

**OKLAHOMA ENVIRONMENTAL
MANAGEMENT AUTHORITY**

Financial Statements

June 30, 2013

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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PART I

Audited Financial Statements

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Oklahoma Environmental Management Authority
El Reno, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma Environmental Management Authority (the "Authority") as of and for the years ended June 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Authority has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Smith, Carney - Co., P.C.

Oklahoma City, Oklahoma
December 5, 2013

STATEMENTS OF NET ASSETS

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

| | June 30, | |
|---|---------------------|---------------------|
| | <u>2013</u> | <u>2012</u> |
| <u>ASSETS</u> | | |
| <u>Current Assets</u> | | |
| Cash and cash equivalents | \$ 1,759,309 | \$ 652,058 |
| Short-term investments | 40,270 | 47,828 |
| Accounts receivable, net | 550,965 | 564,015 |
| Accrued interest receivable | 2,184 | 2,152 |
| Deposits | - | 1,092 |
| Total Current Assets | <u>2,352,728</u> | <u>1,267,145</u> |
| <u>Capital Assets</u> | | |
| Land and improvements | 1,213,682 | 888,649 |
| Buildings | 1,318,157 | 1,329,550 |
| Computers | 30,793 | 30,793 |
| Office equipment and furniture | 61,702 | 63,381 |
| Software | 34,160 | 28,962 |
| Machinery and equipment | 7,207,246 | 6,943,240 |
| Automotive equipment | 4,379,332 | 3,708,066 |
| | <u>14,245,072</u> | <u>12,992,641</u> |
| Less: Accumulated depreciation | <u>(9,192,024)</u> | <u>(8,493,765)</u> |
| Capital Assets, Net | <u>5,053,048</u> | <u>4,498,876</u> |
| <u>Other Assets</u> | | |
| Restricted cash | 55,685 | 55,289 |
| Restricted investments | 2,122,971 | 2,011,629 |
| Rental property | 1,039,693 | 1,039,693 |
| Less: Accumulated depreciation | <u>(217,728)</u> | <u>(194,301)</u> |
| | <u>3,000,621</u> | <u>2,912,310</u> |
| | <u>\$10,406,397</u> | <u>\$ 8,678,331</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| <u>Current Liabilities</u> | | |
| Accounts payable | \$ 251,336 | \$ 295,855 |
| Accrued interest payable | 2,297 | 2,042 |
| Accrued payroll expenses | 161,331 | 186,460 |
| Customer deposits | 28,692 | 18,495 |
| Current portion of long-term debt | 205,000 | 817,731 |
| Current portion of capital lease | - | 16,035 |
| Total Current Liabilities | <u>648,656</u> | <u>1,336,618</u> |
| <u>Long-Term Liabilities</u> | | |
| Accrued closure and post-closure costs | 1,906,102 | 1,832,119 |
| Long-term debt, net of current portion | 4,655,000 | 2,099,455 |
| Total Long-Term Liabilities | <u>6,561,102</u> | <u>3,931,574</u> |
| Total Liabilities | <u>7,209,758</u> | <u>5,268,192</u> |
| <u>NET ASSETS</u> | | |
| Restricted for closure/post-closure costs | 2,178,656 | 2,046,458 |
| Unrestricted | 1,017,983 | 1,363,681 |
| Total Net Assets | <u>3,196,639</u> | <u>3,410,139</u> |
| | <u>\$10,406,397</u> | <u>\$ 8,678,331</u> |

See Notes to Financial Statements.

