

# **Langston Economic Development Authority**

Accountants' Report and Financial Statements

June 30, 2012 and 2011





# Langston Economic Development Authority

## June 30, 2012 and 2011

### Contents

<b>Independent Accountants' Report .....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>3</b>
<b>Basic Financial Statements</b>	
Balance Sheets.....	6
Statements of Revenues, Expenses and Changes in Net Assets.....	7
Statements of Cash Flows .....	8
Notes to Financial Statements .....	9

## Independent Accountants' Report

Board of Trustees  
Langston Economic Development Authority  
Langston, Oklahoma

We have audited the accompanying balance sheet of Langston Economic Development Authority, as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Langston Economic Development Authority, as of and for the year ended June 30, 2011, before they were restated for the matter discussed in *Note 2*, were audited by other accountants whose report dated November 28, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of Langston Economic Development Authority as of June 30, 2012, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 2*, the previously issued 2011 financial statements have been restated to correct a material misstatement therein.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2013, on our consideration of Langston Economic Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 2012 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.

*BKD, LLP*

April 26, 2013

# **Langston Economic Development Authority**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2012 and 2011**

#### ***Introduction***

Our discussion and analysis of Langston Economic Development Authority's (the Authority) financial performance provides an overview of the Authority's financial activities during the fiscal years ended June 30, 2012 and 2011. Since this management's discussion and analysis is designed to focus on current activities, resulting change and current known facts, please read it in conjunction with the Authority's financial statements and footnotes.

#### ***Financial Highlights***

Total assets decreased by \$116,499 or 6.9% in 2012 and \$23,894 or 1.4% in 2011.

Total liabilities decreased by \$127,228 or 12.1% in 2012 and \$320,792 or 23.4% in 2011.

The Authority's net assets increased in 2012 by \$10,729 or 1.7% and \$296,898 or 84.0% in 2011.

#### ***Using This Annual Report***

The Authority's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

#### ***The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets***

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net assets report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets—the difference between assets and liabilities—as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in local economic factors, to assess the overall health of the Authority.

#### ***The Statement of Cash Flows***

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

### ***The Authority's Net Assets***

The Authority's net assets are the difference between its assets and liabilities reported in the balance sheet. The Authority's assets exceeded liabilities at June 30, 2012 and 2011, by \$661,202 and \$650,473, respectively, as shown in Table 1.

**Table 1: Assets, Liabilities and Net Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Assets</b>			
Cash	\$ 1,481,530	\$ 1,613,029	\$ 1,651,923
Receivable	<u>100,000</u>	<u>85,000</u>	<u>70,000</u>
Total assets	<u><u>\$ 1,581,530</u></u>	<u><u>\$ 1,698,029</u></u>	<u><u>\$ 1,721,923</u></u>
<b>Liabilities</b>			
Pledge payable	\$ -	\$ 76,000	\$ -
Interest rate swap agreement	920,328	971,556	1,368,348
<b>Net Assets</b>			
Unrestricted	<u>661,202</u>	<u>650,473</u>	<u>353,575</u>
Total liabilities and net assets	<u><u>\$ 1,581,530</u></u>	<u><u>\$ 1,698,029</u></u>	<u><u>\$ 1,721,923</u></u>

### ***Operating Results and Changes in Net Assets***

In 2012 and 2011, the Authority's net assets increased by \$10,729 or 1.7% and \$296,898 or 84.0%, respectively, as shown in Table 2. This change is due primarily to the change in the liability related to the interest rate swap agreement.

**Table 2: Operating Results and Changes in Net Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 71,157	\$ 404,839	\$ 212,269
Operating expenses	<u>60,428</u>	<u>107,941</u>	<u>37,018</u>
Increase in net assets	10,729	296,898	175,251
Net assets, beginning of year	<u>650,473</u>	<u>353,575</u>	<u>178,324</u>
Net assets, end of year	<u><u>\$ 661,202</u></u>	<u><u>\$ 650,473</u></u>	<u><u>\$ 353,575</u></u>

### ***Increase in Net Assets***

The increase in net assets totaled \$10,729 or 1.7% for fiscal year 2012 compared to the same period of 2011. The increase in net assets totaled \$296,898 or 84.0% for fiscal year 2011 from fiscal year 2010. The primary components of the change are:

- A decrease in investment expense of \$14,227 or 93.5% in 2012 and a decrease in interest expense of \$10,600 or 41.0% in 2011
- A decrease in interest income of \$2,345 or 28.4% in 2012 and a decrease in interest income of \$4,200 or 34.0% in 2011
- A decrease in donation expense of \$28,259 or 36.1% in 2012 and an increase in donation expense of \$49,200 or 169.0% in 2011
- A decrease in the change in fair market value of the interest rate swap agreement of \$51,228 or 12.9% in 2012 when compared to 2011 and an increase of \$396,792 or 188.0% in 2011

### ***Contacting the Authority's Financial Management***

This financial report is designed to provide the Authority's suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's administration by calling 405.466.3259.

