

# **Langston Economic Development Authority**

Auditor's Reports and Financial Statements

June 30, 2013 and 2012





# Langston Economic Development Authority

## June 30, 2013 and 2012

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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, 2013 and 2012, 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 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.

### *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 Authority'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 Authority'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, 2013 and 2012, 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.

### ***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 March 20, 2014, 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  
March 20, 2014

# **Langston Economic Development Authority**

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

### **Years Ended June 30, 2013 and 2012**

#### ***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, 2013 and 2012. 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 \$677,936 or 42.9% in 2013 and \$116,499 or 6.9% in 2012.
- Total liabilities decreased by \$91,819 or 10.0% in 2013 and \$127,228 or 12.2% in 2012.
- The Authority's net position decreased in 2013 by \$586,117 or 88.6% and increased in 2012 by \$10,729 or 1.7%.

#### ***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***

The Authority's net position is the difference between its assets and liabilities reported in the balance sheet. The Authority's assets exceeded liabilities by \$75,085 at June 30, 2013, and assets exceeded liabilities by \$661,202 and \$650,473 at June 30, 2012 and 2011, respectively, as shown in Table 1. All of the Authority's net position is unrestricted and available to meet the ongoing needs of the Authority.

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

	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Assets</b>			
Cash	\$ 888,594	\$ 1,481,530	\$ 1,613,029
Receivable	15,000	100,000	85,000
Total assets	<u>\$ 903,594</u>	<u>\$ 1,581,530</u>	<u>\$ 1,698,029</u>
<b>Liabilities</b>			
Pledge payable	\$ -	\$ -	\$ 76,000
Investment derivative instrument	828,509	920,328	971,556
Total liabilities	<u>828,509</u>	<u>920,328</u>	<u>1,047,556</u>
<b>Net Position</b>			
Unrestricted	<u>75,085</u>	<u>661,202</u>	<u>650,473</u>
Total liabilities and net position	<u>\$ 903,594</u>	<u>\$ 1,581,530</u>	<u>\$ 1,698,029</u>

In 2013, the Authority's net position decreased by \$586,117 or 88.6% as shown in Table 2. This change is due primarily to the contribution made during the year to LDF Student Housing, LLC to assist in meeting its debt covenant associated with various bond agreements.

In 2012, the Authority's net position increased from 2011 by \$10,729 or 1.7% as shown in Table 2. This change is due primarily to the decrease in the liability associated with the interest rate swap agreement.

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

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Operating revenues	\$ 527,755	\$ 71,157	\$ 404,839
Operating expenses	<u>1,113,872</u>	<u>60,428</u>	<u>107,941</u>
Increase (decrease) in net position	(586,117)	10,729	296,898
Net position, beginning of year	<u>661,202</u>	<u>650,473</u>	<u>353,575</u>
Net position, end of year	<u>\$ 75,085</u>	<u>\$ 661,202</u>	<u>\$ 650,473</u>

### ***Changes in Net Position***

During 2013, as noted previously, there was a decrease in the change in net position that totaled \$596,846 or -5,562.92% of 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 or 80.8% 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 or 2,100.0% 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

During 2012, there was a decrease in the change in net position that totaled \$286,169 or -96.4% of the 2011 change in net position. The primary component of the change is as follows:

- A decrease in investment income of \$333,682 or 85.6% in 2012 as a result of less investment income generated from the change in the fair market value of the interest rate swap agreement when compared to 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. 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 2014 fiscal year.



# Langston Economic Development Authority

## Balance Sheets

June 30, 2013 and 2012

### Assets

	<u>2013</u>	<u>2012</u>
<b>Current Assets</b>		
Cash	\$ 888,594	\$ 1,481,530
Receivable	<u>15,000</u>	<u>100,000</u>
Total assets	<u><u>\$ 903,594</u></u>	<u><u>\$ 1,581,530</u></u>

### Liabilities and Net Position

#### Liabilities

Investment derivative instrument	<u>\$ 828,509</u>	<u>\$ 920,328</u>
Total liabilities	828,509	920,328

#### Net Position

Unrestricted	<u>75,085</u>	<u>661,202</u>
Total liabilities and net position	<u><u>\$ 903,594</u></u>	<u><u>\$ 1,581,530</u></u>

**Langston Economic Development Authority**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating Revenues</b>		
Class action settlement revenue	\$ 406,369	\$ -
Investment income, net	101,517	56,157
Issuer fee income	15,000	15,000
Other income	4,869	-
	<u>527,755</u>	<u>71,157</u>
<b>Operating Expenses</b>		
Contributions	1,100,000	50,000
Professional fees	13,840	10,308
Miscellaneous fees	32	120
	<u>1,113,872</u>	<u>60,428</u>
<b>Change in Net Position</b>	(586,117)	10,729
<b>Net Position, Beginning of Year</b>	<u>661,202</u>	<u>650,473</u>
<b>Net Position, End of Year</b>	<u><u>\$ 75,085</u></u>	<u><u>\$ 661,202</u></u>