STATEMENTS OF ACTIVITIES

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

| | For The Year Ended | |
|---|---------------------|-------------------|
| | June 30, | |
| | 2013 | 2012 |
| <u>OPERATING REVENUE</u> | | |
| Disposal fees and hauling income | \$4,606,577 | \$4,709,512 |
| Recycling income | 96,785 | 82,950 |
| Grinder income | 49,019 | - |
| Service charges | 1,348 | - |
| Total Operating Revenue | <u>4,753,729</u> | <u>4,792,462</u> |
| <u>OPERATING EXPENSES</u> | | |
| Advertising, promotion and public awareness | 32,072 | 38,568 |
| Closure and post-closure costs | 73,982 | 86,859 |
| Contract services | 316,687 | 207,853 |
| Depreciation | 815,529 | 908,047 |
| Employee retirement | 119,657 | 133,943 |
| Engineering | 24,299 | 8,843 |
| Fuel and diesel | 538,022 | 528,619 |
| Inmate expenses | 15,915 | 14,035 |
| Insurance | 320,433 | 320,859 |
| Landfill host fees | 12,872 | 15,440 |
| Legal and accounting fees | 170,884 | 27,453 |
| Office expense | 21,956 | 48,615 |
| Operating safety supplies | 100,314 | 77,747 |
| Payroll taxes | 107,616 | 104,691 |
| Permits, licenses, and fees | 33,180 | 11,185 |
| Repairs and maintenance | 762,362 | 626,289 |
| Salaries and wages | 1,291,249 | 1,350,228 |
| Turnpike tolls and mileage | 11,439 | 11,311 |
| Utilities and telephone | 68,107 | 70,115 |
| Waste disposal tax | 77,619 | 84,898 |
| Environmental Officer expense | 26,100 | 26,192 |
| Miscellaneous | 63,021 | 75,341 |
| Total Operating Expenses | <u>5,003,315</u> | <u>4,777,131</u> |
| Operating Income (Loss) | <u>(249,586)</u> | <u>15,331</u> |
| <u>NON-OPERATING REVENUES (EXPENSES)</u> | | |
| Interest expense | (110,043) | (111,628) |
| Interest income | 22,379 | 17,592 |
| Insurance proceeds | 4,462 | - |
| Miscellaneous income | 9,872 | 16,192 |
| Rent income, net of related expense | 107,925 | 124,357 |
| Gain (loss) on disposal of assets | 1,491 | (68,803) |
| | <u>36,086</u> | <u>(22,290)</u> |
| Net Income (Loss) | <u>\$ (213,500)</u> | <u>\$ (6,959)</u> |

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN NET ASSETS

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

For The Year Ended June 30, 2013

| | 2013 | | |
|------------------------------|--------------------|---------------------|--------------------|
| | <u>Restricted</u> | <u>Unrestricted</u> | <u>Total</u> |
| BALANCE AT BEGINNING OF YEAR | \$2,046,458 | \$1,363,681 | \$3,410,139 |
| Transfers in (out) | 132,198 | (132,198) | - |
| Net income (loss) | - | (213,500) | (213,500) |
| BALANCE AT END OF YEAR | <u>\$2,178,656</u> | <u>\$1,017,983</u> | <u>\$3,196,639</u> |

| | 2012 | | |
|------------------------------|--------------------|---------------------|--------------------|
| | <u>Restricted</u> | <u>Unrestricted</u> | <u>Total</u> |
| BALANCE AT BEGINNING OF YEAR | \$1,946,580 | \$1,470,518 | \$3,417,098 |
| Transfers in (out) | 99,878 | (99,878) | - |
| Net income (loss) | - | (6,959) | (6,959) |
| BALANCE AT END OF YEAR | <u>\$2,046,458</u> | <u>\$1,363,681</u> | <u>\$3,410,139</u> |

