

Langston Economic Development Authority

Auditor's Reports and Financial Statements

June 30, 2014 and 2013



Langston Economic Development Authority

June 30, 2014 and 2013

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Independent Auditor's Report

Board of Trustees
Langston Economic Development Authority
Langston, Oklahoma

Report on the Financial Statements

We have audited the accompanying basic financial statements of Langston Economic Development Authority (the Authority), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Langston Economic Development Authority as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 4* to the financial statements, the Authority's investment derivative instrument has a negative fair market value and is being carried as a liability which results in a deficit net position for the Authority of \$(279,115) at June 30, 2014. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 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 audits 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2015, on our consideration of the 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* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
January 7, 2015

Langston Economic Development Authority

Management's Discussion and Analysis

Years Ended June 30, 2014 and 2013

Introduction

The management's 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, 2014 and 2013. 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 \$405,519 or 44.9% in 2014 and \$677,936 or 42.9% in 2013.
- Total liabilities decreased by \$51,319 or 6.2% in 2014 and \$91,819 or 10.0% in 2013.
- The Authority's net position decreased in 2014 by \$354,200 or 471.7% and \$586,117 or 88.6% in 2013.

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 position; 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 Position

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 position 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 position and changes in them. The Authority's net position—the difference between assets and liabilities—is one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position 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 statement of cash flows 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 Position (Deficit)

The Authority's net position (deficit) is the difference between its assets and liabilities reported in the balance sheet. The Authority's liabilities exceeded assets by \$279,115 at June 30, 2014, and assets exceeded liabilities by \$75,085 and \$661,202 at June 30, 2013 and 2012, respectively, as shown in Table 1. All of the Authority's net position at June 30, 2013, was unrestricted and available to meet the ongoing needs of the Authority. At June 30, 2014, the Authority had a deficit net position.

Table 1: Assets, Liabilities and Net Position (Deficit)

	2014	2013	2012
Assets			
Cash	\$ 483,075	\$ 888,594	\$ 1,481,530
Receivable	15,000	15,000	100,000
Total assets	<u>\$ 498,075</u>	<u>\$ 903,594</u>	<u>\$ 1,581,530</u>
Liabilities			
Investment derivative instrument	<u>\$ 777,190</u>	<u>\$ 828,509</u>	<u>\$ 920,328</u>
Total liabilities	777,190	828,509	920,328
Net Position (Deficit)			
Unrestricted	<u>(279,115)</u>	<u>75,085</u>	<u>661,202</u>
Total liabilities and net position (deficit)	<u>\$ 498,075</u>	<u>\$ 903,594</u>	<u>\$ 1,581,530</u>

In 2014, the Authority's net position decreased by \$354,200 from 2013 as shown in Table 2. This change is due primarily to the contribution made during the year to the Town of Langston for various projects.

In 2013, the Authority's net position decreased by \$586,117 from 2012 as shown in Table 2. This change is due primarily due to the contribution made during the year to LDF Student Housing, LLC to assist in meeting its debt covenants associated with various bond agreements.

Table 2: Operating Results and Changes in Net Position

	2014	2013	2012
Operating revenues	\$ 78,609	\$ 527,755	\$ 71,157
Operating expenses	<u>432,809</u>	<u>1,113,872</u>	<u>60,428</u>
Increase (decrease) in net position	(354,200)	(586,117)	10,729
Net position, beginning of year	<u>75,085</u>	<u>661,202</u>	<u>650,473</u>
Net position (deficit), end of year	<u>\$ (279,115)</u>	<u>\$ 75,085</u>	<u>\$ 661,202</u>

Changes in Net Position

During 2014, there was an increase in the change in net position that totaled \$231,917 from the 2013 change in net position. The primary components of the change are as follows:

- A decrease of \$37,908 in net investment income in 2014 as a result of a smaller increase in the fair market value of the interest rate swap agreement in 2014 compared to 2013
- A net decrease in contribution expense of \$675,121 in 2014 as a result of an increase of \$324,879 in contributions to the Town of Langston to fund various projects and a decrease of \$1,000,000 in contributions to LDF Student Housing, LLC

During 2013, there was a decrease in the change in net position that totaled \$596,846 from the 2012 change in net position. The primary components of the change are as follows:

- An increase in operating revenues of \$406,369 in 2013 resulting from the settlement of a class action lawsuit to settle claims from the Municipal Derivatives Antitrust Litigation that had been filed by the Attorney Generals of 26 states against Wachovia, N.A.
- An increase of \$45,360 in net investment income as a result of an increase in the fair market value of the interest rate swap agreement
- An increase in contribution expense of \$1,050,000 in 2013 as a result of an increase of \$50,000 in contributions to the Town of Langston to fund various projects for the City Hall Renovation, water plant improvements and a farmer's market. Additionally, a contribution of \$1,000,000 was made to LDF Student Housing, LLC to assist in meeting its debt covenants associated with various bond agreements

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. Also, continued improvement in the liability position of the Authority's interest rate swap agreement is expected to remain consistent with the previous year. These factors were considered in preparing the Authority's budget for the 2015 fiscal year. Since the fair market value of the interest rate swap agreement results in negative net position for the Authority at June 30, 2014, the Authority does not plan to make any contributions to the Town of Langston or to LDF Student Housing, LLC in the fiscal year ending June 30, 2015.

