments as approved by the Board of Trustees (the Board) as set forth in its investment policy.

System investments are reported at fair value, which is the price that would be received if the investments were sold in an orderly transaction between a willing buyer and a willing seller. Short-term investments include bills and notes, commercial paper, and international foreign currency contracts. Short-term investments, debt securities, and equity securities are reported at fair value, as determined by the System's custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices at current exchange rates for securities traded on national or international exchanges. The fair value of the pro rata share of units owned by the System in equity index and commingled trust funds is determined by the respective fund trustee based on quoted sales prices of the underlying securities. The investment in real estate is valued using an annual third party appraisal.

Cash equivalents include investments in money market funds and investment pools and are reported at amortized cost.

Net investment income (loss) includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, securities lending income and expenses, and investment expenses, which include investment management and custodial fees and all other significant investment related costs. Foreign currency translation gains and losses are reflected in the net appreciation (depreciation) in the fair value of investments.

The System's international investment managers may enter into forward foreign exchange contracts to protect against fluctuation in exchange rates between the trade date and the settlement date of foreign investment transactions. Any gains and losses on these contracts are included in income in the period in which the exchange rates change.

The System's investment policy provides for investments in combinations of stocks, bonds, fixed income securities, and other investment securities along with investments in commingled, mutual, and index funds. Investment securities and investment securities underlying commingled or mutual fund investments are exposed to various risks, such as interest rate and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term, and those changes could materially affect the amounts reported in the statement of fiduciary net position.

Risk and Uncertainties

Contributions to the System and the actuarial information included in Net Pension Liability, Net HISP Liability and Actuarial Information and the RSI are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

Plan Description

The System is a multiple-employer, cost-sharing public employee retirement plan, which is a defined benefit pension plan covering substantially all state employees except employees covered by seven other plans sponsored by the State. It also covers employees of participating county and local agencies. Nearly all new state employees first employed by a System participating employer on or after November 1, 2015, will participate in the State’s new defined contribution plan. Therefore, the System is closed to nearly all new State employees, but remains open to new employees of participating counties and local agencies. Agencies and/or participants not included in the System are as follows: teachers, municipal police, municipal firefighters, judicial, wildlife, state law enforcement and nearly all State employees first employed on or after November 1, 2015.

The System also administers the Health Insurance Subsidy Plan, a cost-sharing multiple-employer defined benefit OPEB plan that provides OPEB covering the same categories of employees covered by the pension plan.

The supervisory authority for the management and operation of the System and HISP is the Board, which acts as a fiduciary for investment of the funds and the application of System interpretations.

At June 30, the System’s membership consisted of:

MEMBERSHIP AS OF JUNE 30	2018	2017	2016
Inactive members or their beneficiaries currently receiving benefits	35,260	34,579	33,749
Inactive members entitled to but not yet receiving benefits	6,024	5,951	5,946
Active members	36,329	38,873	41,806
Total	77,613	79,403	81,501
Inactive members and beneficiaries currently receiving benefits that are retirees and beneficiaries in the HISP	13,998	14,262	-
Non-vested terminated members entitled to a refund of their contributions	53,406	52,126	50,922

State law requires that, after July 1 and before December 1 of each year, the Oklahoma Public Employees Retirement System (the System) publish an annual report that covers the operation of the System during the past fiscal year, including income, disbursements and the financial condition at the end of the fiscal year. Copies of reports may be obtained from Oklahoma Public Employees Retirement System at Post Office Box 53007, Oklahoma City, Oklahoma 73152-3007 or <http://www.opers.ok.gov/publications>.

Benefits Provided

Pensions

Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member’s age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member’s age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983 must have six or more years of full-time equivalent employment with a participating employer before being

eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

Health Insurance Subsidy Plan

HISP provides a health insurance premium subsidy for retirees of the System who elect to maintain health insurance with the Oklahoma Employees Group Insurance Division (EGID) or other qualified insurance plan provided by the employer. This subsidy continues until the retiree terminates health insurance coverage with EGID or other qualified plan, or until death. The subsidy is only for the retiree, not joint annuitants or beneficiaries.