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

| | For The Year Ended June 30, | |
|--|--------------------------------|--------------------|
| | <u>2013</u> | <u>2012</u> |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| Cash received from customers | \$4,776,975 | \$4,771,218 |
| Other receipts | 144,642 | 160,754 |
| Payments to employees for salaries and benefits | (1,316,380) | (1,323,507) |
| Payments to suppliers and others | <u>(2,975,803)</u> | <u>(2,335,296)</u> |
| Net Cash Provided By Operating Activities | <u>629,434</u> | <u>1,273,169</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Purchases of capital assets | (1,358,834) | (363,514) |
| Proceeds from sale of capital assets | 14,052 | 75,000 |
| (Increase) decrease in short-term investments | <u>7,558</u> | <u>(27,828)</u> |
| Net Cash Used By Investing Activities | <u>(1,337,224)</u> | <u>(316,342)</u> |
| <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u> | | |
| Increase in restricted assets | (111,738) | (120,338) |
| Proceeds from debt | 6,087,880 | 350,408 |
| Principal paid on long-term debt | <u>(4,161,101)</u> | <u>(919,837)</u> |
| Net Cash Used By Financing Activities | <u>1,815,041</u> | <u>(689,767)</u> |
| Net Increase (Decrease) In Cash | 1,107,251 | 267,060 |
| <u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u> | <u>652,058</u> | <u>384,998</u> |
| <u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u> | <u>\$1,759,309</u> | <u>\$ 652,058</u> |
| <u>RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u> | | |
| Net income (loss) | \$ (213,500) | \$ (6,959) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 815,529 | 908,047 |
| Closure/post-closure costs | 73,982 | 86,859 |
| Bad debt expense | - | 195 |
| Gain (loss) on sale of assets | (1,491) | 68,803 |
| (Increase) decrease in accounts receivable and accrued receivables | 13,018 | (20,822) |
| (Increase) decrease in: | | |
| Deposits | 1,092 | 2,191 |
| Deferred expenses | - | 170,000 |
| Increase (decrease) in accounts payable and accrued expenses | <u>(59,196)</u> | <u>64,855</u> |
| Net Cash Provided By Operating Activities | <u>\$ 629,434</u> | <u>\$1,273,169</u> |
| <u>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</u> | | |
| Cost of equipment | \$1,358,834 | \$ 799,766 |
| Amount financed | <u>-</u> | <u>(436,252)</u> |
| Cash Paid For Equipment | <u>\$1,358,834</u> | <u>\$ 363,514</u> |

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2013

NOTE A--ORGANIZATION

The Oklahoma Environmental Management Authority (the "Authority") was created March 15, 1971, under the name Canadian Solid Waste Disposal Authority, for the use and benefit of the Beneficiary (Canadian County, Oklahoma) to furnish, construct, administer, and finance sanitary landfill services and facilities for public purposes under the Laws of the State of Oklahoma (generally, but not exclusively, pursuant to Title 60, Sections 176 to 180 inclusive, Oklahoma Statutes, 1951, as amended, and to the Oklahoma Trust Act). The name was changed to the Oklahoma Environmental Management Authority on August 15, 1999.

The Authority's primary sources of revenue are derived from trash collection and landfill services in Canadian County, Oklahoma and other nearby communities.

The Authority is the sole member of an inactive Limited Liability Company. Oklahoma Environmental Authority, LLC was formed by the Authority but has never been active. When this wholly-owned subsidiary becomes active, it will be consolidated into the financial statements of the Authority.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Accounting Basis: The Authority has adopted the accrual basis of accounting, and as a proprietary activity has elected to apply all Financial Accounting Standards Board (FASB) Statements issued after November 30, 1989, except those in conflict with Governmental Accounting Standards Board (GASB) Pronouncements.

The Authority has implemented GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments. GASB Statement No. 34 established a new financial reporting model for state and local governments that includes the addition of Management's Discussion and Analysis which management has elected to omit.

Cash and Cash Equivalents: For purposes of the Statements of Cash Flows, cash and cash equivalents include all highly-liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents are insured up to federal limits by the FDIC.

Capital Assets: Capital assets are recorded at cost. Maintenance and repairs are expensed in the year incurred. Gains or losses on retirement, sales, or trade-ins are recorded in the year incurred. Depreciation is provided by the straight-line method over the estimated useful lives of the assets (generally 25 years for buildings; 10 to 25 years for improvements; and 5 to 10 years for all other equipment).

Changes in Capital Assets/Rental Property: For the year ended June 30, 2013, capital asset/rental property balances changed as follows:

| | <u>Balance At</u> <u>July 1, 2012</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance At</u> <u>June 30, 2013</u> |
|-----------------------------------|--|-------------------|--------------------|---|
| Capital Assets | \$12,992,641 | \$1,358,834 | \$(106,403) | \$14,245,072 |
| Rental Property | 1,039,693 | - | - | 1,039,693 |
| Less: Accumulated Depreciation | <u>(8,688,066)</u> | <u>(815,530)</u> | <u>93,844</u> | <u>(9,409,752)</u> |
| Net | <u>\$ 5,344,268</u> | <u>\$ 543,304</u> | <u>\$ (12,559)</u> | <u>\$ 5,875,013</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2013

NOTE B--SIGNIFICANT ACCOUNTING POLICIES--Continued

Restricted Investments: Investments are stated at fair market value. Restricted investments include certificates of deposit with original maturities that may exceed one year. These certificates of deposit are restricted as escrow deposits designated for closure and post-closure costs.