Langston Economic Development Authority

Balance Sheets

June 30, 2014 and 2013

Assets

	<u>2014</u>	<u>2013</u>
Current Assets		
Cash	\$ 483,075	\$ 888,594
Receivable	<u>15,000</u>	<u>15,000</u>
Total assets	<u>\$ 498,075</u>	<u>\$ 903,594</u>

Liabilities and Net Position

Liabilities		
Investment derivative instrument	<u>\$ 777,190</u>	<u>\$ 828,509</u>
Total liabilities	777,190	828,509
Net Position (Deficit)		
Unrestricted	<u>(279,115)</u>	<u>75,085</u>
Total liabilities and net position (deficit)	<u>\$ 498,075</u>	<u>\$ 903,594</u>

Langston Economic Development Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Class action settlement revenue	\$ -	\$ 406,369
Investment income, net	63,609	101,517
Issuer fee income	15,000	15,000
Other income	<u>-</u>	<u>4,869</u>
Total operating revenues	<u>78,609</u>	<u>527,755</u>
Operating Expenses		
Contributions	424,879	1,100,000
Professional fees	7,860	13,840
Miscellaneous fees	-	32
Supplies	<u>70</u>	<u>-</u>
Total operating expenses	<u>432,809</u>	<u>1,113,872</u>
Change in Net Position	(354,200)	(586,117)
Net Position, Beginning of Year	<u>75,085</u>	<u>661,202</u>
Net Position (Deficit), End of Year	<u><u>\$ (279,115)</u></u>	<u><u>\$ 75,085</u></u>

Langston Economic Development Authority
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Activities		
Investment income received	\$ 12,290	\$ 9,698
Receipts from bond issuer fees	15,000	100,000
Receipts from class action settlement	-	406,369
Other operating receipts	-	4,869
Payments to related party, suppliers and bank	(432,809)	(1,113,872)
	<hr/>	<hr/>
Net Cash Used in Operating Activities and Net Decrease in Cash	(405,519)	(592,936)
	<hr/>	<hr/>
Cash, Beginning of Year	888,594	1,481,530
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Cash, End of Year	<u>\$ 483,075</u>	<u>\$ 888,594</u>
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Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (354,200)	\$ (586,117)
Adjustments to reconcile operating loss to net cash used in operating activities		
Change in the fair market value of the investment derivative instrument	(51,319)	(91,819)
Changes in		
Decrease in receivables	-	85,000
	<hr/>	<hr/>
Net cash used in operating activities	<u>\$ (405,519)</u>	<u>\$ (592,936)</u>
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Langston Economic Development Authority

Notes to Financial Statements

June 30, 2014 and 2013

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 of the 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 Authority 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 and the economic resources measurement focus under which revenues are accrued as earned and expenses are recorded as they are incurred.

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, 2014 and 2013.

Receivables

Receivables consist of revenues earned from conduit debt issuer fees that are payable from LDF Student Housing, LLC and not received at year-end. Allowances for uncollectible receivables are based upon historical trends and no allowance has been recorded as of June 30, 2014 and 2013.

Langston Economic Development Authority

Notes to Financial Statements

June 30, 2014 and 2013

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 accompanying 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.

Net Position (Deficit)

Net position (deficit) in the Authority is classified in one component, unrestricted net position (deficit).

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net position distinguishes between operating revenues and expenses. Operating revenues result from investment income generated from an interest rate swap agreement and deposit accounts 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.

Note 2: 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.

Oklahoma statutes require public entities to obtain collateral for all deposits that are not covered by federal depository insurance. At June 30, 2014 and 2013, the Authority's bank balances were not exposed to custodial credit risk.

Investment

As of June 30, 2014 and 2013, the Authority had one investment, an interest rate swap, which had a negative fair value (liability) in the amounts of \$777,190 and \$828,509, respectively. The investment matures in more than 10 years on August 1, 2030.

