Chouteau Educational Facilities Authority

(a Component Unit of the Town of Chouteau)

Financial Statements and Independent Auditor's Reports

As of June 30, 2014 and for the Period April 14, 2014 (inception) through June 30, 2014

2014

CHOUTEAU EDUCATIONAL FACILITIES AUTHORITY

A Component Unit of the Town of Chouteau

CHOUTEAU, OKLAHOMA

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Trustees
Chouteau Educational Facilities Authority
Chouteau, Oklahoma

I have audited the accompanying financial statements-modified cash basis of the Chouteau Educational Facilities Authority, as of June 30, 2014 and for the period beginning April 14, 2014 (inception) through June 30, 2014 (fiscal year end), and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the Chouteau Educational Facilities Authority, as of June 30, 2014, and the respective changes in financial position—modified cash basis, thereof for the period of April 14, 2014 (inception) through June 30, 2014 in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

Shortened Period for Reporting

Further, I draw attention to the period covered by these financial statements. The Authority was formed on April 14, 2014 and has elected a fiscal year end of June 30. Consequently, the financial statements present the Authority's net position at June 30, 2014 and activities for the shortened period from April 14, 2014 through June 30, 2014.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated September 26, 2014, on my consideration of the Authority's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Chouteau Educational Facilities Authority's internal control over financial reporting and compliance.

Anne Marie Elfrink, MS, CPA

Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
September 26, 2014

Statement of Net Position – (Modified Cash Basis) – June 30, 2014

ASSETS		
Current Assets:		
Cash and cash equivalents	$	6,142
Total current assets	$	6,142
NET POSITION		
Unrestricted	$	6,142
Total net position	$	6,142

See accompanying notes to the basic financial statements

Statement of Revenue, Expense and Change in Net Position – Modified Cash Basis

For the period April 14, 2014 (inception) through June 30, 2014

Operating Revenue		
Administration Acceptance Fees	$	6,145
Total operating revenues		6,145
Operating Expense		
Postage		3
Total operating expense		3
Change in net position		6,142
Net position - at inception		-
Net position - end of year	$	6,142

See accompanying notes to the basic financial statements

Statement of Cash Flows – Modified Cash Basis

For the period April 14, 2014 (inception) through June 30, 2014

Cash flows from operating activities:		
Cash received from bond customer	$	6,145
Cash payments for postage		(3)
Net cash provided by operating activities		6,142
Net increase in cash and cash equivalents		6,142
Beginning cash and cash equivalents		-
Ending cash and cash equivalents	$	6,142

See accompanying notes to the basic financial statements

Notes to the Basic Financial Statements

1. **Summary of Significant Accounting Policies**

   A. **Financial Reporting Entity**

   The Chouteau Educational Facilities Authority ("Authority"), is a public trust created for the benefit of the Town of Chouteau, Oklahoma ("Town" or "Beneficiary"). The Authority was created under provisions of the Oklahoma Statutes by Declaration of Trust on April 14, 2014, to furnish the Beneficiary with services and facilities, promote local industrial development, provide cultural and educational activities and facilities, and to assist in financing and constructing other facilities, all for the benefit of the Town. The elected Town's officials are the Authority's trustees. The Authority is empowered to borrow money and to pledge assets, properties and revenue as security against its borrowings. The Authority has no taxing power and is not legally required to adopt a budget.

   The Authority generally does not acquire any assets or incur any liabilities when it issues bonds for eligible entities. It may earn and collect administrative fees and must be informed of the unpaid balances. If, however, the Authority manages the assets and liabilities and does not assign them, the assets and liabilities would be recognized.

   The accompanying financial statements include all functions and activities over which the Authority exercises financial accountability. The Chouteau Educational Facilities Authority is a component unit of the Town of Chouteau, Oklahoma. The Town of Chouteau, Oklahoma's financial information is not presented in these financial statements. The Town's financial statements may be found at www.sai.ok.gov , the Oklahoma State Auditor and Inspector's website.