Income Tax: The Authority, as a Public Trust with Canadian County, Oklahoma as the Beneficiary, is exempt from income tax under Internal Revenue Code Section 115.

Allowance for Bad Debts: The Authority uses the allowance method of accounting for uncollectible accounts. The allowance for possible loss of accounts receivable as of both June 30, 2013 and 2012 was \$33,365.

Short-Term Investments: Unrestricted and undesignated certificates of deposit with original maturities of over 90 days and not over one year are classified as short-term investments. As of June 30, 2013, the Authority invested \$20,118 in collateralized mortgage obligations. Management considers these to be short-term investments.

Concentration of Risk: The Authority occasionally has bank deposits in excess of federally insured limits. The risk is mitigated by maintaining all deposits in high quality financial institutions and maintaining collateralization agreements. The Authority had \$4,027,269 and \$2,793,982 in deposits (collected bank balances) as of June 30, 2013 and 2012, respectively. These deposits are secured from risk by \$2,761,856 and \$1,302,292 of federal deposit insurance, and collateral agreements of \$1,450,000 and \$1,000,000 at June 30, 2013 and 2012, respectively. The authority had cash balances in excess of FDIC insurance and collateral agreements of \$0 and \$491,690 as of June 30, 2013 and 2012, respectively. The Authority has not experienced any losses and does not believe it is exposed to any significant credit risk on cash balances.

Reclassification: Certain 2012 amounts have been reclassified in order to conform with the 2013 financial statement presentation.

Restricted Net Assets: Restricted assets are comprised of funds that have been designated by the Authority for landfill closure and post-closure costs. These restricted assets are comprised of restricted cash and investments.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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.

NOTE C--FAIR VALUE MEASUREMENTS

FASB Codification 820-10, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy under FASB Codification 820-10 are described below:

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2013

NOTE C--FAIR VALUE MEASUREMENTS--Continued

Level 1--Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

Level 2--Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3--Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Authority's assets at fair value as of June 30, 2013 and 2012.

Assets At Fair Value As Of June 30, 2013

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------|----------------|--------------------|----------------|--------------------|
| Short-Term Investments | \$ - | \$ 40,270 | \$ - | \$ 40,270 |
| Restricted Investments | - | <u>2,122,971</u> | - | <u>2,122,971</u> |
| Total Assets At Fair Value | <u>\$ -</u> | <u>\$2,163,241</u> | <u>\$ -</u> | <u>\$2,163,241</u> |

Assets At Fair Value As Of June 30, 2012

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------|----------------|--------------------|----------------|--------------------|
| Short-Term Investments | \$ - | \$ 47,828 | \$ - | \$ 47,828 |
| Restricted Investments | - | <u>2,011,629</u> | - | <u>2,011,629</u> |
| Total Assets At Fair Value | <u>\$ -</u> | <u>\$2,059,457</u> | <u>\$ -</u> | <u>\$2,059,457</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2013

NOTE D--LONG-TERM DEBT

Long-term debt at June 30 consists of the following:

