



Eastern Oklahoma Circuit Engineering District #2

FINANCIAL STATEMENTS

AND

AUDITOR'S REPORT

FOR THE YEAR ENDED

JUNE 30, 2017



Clothier & Company CPA's P.C.

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Eastern Oklahoma Circuit Engineering District #2
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June 30, 2017

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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, 2017, 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 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 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, 2017, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017, on our consideration of Eastern Oklahoma Circuit Engineering District #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 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 Eastern Oklahoma Circuit Engineering District #2's internal control over financial reporting and compliance.



Clothier & Company, CPA's, P.C.
October 16, 2017

Eastern Oklahoma Circuit Engineering 2
Statement of Net Assets
June 30, 2017

ASSETS

Current Assets

Cash and cash equivalents	\$ 659,995
Prepaid expenses	247
Accounts receivable	99,573
Sign shop inventory	30,741

Total Current Assets 790,556

Fixed Assets

Property and equipment	771,626
Accumulated depreciation	(370,312)

Total Fixed Assets 401,314

Other Assets

Deposits	350
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Total Other Assets 350

Total Assets \$ 1,192,220

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 370
Payroll liabilities	632
Accrued vacation payable	16,202

Total Current Liabilities 17,204

Net Assets

Invested in net assets	401,314
Restricted	0
Unrestricted	773,702

Total Net Assets 1,175,016

Total Liabilities and Net Assets \$ 1,192,220

See accompanying notes and independent auditors' report.

Eastern Oklahoma Circuit Engineering 2
Statement of Activities
June 30, 2017

Revenue	
State equipment auction	\$ 9,203
Oklahoma coop CED	242,381
Bridge inspection	437,661
Consulting engineering	271,966
Sign shop income	32,934
Other income	1,884
Total Revenue	<u>996,029</u>
Cost of Sales	
Cost of sales/job costs	<u>200,924</u>
Gross Profit	<u>795,105</u>
Operating Expenses	
Wage Expenses	668,539
Employee benefits	184,661
Professional fees	7,263
Auto/truck expense	23,910
Depreciation expense	50,491
Interest expense	112
Travel/meals	6,274
Office expenses	11,608
License Expense	1,790
Utilities/telephone	13,799
Repairs/maintenance/supplies	13,875
Miscellaneous Expense	4,590
Postage/freight	802
Rent/lease	2,672
Total Operating Expense	<u>990,386</u>
Increase (Decrease) in Net Assets	
Temporarily Restricted	0
Permanently Restricted	0
Unrestricted	<u>(195,281)</u>
Beginning Net Assets	<u>1,370,297</u>
Ending Net Assets	<u><u>\$ 1,175,016</u></u>

See accompanying notes and independent auditors' report.

Eastern Oklahoma Circuit Engineering 2
Statement of Cash Flows
June 30, 2017

Cash Flows From Operating Activities:

Cash received from funding sources	\$ 886,610
Cash received from other sources	253,468
Cash paid to employees	(668,539)
Cash paid to suppliers	(478,250)
Net Cash Flows from Operating Activities	(6,711)

Cash Flows from Capital and Related Financing Activities:

Purchase of capital assets	(54,233)
Net cash Used for Capital and Related Financing Activities	(54,233)

Cash Flows from Investing Activities:

Net Cash Provided by Investing Activities	0
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Net increase in cash and cash equivalents (60,944)

Cash and cash equivalents at beginning of year 720,939

Cash and cash equivalents at end of year \$ 659,995

Interest expense \$ 112

Reconciliation of Operating Income to Net Cash Flows from Operating Activities:

Net income (loss)	\$ (195,281)
Add Depreciation expense	50,491
(Increases)/Decreases in Current Assets:	
Accounts receivable	144,049
Inventory	(1,837)
Prepays	0
Increases/(Decreases) in Current Liabilities:	
Accounts payable	(5,877)
Accrued expenses	1,744
	(5,133)

Net Cash Flows from Operating Activities \$ (6,711)

Eastern Oklahoma Circuit Engineering District #2
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

**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, 2017.

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 are insured by the Federal Deposit Insurance Corporation up to \$250,000 as of June 30, 2017. The District has pledged securities that cover \$533,189. There were no uninsured or unsecured receipts as of June 30, 2017.

3 – PROPERTY, PLANT & EQUIPMENT

	Beginning Balance	Additions/ Deletions	Accumulated Depreciation	Book Balance
Vehicles	162,902	37,153	(158,174)	41,881
Furniture/Fixtures	13,197	1,350	(11,182)	3,365
Equipment	155,839	15,728	(137,732)	33,835
Building	284,469	0	(63,224)	221,245
Land	100,988	0	0	100,988
	<u>717,395</u>	<u>54,231</u>	<u>(370,312)</u>	<u>401,314</u>

Depreciation expense for the year ending June 30, 2017 was \$50,491.

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

Eastern Oklahoma Circuit Engineering District #2
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 – EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through August 31, 2017, 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, 2017, 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 October 16, 2017.

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.
October 16, 2017

Supplemental Information

Eastern Oklahoma Circuit Engineering #2
Budgetary Comparison
June 30, 2017

	Original	Final	Actual	Variance
Revenue:				
CED Allowance	\$200,600	\$200,600	\$242,381	(\$41,781)
State Equipment Sale	3,200	3,200	9,203	(6,003)
Sign Shop Income	36,000	36,000	32,934	3,066
Consulting Engineering Inc.	680,000	680,000	271,966	408,034
Bridge Inspection Income	630,000	630,000	437,661	192,339
Other	0	0	1,884	(1,884)
	<u>1,549,800</u>	<u>1,549,800</u>	<u>996,029</u>	<u>553,771</u>
Operating:				
Salaries/Wages	590,000	590,000	668,539	(78,539)
Rent/lease	0	0	2,672	(2,672)
Benefits	110,500	110,500	184,661	(74,161)
Professional fees	6,500	6,500	7,263	(763)
Auto/truck expense	46,000	46,000	23,910	22,090
Conference/seminar	1,200	1,200	125	1,075
Depreciation Expense	235,400	235,400	50,491	184,909
Insurance Expense	11,800	11,800	0	11,800
Meales/travel	7,300	7,300	6,274	1,026
Office Supplies	16,000	16,000	11,608	4,392
Utilities/telephone	20,000	20,000	13,799	6,201
Misc/other expenses	2,600	2,600	6,367	(3,767)
Repairs/mainten/supplies	36,400	36,400	13,875	22,525
Advertising	1,000	1,000	0	1,000
Postage/Freight	1,100	1,100	802	298
Cost of Sales	464,000	464,000	200,924	263,076
Total Operating	<u>1,549,800</u>	<u>1,549,800</u>	<u>1,191,310</u> (44,757)	<u>358,490</u>
Capital Outlay	0	0	0	0
Vehicles	0	0	37,153	(37,153)
Furniture/Fixtures	0	0	1,350	(1,350)
Equipment	0	0	15,729	(15,729)
Total Capital Outlay	<u>0</u>	<u>0</u>	<u>54,232</u>	<u>(54,232)</u>
Revenues Over Expenditures	<u>\$0</u>	<u>\$0</u>	<u>(\$249,513)</u>	<u>\$249,513</u>
Add: Capital Outlay			54,232	
Change in Net Assets			<u>(\$195,281)</u>	

See accompanying independent auditors' report and footnotes.