### ***Economic Factors and Next Year's Budget***

Interest rates on the Authority's bank accounts are expected to remain low and relatively unchanged over the next year. The Authority also received two settlements totaling approximately \$400,000 subsequent to year-end that are not reflected in the accompanying financial statements from a class action lawsuit to settle claims from Municipal Derivatives Antitrust Litigation. These factors were considered in preparing the Authority's budget for the 2013 fiscal year.

# Langston Economic Development Authority

## Balance Sheets

June 30, 2012 and 2011

### Assets

	<u>2012</u>	<u>2011 (Restated Note 2)</u>
<b>Current Assets</b>		
Cash	\$ 1,481,530	\$ 1,613,029
Receivable	100,000	85,000
Total assets	<u>\$ 1,581,530</u>	<u>\$ 1,698,029</u>

### Liabilities and Net Assets

<b>Current Liabilities</b>		
Pledges payable	\$ -	\$ 76,000
<b>Interest Rate Swap Agreement</b>	<u>920,328</u>	<u>971,556</u>
Total liabilities	920,328	1,047,556
<b>Net Assets, Unrestricted</b>	<u>661,202</u>	<u>650,473</u>
Total liabilities and net assets	<u>\$ 1,581,530</u>	<u>\$ 1,698,029</u>

**Langston Economic Development Authority**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2012 and 2011**

	<b>2012</b>	<b>2011 (Restated Note 2)</b>
<b>Operating Revenues</b>		
Investment income, net	\$ 56,157	\$ 389,839
Issuer fee income	15,000	15,000
Total operating income	71,157	404,839
<b>Operating Expenses</b>		
Bank charges	20	40
Contributions	50,000	78,259
Miscellaneous fees	100	100
Professional fees	10,308	29,542
Total operating expenses	60,428	107,941
<b>Increase in Net Assets</b>	10,729	296,898
<b>Net Assets, Beginning of Year, as Previously Reported</b>	-	283,575
<b>Adjustment Applicable to Prior Years</b>	-	70,000
<b>Net Assets, Beginning of Year, As Restated</b>	650,473	353,575
<b>Net Assets, End of Year</b>	\$ 661,202	\$ 650,473

**Langston Economic Development Authority**  
**Statements of Cash Flows**  
**Years Ended June 30, 2012 and 2011**

	<b>2012</b>	<b>2011 (Restated Note 2)</b>
<b>Operating Activities</b>		
Interest received	\$ 5,912	\$ 8,257
Investment expenses paid	(983)	(15,210)
Payments to related party, suppliers and bank	(136,428)	(31,941)
<b>Net Cash Used in Operating Activities and Net Decrease in Cash</b>	(131,499)	(38,894)
<b>Cash, Beginning of Year</b>	1,613,029	1,651,923
<b>Cash, End of Year</b>	\$ 1,481,530	\$ 1,613,029
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Increase in net assets	\$ 10,729	\$ 296,898
Adjustments to reconcile operating income to net cash provided by operating activities		
Change in the fair market value of the interest rate swap agreement	(51,228)	(396,792)
Changes in		
Increase in receivables	(15,000)	(15,000)
Increase (decrease) in pledges payable	(76,000)	76,000
Net cash used in operating activities	\$ (131,499)	\$ (38,894)

# Langston Economic Development Authority

## Notes to Financial Statements

### June 30, 2012 and 2011

#### **Note 1: Organization and Summary of Significant Accounting Policies**

##### ***Organization***

Langston Economic Development Authority (the Authority) is a public trust created October 15, 1981, under the provisions of Title 60, Oklahoma Statutes. The purpose of this trust is to assist the town of Langston, Oklahoma (the Beneficiary), its agencies and private entities in making the most efficient use of all of their economic resources and powers in accord with the needs and benefit of the Beneficiary in order to promote, stimulate, encourage and finance the growth and development of the agriculture, commerce and industry of the Beneficiary as a whole.