| | <u>2013</u> | <u>2012</u> |
|--|--------------------|--------------------|
| Note payable to All American Bank, dated September 1, 2006, payable monthly, with interest at 4.79%. Secured by equipment. Matures September 1, 2013. | \$ - | \$ 161,088 |
| Note payable to Bank of Union, dated June 9, 2006, payable monthly, with interest at 3.75%. Secured by equipment. Matures May 10, 2014. | - | 292,868 |
| Note payable to Bank of Union, dated September 17, 2007, payable monthly, with interest at 4.75%. Secured by property. Matures September 15, 2017. | - | 220,378 |
| Note payable to Bank of Union dated July 29, 2009, payable monthly, with interest at 3.89%. Secured by equipment. Matures July 30, 2016. | - | 1,002,993 |
| Note payable to All American Bank, dated January 7, 2010, payable monthly, with interest at 3.58%. Secured by equipment. Matures January 1, 2017. | - | 183,382 |
| Note payable to F&M Bank, dated October 4, 2011, payable monthly, with interest at 2.75%. Secured by vehicle. Matures October 4, 2016. | - | 158,011 |
| Note payable to All American Bank, dated December 14, 2011, payable monthly, with interest at 2.70%. Secured by equipment. Matures December 19, 2017. | - | 388,837 |
| Note payable to Cornerstone Bank, dated March 30, 2012, payable monthly, with interest at 2.50%. Secured by equipment. Matures May 27, 2017. | - | 184,594 |
| Note payable to F & M Bank, dated September 24, 2010, payable monthly, with interest at 3.05%. Secured by vehicles. Matures September 24, 2015 | - | 325,035 |
| Revenue note payable to F&M Bank, dated June 25, 2013, payable semi-annually with interest at 3.45%. Secured by revenues of the authority. Matures July 1, 2023. | 4,860,000 | - |
| | <u>4,860,000</u> | <u>2,917,186</u> |
| Less: Current Maturities | <u>(205,000)</u> | <u>(817,731)</u> |
| | <u>\$4,655,000</u> | <u>\$2,099,455</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2013

NOTE D--LONG-TERM DEBT--Continued

For the year ended June 30, 2013 the Authority's long-term debt changed as follows:

| <u>Type Of Debt</u> | <u>Balance At July 1, 2012</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance At June 30, 2013</u> | <u>Amounts Due Within One Year</u> |
|---------------------|------------------------------------|--------------------|----------------------|-------------------------------------|--|
| Bank debt | <u>\$2,917,186</u> | <u>\$6,087,880</u> | <u>\$(4,145,066)</u> | <u>\$4,860,000</u> | <u>\$205,000</u> |

Debt service requirements of long-term debt are as follows:

| | <u>Principal</u> | <u>Interest</u> |
|------------|--------------------|------------------|
| 2014 | \$ 205,000 | \$ 86,629 |
| 2015 | 425,000 | 83,093 |
| 2016 | 430,000 | 74,471 |
| 2017 | 460,000 | 75,762 |
| 2018 | 465,000 | 72,053 |
| Thereafter | <u>2,875,000</u> | <u>591,070</u> |
| | <u>\$4,860,000</u> | <u>\$983,078</u> |

NOTE E--LEASE COMMITMENTS

The Authority entered into an operating lease in 2010 for a copier. The lease has a minimum payment of \$195 per month for 60 months. The Authority also entered into an operating lease for office space in 2010. The lease has a minimum payment of \$875 per month for 12 months. Effective June, 2011, the lease terms changed to month-to-month. Future minimum payments under operating leases with original terms of one year or longer are as follows:

| | |
|------|----------------|
| 2014 | \$2,343 |
| 2015 | <u>1,757</u> |
| | <u>\$4,100</u> |

The following schedule shows the total rent expense for all operating leases except those with terms of a month or less that were not renewed.

| | <u>For The Year Ended June 30,</u> | |
|--------------------|--|----------------|
| | <u>2013</u> | <u>2012</u> |
| Minimum rentals | \$2,343 | \$2,343 |
| Contingent rentals | <u>-</u> | <u>-</u> |
| | <u>\$2,343</u> | <u>\$2,343</u> |

NOTE F--LEASING ACTIVITIES

The Authority is the lessor of agricultural and commercial real estate. Both leasing activities are classified as operating leases with non-cancellable lease terms of one year or less.