Various benefit attributes for State, County, and Local Agency Employees

Benefits are determined at 2% of the average annual salary received during the highest thirty-six months of the last ten years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last ten years. Normal retirement age under the System is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the System.

Upon the death of an active member, the accumulated contributions of the member are paid to the member's named beneficiary(ies) in a single lump sum payment. If a retired member elected a joint annuitant survivor option or an active member was eligible to retire with either reduced or unreduced benefits or eligible to vest the retirement benefit at the time of death, benefits can be paid in monthly payments over the life of the spouse if the spouse so elects.

Benefits are payable to the surviving spouse of an elected official only if the elected official had at least six years of participating elected service and was married at least three years immediately preceding death. Survivor benefits are terminated upon death of the named survivor and, for elected officials, remarriage of the surviving spouse. Upon the death of a retired member, with no survivor benefits payable, the member's beneficiary(ies) are paid the excess, if any, of the member's accumulated contributions over the sum of all retirement benefit payments made.

Upon the death of a retired member, the System will pay a \$5,000 death benefit to the member's beneficiary or estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the beneficiary. Death benefits paid for the years ended June 30, 2018 and 2017 totaled approximately \$5,576,000 and \$5,493,000, respectively.

Legislation was enacted in 1999 which provided a limited additional benefit for certain terminated members eligible to vest as of July 1, 1998. This limited benefit is payable as an additional \$200 monthly benefit upon the member's retirement up to the total amount of certain excess contributions paid by the participant to the System. In April 2001, limited benefit payments began for qualified retired members. The estimated liability for future payments of the limited benefit of approximately \$0.4 million has been included in the calculation of the total pension liability of the System at June 30, 2018 and 2017.

Benefits are established and may be amended by the State Legislature from time to time.

Contributions

The contribution rates for each member category of the System are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates. An actuarially determined portion of the total contributions to the System are set aside to finance the cost of the benefits of the HISP in accordance with provisions of the Internal Revenue Code.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation. Only employers contribute to the HISP.

For 2018 and 2017, state agency employers contributed 16.5% on all salary, and state employees contributed 3.5% on all salary.

For 2018 and 2017, contributions of participating county and local agencies totaled 20.0% of salary composed of a minimum employee contribution rate of 3.5% up to a maximum of 8.5% and a minimum employer contribution rate of 11.5% up to a maximum of 16.5%.

Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91% which is actuarially determined. The election is available for all state, county, and local government employees, except for elected officials and hazardous duty members.

Termination

Members become eligible to vest fully upon termination of employment after attaining eight years of credited service, or the members’ contributions may be withdrawn upon termination of employment.

Pension Liabilities and Expense

At June 30, 2018, the proportionate share of net pension liability was \$69,102. The District’s proportionate share of 0.035429% was based on the ratio of actual contributions of \$95,303 paid by the District relative to the actual contributions of \$268,996,927 from all participating employers as of June 30, 2017. The District’s proportionate share of pension expense was \$78,142.

OPEB Liabilities and Expense

At June 30, 2018, the proportionate share of net OPEB liability was (\$4,585). The District’s proportionate share of 0.035429% was based on the ratio of actual contributions of \$6,671 paid by the District relative to the actual contributions of \$18,828,000 from all participating employers as of June 30, 2017. The District’s proportionate share of OPEB expense was \$2,486.