# Langston Economic Development Authority

## Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
<b>Operating Activities</b>		
Investment income received	\$ 9,698	\$ 5,912
Receipts from bond issuer fees	100,000	-
Receipts from class action settlement	406,369	-
Other operating receipts	4,869	-
Payments to related party, suppliers and bank	(1,113,872)	(137,411)
<b>Net Cash Used in Operating Activities and Net Decrease in Cash</b>	(592,936)	(131,499)
<b>Cash, Beginning of Year</b>	1,481,530	1,613,029
<b>Cash, End of Year</b>	<u>\$ 888,594</u>	<u>\$ 1,481,530</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities</b>		
Operating income (loss)	\$ (586,117)	\$ 10,729
Adjustments to reconcile operating income (loss) to net cash used in operating activities		
Change in the fair market value of the investment derivative instrument	(91,819)	(51,228)
Changes in		
Increase (decrease) in receivables	85,000	(15,000)
Decrease in pledges payable	-	(76,000)
<b>Net cash used in operating activities</b>	<u>\$ (592,936)</u>	<u>\$ (131,499)</u>

# Langston Economic Development Authority

## Notes to Financial Statements

June 30, 2013 and 2012

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

#### **Adoption of Accounting Principles**

Effective July 1, 2012, the Authority implemented the following financial accounting and reporting standards issued by GASB:

Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* – This statement provides guidance on information presented about the financial reporting entity and its component units and amends the criteria for blending in certain circumstances. The adoption of GASB Statement No. 61 did not have a material effect on the financial statements in the current year and had no effect on previously issued financial statements.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* – This statement incorporates Financial Accounting Standard Board (FASB) pronouncements, Accounting Principles Board Opinions and AICPA Accounting Research Bulletins (ARB) that do not conflict with GASB pronouncements, and issued on or before November 30, 1989, into the GASB authoritative literature. It also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that statement. The adoption of GASB Statement No. 62 did not have a material effect on the financial statements in the current year and had no effect on previously issued financial statements.

# Langston Economic Development Authority

## Notes to Financial Statements

June 30, 2013 and 2012

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* – This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The adoption of GASB Statement No. 63 did not have a material effect on the financial statements in the current year and had no effect on previously issued financial statements.

Statement No. 65, *Items Previously Reported as Assets and Liabilities* – This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. The adoption of GASB Statement No. 65 did not have a material effect on the financial statements in the current year and had no effect on previously issued financial statements.

### **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, 2013 and 2012.

### **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, 2013 and 2012.

### **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, 2013 and 2012**

### ***Net Position***

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

### ***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, 2013 and 2012, the Authority's bank balances were not exposed to custodial credit risk.

### ***Investment***

As of June 30, 2013 and 2012, the Authority had one investment, an interest rate swap, that had a negative fair value (liability) in the amounts of \$828,509 and \$920,328, 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.

# Langston Economic Development Authority

## Notes to Financial Statements

June 30, 2013 and 2012

### Note 3: Investment Income

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

	2013	2012
Investment income	\$ 9,698	\$ 5,912
Investment expense	-	(983)
Increase in fair value of the interest rate swap agreement	91,819	51,228
	<u>\$ 101,517</u>	<u>\$ 56,157</u>

### Note 4: Investment Derivative Instrument

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.

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 \$18,990,000 and \$19,425,000 at June 30, 2013 and 2012, 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.

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

	2013	2012
Fair value of investment derivative instrument	\$ 828,509	\$ 920,328
Balance sheet location of fair value amount	Liability	Liability
Gain recognized in change in net position	\$ 91,819	\$ 51,228
Location of gain recognized in change in net position	Investment income	Investment income

# Langston Economic Development Authority

## Notes to Financial Statements

June 30, 2013 and 2012

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.

### ***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, 2013 and 2012, the outstanding balances on these bonds were \$21,380,000 and \$21,910,000, respectively.

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, 2013 and 2012, the outstanding balances on these bonds were \$21,010,000 and \$21,735,000, 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, 2013, a receivable of \$15,000 was owed to the Authority by the Company.



# Langston Economic Development Authority

## Notes to Financial Statements

June 30, 2013 and 2012

During the years ended June 30, 2013 and 2012, the Authority made pledges and contributions to the following related parties:

	<u>2013</u>	<u>2012</u>
Contributions made to the Town of Langston	\$ 100,000	\$ 50,000
Contributions made to LDF Student Housing, LLC	<u>1,000,000</u>	<u>-</u>
	<u>\$ 1,100,000</u>	<u>\$ 50,000</u>

During the year ended June 30, 2013, the Authority contributed \$100,000 to the Town of Langston for improvement projects to the City Hall building, water plant and farmer's market. Additionally, the Authority contributed \$1,000,000 to the Company for the purpose of meeting the debt covenant on the bonds referred above. The contribution was made from cash generated by the interest rate swap agreements that were originally initiated as hedging instruments for bonds related to the Company's apartment housing construction.

### Note 6: Subsequent Events

Subsequent to June 30, 2013, the Authority disbursed funds to the Town of Langston in the amount of \$424,878 for the first phase of urgent town improvement projects. Additionally, the value of the investment derivative instrument (the Investment) increased its liability position by approximately \$200,000 and reported a negative value of \$(1,033,424) as of February 14, 2014. Additional details of the Investment can be found in *Note 4*. These two subsequent events resulted in an overall decrease in the Authority's net position of approximately \$625,000, and the Authority is currently reporting a deficit net position in excess of \$500,000.

**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, 2013, 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 March 20, 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 was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Board of Trustees  
Langston Economic Development Authority

### ***Compliance***

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*.

### ***Other Matters***

We noted certain matters that we reported to the Authority's management in a separate letter dated March 20, 2014.

The purpose of this communication 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 compliance. This communication 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  
March 20, 2014