The management and control of the Trust is under a Board of Trustees, composed of five Trustees appointed by the Board of Trustees of the Town of Langston.

##### ***Basis of Accounting and Presentation***

The Authority prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). The Authority utilizes the accrual basis of accounting using the economic resources measurement focus under which revenues are accrued as earned and expenses are recorded as they are incurred. The Authority has elected to apply all Financial Accounting Standards Board (FASB) pronouncements that were issued after November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement.

##### ***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.

##### ***Cash Equivalents***

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. The Authority had no cash equivalents at June 30, 2012 and 2011.

##### ***Derivative***

The Authority's derivative is a nonexchange-traded contract that is measured at fair value and is recognized as an asset or liability on the balance sheets based on having a positive (asset) or negative (liability) fair value position as of the balance sheet date. Fair value is based on a third-party pricing service using quotes, pricing models, discounted cash flow methodologies or similar techniques for which the determination of fair value may require significant judgment or estimation.

**Langston Economic Development Authority**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

***Net Assets***

Net assets in the Authority are classified in one component, unrestricted net assets.

***Operating Revenues and Expenses***

The Authority's statement of revenues, expenses and changes in net assets distinguishes between operating revenues and expenses. Operating revenues result from investment income from an interest rate swap agreement with a financial institution and issuer fee income from conduit debt issued by a related party. Operating expenses consist of contributions, bank charges and professional fees.

***Income Taxes***

The Authority is classified as a political subdivision and is exempt under Section 115 of the Internal Revenue Code and is not required to file federal income tax returns.

***Reclassifications***

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

**Note 2: Restatement of Prior Year Financial Statements**

In 2005, the Authority issued conduit debt on behalf of LDF Student Housing, LLC (LDF). As part of the debt agreement, LDF is required to pay an issuer fee to the Authority each year on May 1. The Authority did not bill and LDF did not remit the required payments in past years. A prior period adjustment has been made to record the receipt due from LDF in the amount of \$85,000. The effect of the prior period adjustment increased previously reported 2011 change in net assets by \$15,000 and previously reported unrestricted net assets as of June 30, 2011, by \$70,000.

**Note 3: Deposits and Investments**

***Deposits***

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law.

**Langston Economic Development Authority**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

Oklahoma statutes require public entities to obtain collateral for all deposits that are not covered by federal depository insurance. At June 30, 2012 and 2011, \$1,491,399 and \$1,661,794, respectively, of the Authority's bank balances were not exposed to custodial credit risk.

**Investment**

As of June 30, 2012 and 2011, the Authority had one investment, an interest rate swap, that had a negative fair value (liability) in the amounts of \$920,328 and \$971,556, respectively. The investment matures in more than 10 years on August 1, 2030.

**Interest Rate Risk** – The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Note 4: Investment Income**

Total investment return is reflected in the accompanying statements of revenues, expenses and changes in net assets as follows:

	<b>2012</b>	<b>2011</b>
Interest income	\$ 5,912	\$ 8,257
Investment expense	(983)	(15,210)
Increase in fair value of the interest rate swap agreement	51,228	396,792
	\$ 56,157	\$ 389,839

**Note 5: Interest Rate Swap**

The Authority entered into two interest rate swap agreements in 2001, a pay-fixed swap agreement and a BMA index rate swap agreement, that were associated with conduit debt obligations issued by a related party, Langston Community Development Corporation (LCDC), for the construction of an apartment complex on campus as a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations. The Authority issued additional conduit debt in 2006 to a separate related party (LDF Student Housing, LLC) who purchased the apartment complex from LCDC. LCDC used the funds received from the purchase to retire the debt associated with the construction of the apartment complex. When LCDC retired its debt related to the construction of the apartment complex, the Authority terminated its pay-fixed interest rate swap associated with the debt.

**Langston Economic Development Authority**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

The BMA index interest rate swap agreement provides for the Authority to receive interest from the counterparty at 72% of the one-month LIBOR and to pay interest to the counterparty based on the U.S. SIFMA Municipal Swap Index rate (formerly the BMA Municipal Swap Index) on notional amounts of \$19,425,000 and \$19,830,000 at June 30, 2012 and 2011, respectively. Under the agreement, the Authority pays or receives the net interest amount semi-annually, with the amounts from the settlements included in investment income through August 1, 2030.

The table below presents certain information regarding the Authority's interest rate swap agreement.