   B. **Basis of Presentation**

   The Authority's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

   C. **Measurement Focus and Basis of Accounting**

   Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The Authority's financial statements use the economic resources measurement focus and the modified cash basis of accounting. Revenues are recognized when they are received and expenses are recognized when paid. If the Authority utilized the basis of accounting generally accepted in the United States, the financial statements would use the accrual basis of accounting. Under this basis of accounting, revenues would be recognized when earned and expenses would be recorded when the liability is incurred or economic asset is used.

D. **Assets, Liabilities, and Net Position**

Cash and cash equivalents

For the purpose of the statement of cash flows, the Authority considers all cash on hand, demand deposit accounts, interest bearing checking accounts, and time deposit accounts including certificates of deposit with maturities of three months or less to be cash and cash equivalents.

Notes payable

Notes payable to be repaid from the Authority's resources are reported as liabilities on the balance sheet. The Authority had no notes payable as of June 30, 2014.

Net position

Net position is divided into three components:

a. *Net investment in capital assets* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvement of those assets.
b. *Restricted net position* – Consists of net assets with constraints placed on the use by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
c. *Unrestricted net position*- All other net assets that do not meet the definition of "restricted" or "net investment in capital assets".

It is the Authority's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which restricted and unrestricted net position are available.

E. **Revenues and expenses**

Operating Revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as service fees.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as grants from other governments, gifts and contributions, and other revenue sources that are defined as nonoperating revenue.

Expenses – The Authority reports expenses relating to the use of economic resources.

2. **Detailed Notes on Transaction Classes/Accounts**

A. **Cash and investments**

Deposits and investments - State statutes govern the Authority's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost plus accrued interest.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a written policy for custodial credit risk. At June 30, 2014, all of the Authority's cash was held in a demand account bearing no interest and was fully covered by federal deposit insurance.

3. **Conduit Debt Obligations**

A. **Chouteau Educational Facilities Authority Educational Facilities Lease Revenue Bonds**

The Authority had the following conduit debt outstanding at June 30, 2014, in the form of Lease Revenue Bonds:

	Original Issue	Outstanding June 30, 2014
Chouteau-Mazie Public Schools Project (2014)	$6,145,000	$ 6,145,000

The bonds issued by the Authority are special and limited obligations of the Authority, payable solely out of revenues derived from and in connection with the underlying loan agreement and the underlying security provided under the loan agreement. The Authority or any political subdivision thereof is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements nor are the related investments reported as assets.

4. **Risk Management**

The Authority is exposed to various risks of loss related to torts, errors, and omissions. At this time, the Authority carries no surety bonds or other types of insurance. As the Authority has no capital assets, it carries no property insurance.

5. **Commitments and Contingencies**

The Authority is not involved in any legal proceedings, which normally occur in the course of operations, at this time. While legal proceedings cannot be foreseen, the Authority believes that any settlement or judgment would not have a material effect on the financial condition of the authority.

The Authority is dependent upon repayment of bonds solely from the beneficiary of the bond issue. If the beneficiary defaulted on the bond payments, it would not have a significant impact on the Authority's financial condition. Conduit debt is non-recourse debt.

6. **Subsequent Events**

Management has evaluated events and transactions that occurred after the balance sheet date for potential recognition and disclosure through September 26, 2014, the date on which the financial statements were available to be issued.

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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 Trustees
Chouteau Educational Facilities Authority
Chouteau, Oklahoma

I have audited the financial statements – modified cash basis of the Chouteau Educational Facilities Authority ("Authority"), as of June 30, 2014 and for the period April 14, 2014 (inception) through June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued my report thereon, dated September 26, 2014. As discussed in Note 1, the Authority prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. I conducted my 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 the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Authority'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 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.

My 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 my audit I did not identify any deficiencies in internal control that I 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 Authority's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my 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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anne Marie Elfrink, MS, CPA

Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
September 26, 2014