Pension and OPEB Deferred Outflows and Deferred Inflows of Resources

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources from the following sources related to OPERS benefits:

	PENSION		OPEB	
	Outflows	Inflows	Outflows	Inflows
Balance of Deferred Outflows and Inflows due to:				
Differences between expected and actual experience	0	(34,255)	0	(5,002)
Changes of assumptions	85,038	0	3,305	0
Net difference between projected and actual earnings on pension plan investments	8,557	0	0	(4,379)
Changes in proportion and differences between employer contributions and proportionate share of contributions	0	0	0	0
Total	93,595	(34,255)	3,305	(9,381)

Other amounts reported as collective deferred (inflows)/outflows of resources to be recognized in expense:

Year Ending June 30:	PENSION	OPEB
2018	20,713	(1,412)
2019	55,589	(1,412)
2020	13,627	(1,412)
2021	(30,589)	(1,412)
2022	0	(317)
Thereafter	0	(111)
	59,340	(6,076)

Actuarial Assumptions

The total pension liability and total HISP liability, both as of June 30, 2018 and 2017, were determined based on actuarial valuations prepared as of July 1, 2018, using the following actuarial assumptions:

- Investment return – 7.00% compounded annually net of investment expense and including inflation
- Salary increases – 3.5% to 9.5% per year including inflation
- Mortality rates – active participants and nondisabled pensioners – RP-2014 Mortality Table projected to 2025 by Scale MP-2016 (disabled pensioners set forward 12 years)
- No annual post-retirement benefit increases
- Assumed inflation rate – 2.75%
- Payroll growth – 3.5%
- Actuarial cost method – Entry age
- Select period for the termination of employment assumptions – 10 years

The actuarial assumptions used in the July 1, 2018, valuation are based on the results of the most recent actuarial experience study, which covered the three-year period ending June 30, 2016. The experience study report is dated April 13, 2017.

Expected Rate of Return

The long-term expected rate of return on pension plan investments and HISP 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 HISP represents a subsidy that is capped at \$105 per month per retiree.

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2018 and 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Large Cap Equity	38.00%	5.30%
U.S. Small Cap Equity	6.00%	5.60%
U.S. Fixed Income	25.00%	0.70%
International Stock	18.00%	5.60%
Emerging Market Stock	6.00%	6.40%
TIPS	3.50%	0.70%
Rate Anticipation	3.50%	1.50%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability and the total HISP liability was 7.00%, net of investment expenses, for 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that contributions from System 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 and the HISP’s fiduciary net position were projected through 2114 to be available to make all projected future benefit payments of current System members. Therefore, the long-term expected rate of return on pension plan and HISP plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total HISP liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of the Net Pension Liability and net HISP Liability to Changes in the Discount Rate:

The following presents the net pension liability of the employer calculated using the discount rate of 7.00% for 2018, as well as what the System’s net pension liability (asset) 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:

<u>At June 30, 2018</u>	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Employers' net pension liability (asset)	1,251,438,814	195,043,008	(700,194,263)
District's proportionate liability (asset)	443,373	69,102	(248,072)

The following presents the net HISP liability of the employer calculated using the discount rate of 7.00% for 2018, as well as what the System’s net HISP liability (asset) 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:

<u>At June 30, 2018</u>	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Employers' net HISP liability (asset)	20,603,534	(12,940,960)	(41,793,057)
District's proportionate liability (asset)	7,300	(4,585)	(14,808)

Due to the structure of the HISP, healthcare cost trend rate sensitivity analysis is not meaningful.

Plan Amendments

The State Legislature enacted the following System provisions during the session ended in May 2018:

One-time Stipend Payment

HB 1340 provides a one-time stipend for members of OPERS who have been retired for five years as of October 1, 2018. The stipend is based on the funding level of the system. OPERS members will receive the lesser of 2% of their gross annual retirement amount or \$1,200. The bill also provides a minimum payment of \$350 for members with 20 years of service. This stipend will be paid in October 2018.

Clarification of Certain System Provisions

OPERS requested HB 2516 to clarify certain System provisions related to billing employers for sick leave and early retirement for elected officials.

Billing Employers for Sick Leave – Prior language only allowed OPERS to bill employers when sick leave rounded an employee up to an additional year of service. Revised language allows OPERS to bill employers for actual months of sick leave after rounding was eliminated for members who joined the System on or after November 1, 2012.

Elected Officials – Prior language regarding early retirement for elected officials conflicted with the eligibility for normal retirement.