Langston Economic Development Authority

Notes to Financial Statements

June 30, 2014 and 2013

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 3: Investment Income

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

	2014	2013
Investment income	\$ 12,290	\$ 9,698
Increase in fair value of the interest rate swap agreement	51,319	91,819
	<u>\$ 63,609</u>	<u>\$ 101,517</u>

Note 4: Investment Derivative Instrument

The Authority entered into two interest rate swap agreements in 2001, a pay-fixed swap agreement and a Bond Market Association (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 Langston University's 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.

The BMA index interest rate swap agreement provides for the Authority to receive interest from the counterparty at 72% of the One-Month London InterBank Offered Rate (LIBOR) and to pay interest to the counterparty based on the U.S. Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index rate (formerly the BMA Municipal Swap Index) on notional amounts of \$18,525,000 and \$18,990,000 at June 30, 2014 and 2013, respectively. Under the agreement, the Authority pays or receives the net interest amount semiannually, with the amounts from the settlements included in investment income through August 1, 2030.

Langston Economic Development Authority

Notes to Financial Statements

June 30, 2014 and 2013

The table below presents certain information regarding the Authority's investment derivative instrument.

	2014	2013
Fair value of investment derivative instrument	\$ (777,190)	\$ (828,509)
Balance sheet location of fair value amount	Liability	Liability
Gain recognized in change in net position	\$ 51,319	\$ 91,819
Location of gain recognized in change in net position	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 are considered to be proprietary information of the third party and is not available for disclosure.

The liability position of the investment derivative instrument results in the Authority having a deficit net position of \$(279,115) at June 30, 2014.

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 or decreases, the Authority's net payment on the swap decreases or increases, respectively.

Note 5: 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 (the Company) 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. The Company 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, 2014 and 2013, the outstanding balances on these bonds were \$20,825,000 and \$21,380,000, respectively.

Langston Economic Development Authority

Notes to Financial Statements

June 30, 2014 and 2013

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 the Company for the purpose of financing the cost of acquiring the Scholar's Inn housing facility. The Company 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, 2014 and 2013, the outstanding balances on these bonds were \$20,250,000 and \$21,010,000, 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 the Company and the bonds payable are not recorded on the books of the Authority as they are ultimately payable by the Company and recorded as a liability by the Company.

The Authority charges an annual conduit debt issuer fee of \$15,000 to the Company. During the year ended June 30, 2013, the Authority received \$100,000 in issuer fees that had been outstanding related to several prior years. As of June 30, 2014, a receivable of \$15,000 was owed to the Authority by the Company.

During the years ended June 30, 2014 and 2013, the Authority made contributions to the following related parties:

	2014	2013
Contributions made to the Town of Langston	\$ 424,879	\$ 100,000
Contributions made to LDF Student Housing, LLC	-	1,000,000
	<u>\$ 424,879</u>	<u>\$ 1,100,000</u>

During the year ended June 30, 2014, the Authority's contribution of \$424,879 to the Town of Langston was for various improvement projects.

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Trustees
Langston Economic Development Authority
Langston, Oklahoma

We have audited, 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, the financial statements of Langston Economic Development Authority (the Authority), which comprise the balance sheet as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 7 2015, which includes an *Emphasis of Matter* paragraph relating to the Authority's deficit net position at June 30, 2014.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Authority's 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 would not necessarily 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 as defined above. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control described in the accompanying schedule of findings and responses as item 2014-01 that we consider to be a significant deficiency in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 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*.

The Authority's Response to the Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to the Authority's management in a separate letter dated January 7, 2015.

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 Authority's internal control or 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.

BKD, LLP

Tulsa, Oklahoma
January 7, 2015

Langston Economic Development Authority
Schedule of Findings and Responses
Year Ended June 30, 2014

Reference Number	Finding
2014-01	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Authority has no employees and the Secretary/Treasurer of the Authority was responsible for all aspects of the financial, recording and monitoring activity during the year as a result of the departure of the Authority’s Board Chairperson. This resulted in a challenge to maintain effective segregation of duties. For instance, we noted the Secretary/Treasurer prepares, reviews and posts all journal entry transactions with no outside review. We also noted there was no formal review and approval of various account reconciliations or interim financial statements that were prepared during the year.</p> <p>Context – Accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties.</p> <p>Effect – Potential misstatements in the financial statements or misappropriation of assets could occur and not be prevented, detected and corrected in a timely manner.</p> <p>Cause – Organizations with limited numbers of accounting staff often have difficulty in implementing adequate and effective internal controls.</p> <p>Recommendation – Where ability and access cannot be limited due to the number of accounting staff or system limitations, additional oversight and monitoring controls should be implemented.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the recommendation and will request a more active role by the Board of Trustees to review financial information and possibly request additional oversight and review of controls by Langston University staff.</p>