	<b>2012</b>	<b>2011</b>
Fair value of interest rate swap agreement	\$ 920,328	\$ 971,556
Balance sheet location of fair value amount	Liability	Liability
Gain recognized in change in net assets	\$ 51,228	\$ 396,792
Location of gain recognized in change in net assets	Investment income	Investment income

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data. An independent party pricing service is used by the Authority to estimate the fair value of the swap. The specific criteria used in the estimation process is considered to be proprietary information of the third party and is not available for disclosure.

***Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. As the U.S. SIFMA Municipal Swap Index rate increases, the Authority's net payment on the swap decreases.

**Note 6: Related-Party Transactions**

On May 2, 2005, the Authority issued the Langston Economic Development Authority Revenue Bonds (Langston University Student Housing/LDF Student Housing, LLC Project) Series 2005A and 2005B in the amount of \$24,720,000 for the purpose of loaning the proceeds thereof to LDF Student Housing, LLC for the purpose of financing the cost of acquiring, renovating, furnishing and equipping an existing student housing facility known as Centennial Court and to refinance the debt issued with respect to the Langston Commons student housing complex. LDF Student Housing, LLC issued to the Authority a promissory note on May 2, 2005, in the amount of \$24,720,000. The interest and repayment terms on this note are the same as required by the bonds issued by the Authority. At June 30, 2012 and 2011, the outstanding balances on these bonds were \$21,910,000 and \$22,415,000, respectively.

# Langston Economic Development Authority

## Notes to Financial Statements

### June 30, 2012 and 2011

On May 17, 2006, the Authority issued additional bonds pursuant to the terms of the Langston Economic Development Authority Revenue Bonds (Langston University Student Housing/LDF Student Housing, LLC Project) Indenture dated May 2, 2005. The Series 2006A and 2006B bonds were issued in the amount of \$25,535,000 for the purpose of loaning the proceeds thereof to LDF Student Housing, LLC for the purpose of financing the cost of acquiring the Scholar's Inn housing facility. LDF Student Housing, LLC issued to the Authority promissory notes on May 17, 2006, in the amount of \$25,535,000. The interest and repayment terms on these notes are the same as required by the bonds issued by the Authority. At June 30, 2012 and 2011, the outstanding balances on these bonds were \$21,735,000 and \$22,435,000, respectively.

In accordance with generally accepted accounting principles (GAAP), the above-mentioned transactions created conduit debt on the part of the Authority, and the receivable from LDF Student Housing, LLC and the bonds payable are not recorded on the books of the Authority as they are ultimately payable by LDF Student Housing, LLC and recorded as a liability by LDF Student Housing, LLC.

During the years ended June 30, 2012 and 2011, the Authority made pledges and contributions to the following related parties:

	2012	2011
Payments on behalf of the Town of Langston	\$ 50,000	\$ 2,260
Pledge payable to the Town of Langston	-	76,000
	\$ 50,000	\$ 78,260

During the year ended June 30, 2012, the Authority pledged to contribute a total of \$50,000 to the Town of Langston to complete a joint project between the Town of Langston and Langston University. This project is for the construction of a softball field to be used as Langston University's home softball field in addition to the Town of Langston's use of the facilities for recreation.

#### **Note 7: Current Economic Conditions**

The current state of the economy continues to present governmental entities with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other financial instruments and constraints on liquidity and difficulty obtaining financing. The accompanying financial statements have been prepared using values and information currently available to the Authority.

In addition, given the volatility of current economic conditions, the value of the Authority's interest rate swap liability recorded in the accompanying financial statements could change rapidly, resulting in material future adjustments in fair value that could negatively impact the Authority's ability to maintain sufficient liquidity.

**Langston Economic Development Authority**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

**Note 8: Subsequent Events**

On February 4, 2013, the Authority received two settlement payments in the amounts of \$154,372 and \$254,997 as a result of an out-of-court settlement made on December 8, 2011, that originated from a class action lawsuit between the Attorney Generals of 26 States and Wachovia, N.A. (Wachovia) to settle claims from Municipal Derivatives Antitrust Litigation. The specific derivative agreements of the Authority involved in the settlement are more fully discussed in *Note 5*. The Authority was notified of their ability to participate in the out-of-court settlement on August 2, 2012, and had the option to participate in the settlement or opt out of the settlement and pursue their own litigation against Wachovia. In September 2012, the Authority elected to participate in the out-of-court settlement. Since the Authority elected to participate in the settlement subsequent to year-end, the amounts disclosed above have not been recognized in the accompanying financial statements for the year ended June 30, 2012.

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.