Defined Benefit Plan Eligibility for Elected Officials

SB 527 states that a statewide elected official or legislator who is first elected or appointed on or after November 1, 2018, and who has participating service in the OPERS defined benefit plan prior to November 1, 2015, shall be a member of the defined benefit plan.

The System’s actuary does not believe any of these amendments will have any significant financial impact to the System.

7. PRIOR PERIOD ADJUSTMENT

Beginning net assets as of June 30, 2017 and 2016 were restated for prior period adjustments. The adjustments relate to the recording of net pension and OPEB liabilities along with the deferred outflows and inflows, and an old invoice created in error. Net assets of the District as of June 30, 2017 and 2016 have been restated, respectively, from \$1,175,016 to \$1,014,388 and from \$1,370,297 to \$1,247,918.

8. EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through December 19, 2018, the date which the financial statements were available to be issued with none found.

Required Supplementary Information

Eastern Oklahoma Circuit Engineering District No. 2
Budgetary Comparison
June 30, 2018

	Original	Final	Actual	Variance
Revenue:				
CED Allowance	\$242,500	\$242,500	\$289,335	(\$46,835)
State Equipment Sale	9,300	9,300	3,327	5,973
Sign Shop Income	41,000	41,000	36,677	4,323
Consulting Engineering Inc.	388,900	388,900	420,850	(31,950)
Bridge Inspection Income	702,000	702,000	580,168	121,832
Other	0	0	5,444	(5,444)
	<u>1,383,700</u>	<u>1,383,700</u>	<u>1,335,801</u>	<u>47,899</u>
Operating:				
Salaries/Wages	585,000	585,000	660,326	(75,326)
Rent/lease	0	0	2,931	(2,931)
Benefits	185,000	185,000	59,206	125,794
Professional fees	6,500	6,500	17,378	(10,878)
Auto/truck expense	24,000	24,000	30,319	(6,319)
Conference/seminar	1,200	1,200	215	985
Depreciation Expense	200,400	200,400	39,214	161,186
Insurance Expense	11,800	11,800	6,378	5,422
Meals/travel	5,800	5,800	8,720	(2,920)
Office Supplies	16,000	16,000	5,667	10,333
Utilities/telephone	15,000	15,000	29,804	(14,804)
Misc/other expenses	7,600	7,600	5,599	2,001
Repairs/maintenance/supplies	8,400	8,400	9,708	(1,308)
Advertising	1,000	1,000	0	1,000
Postage/Freight	1,100	1,100	1,432	(332)
Cost of Sales	314,900	314,900	224,569	90,331
Total Operating	<u>1,383,700</u>	<u>1,383,700</u>	<u>1,101,466</u>	<u>282,234</u>
Capital Outlay				
Capital Outlay	0	0	0	0
Vehicles	0	0	63,232	(63,232)
Furniture/Fixtures	0	0	850	(850)
Equipment	0	0	8,495	(8,495)
Building	0	0	614	(614)
Total Capital Outlay	<u>0</u>	<u>0</u>	<u>73,191</u>	<u>(73,191)</u>
Revenues Over Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$161,144</u>	<u>(\$161,144)</u>
Add: Capital Outlay			<u>73,191</u>	
Change in Net Assets			<u>\$234,335</u>	

See accompanying independent auditors' report and footnotes.

Eastern Oklahoma Circuit Engineering District No. 2
Schedule of Changes in Net Pension Liability
Cost Sharing Pension Plan
June 30, 2018

SCHEDULE OF CHANGES IN NET PENSION LIABILITY			
Increase (Decrease)			
Oklahoma Public Employees Retirement Plan			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Beg Balance at July 1, 2017	3,349,688	3,158,136	191,552
Changes for the year:			
Service Cost	60,403	0	60,403
Interest	227,058	0	227,058
Benefit changes	0	0	0
Difference between expected and actual experience	(39,067)	0	(39,067)
Changes of assumptions	0	0	0
Benefit payments	(209,997)	(209,997)	0
Refunds of contributions	(5,654)	(5,654)	0
Contributions - employer	0	91,728	(91,728)
Contributions - member	0	23,712	(23,712)
Net investment income	0	260,395	(260,395)
Administrative Expense	0	(1,829)	1,829
Change in allocation percentage	3,163	0	3,163
Net Changes	35,907	158,357	(122,450)
Ending Balance at June 30, 2018	\$3,385,595	\$3,316,493	\$69,102

Eastern Oklahoma Circuit Engineering District No. 2
Schedule of Proportionate Share of Net Pension Liability & Contributions
Cost Sharing Pension Plan
June 30, 2018

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)

	OPERS	
	<u>FY2018</u>	<u>FY2017</u>
District's proportion of the net pension liability (asset)	0.078%	0.078%
District's proportionate share of the net pension liability (asset)	\$ 69,102	\$ 191,552
District's total employee payroll	\$ 603,536	\$ 617,000
District's proportionate share of the net pension liability (asset) as a percentage of its total employee payroll	11.450%	31.046%

SCHEDULE OF CONTRIBUTIONS

	OPERS	
	<u>FY2018</u>	<u>FY2017</u>
Contractually required contributions	\$ 91,489	\$ 95,303
Contributions in relation to the contractually required contribution	91,489	95,303
Contribution deficiency (excess)	0	0
District's total employee payroll	\$ 603,536	\$ 617,000
Contribution as a percentage of covered employee payroll	15.159%	15.446%

Note: These schedules are intended to show information for ten years. Additional years will be presented as they become available.
Current year amounts are based on estimates due to OPERS reports not being available.

Eastern Oklahoma Circuit Engineering District No. 2
Schedule of Changes in Net OPEB Liability
Cost Sharing OPEB Plan
June 30, 2018

SCHEDULE OF CHANGES IN NET OPEB LIABILITY			
Increase (Decrease)			
Oklahoma Public Employees Retirement Plan			
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beg Balance at July 1, 2017	115,851	111,793	4,058
Changes for the year:			
Service Cost	2,965	0	2,965
Interest	7,880	0	7,880
Benefit changes	0	0	0
Difference between expected and actual experience	(3,755)	0	(3,755)
Changes of assumptions	0	0	0
Benefit payments	(6,675)	(6,675)	0
Refunds of contributions	0	0	0
Contributions - employer	0	6,760	(6,760)
Contributions - member	0	0	0
Net investment income	0	9,036	(9,036)
Administrative Expense	0	(63)	63
Change in allocation percentage	0	0	0
Net Changes	414	9,057	(8,643)
Ending Balance at June 30, 2018	\$116,265	\$120,851	(\$4,585)

Eastern Oklahoma Circuit Engineering District No. 2
Schedule of Proportionate Share of Net OPEB Liability & Contributions
Cost Sharing OPEB Plan
June 30, 2018

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY (ASSET)

	OPERS	
	<u>FY2018</u>	<u>FY2017</u>
District's proportion of the net OPEB liability (asset)	0.035%	0.035%
District's proportionate share of the net OPEB liability (asset)	\$ (4,585)	\$ 4,058
District's total employee payroll	\$ 603,536	\$ 617,000
District's proportionate share of the net OPEB liability (asset) as a percentage of its total employee payroll	-0.760%	0.658%

SCHEDULE OF CONTRIBUTIONS

	OPERS	
	<u>FY2018</u>	<u>FY2017</u>
Contractually required contributions	\$ 6,404	\$ 6,671
Contributions in relation to the contractually required contribution	6,404	6,671
Contribution deficiency (excess)	0	0
District's total employee payroll	\$ 603,536	\$ 617,000
Contribution as a percentage of covered employee payroll	1.061%	1.081%

Note: These schedules are intended to show information for ten years. Additional years will be presented as they become available. Current year amounts are based on estimates due to OPERS reports not being available.



Clothier & Company CPA's P.C
cccpa@yahoo.com

P. O. Box 1495
Muskogee, Oklahoma 74402
918-687-0189 FAX 918-687-3594

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 No. 2 (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2018

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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 from 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*.

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 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.

December 19, 2018