The cost and related accumulated depreciation of assets held for leasing are as follows at June 30.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2013

NOTE F--LEASING ACTIVITIES--Continued

| | <u>2013</u> | <u>2012</u> |
|--------------------------|------------------|------------------|
| Agricultural real estate | \$421,219 | \$421,219 |
| Commercial real estate | 618,474 | 618,474 |
| Accumulated depreciation | <u>(217,728)</u> | <u>(194,301)</u> |
| Rental Property (Net) | <u>\$821,965</u> | <u>\$845,392</u> |

NOTE G--PENSION PLAN

Substantially all full-time employees are participants in the Oklahoma Public Employees Retirement Plan. This is a cost-sharing, multiple-employer defined benefit plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature.

The plan provides retirement, disability, and death benefits to plan members and beneficiaries. Title 74, Section 901 through 943, as amended, establishes the provisions of the plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information.

Authority employees are required to contribute 4% of earned compensation. The Authority contributes 16% of earned compensation. For the years ended June 30, 2013 and 2012, employer contributions were \$119,657 and \$133,943, respectively.

In 2010, the Authority also adopted a Section 457 elective deferral plan for eligible employees. There are no employer contributions related to this plan.

NOTE H--LANDFILL CLOSURE AND POST-CLOSURE COSTS

Landfill closure and post-closure costs and the related liabilities have been estimated and recorded in the financial statements according to standards established by the Governmental Accounting Standards Board. The estimated cost could change due to changes in technology, laws, and regulations that apply to the landfill closure and post-closure process, or inflation. The amount is also calculated in accordance with the Oklahoma Department of Environmental Quality and adjusted for the cumulative amount of capacity used to the total estimated capacity of the landfill.

The cumulative capacity used is approximately 85% of the total estimated capacity. The estimated remaining landfill life is 4.01 years. The Authority accrued \$73,982 and \$86,859 for closure and post-closure costs for the years ended June 30, 2013 and 2012, respectively. The Authority has estimated total costs of landfill closure and post-closure of \$2,202,771 of which \$1,906,102 has been recognized and \$296,669 has yet to be recognized. The Authority is accumulating assets to provide financial assurance to the Oklahoma Department of Environmental Quality for these closure and post-closure costs.

According to Title 252 of the Oklahoma Administrative Code ("OAC"), Chapter 510, Section 23-51(1)(B), financial reassurance can be provided by several options, including an escrow option. Under the escrow option, the estimated costs must be paid into an escrow account annually over the shorter of 15 years or the remaining life of the landfill. In accordance with OAC 252:515-27-8(b)2, an economic life of the site of one year was used to determine escrow payments for financial assurance.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2013

NOTE H--LANDFILL CLOSURE AND POST-CLOSURE COSTS--Continued

The Authority has restricted cash of \$55,685 and \$55,289 and restricted investments of \$2,122,971 and \$2,011,629 at June 30, 2013 and 2012, respectively. Annual deposits were made to these escrow accounts of \$93,010 in 2013 and \$85,667 in 2012. Restricted cash and restricted investments represent the amount designated by the Authority for closure and post-closure costs.

NOTE I--CONTINGENCIES

The Authority purchases commercial insurance to protect fixed assets from risk of loss and to help protect the Authority from loss due to liability.

The Authority is subject to laws and regulations relating to the protection of the environment. The Authority's policy is to accrue environmental and clean-up related costs of a non-capital nature when it is both probable that a liability has been incurred and when the amount can be reasonably estimated.

Although it is not possible to quantify with any degree of certainty the potential financial impact of the Authority's continuing compliance efforts, management believes any future remediation or other compliance related costs will not have a material adverse effect on the financial condition or reported results of operations of the Authority.

During the fiscal year ending June 30, 2003, the Authority received a proposed penalty from the Internal Revenue Service alleging that the Authority violated IRS Code Section 6715 regarding the use of dyed fuel. The amount of the penalty is estimated at \$16,280. The Authority has requested an informal conference and appeals review. There has been no correspondence from the Internal Revenue Service regarding this penalty since 2003. The Authority plans to request that the Internal Revenue Service waive this penalty. The amount has not been accrued in the financial statements as of June 30, 2013 and 2012.

NOTE J--INVESTMENTS

State Statutes authorize the Authority to invest in certificates of deposit, passbooks, banker's acceptances, and other available bank investments provided the deposits and investments are secured by Federal Depository Insurance or secured by qualified securities owned by the bank pledged as collateral. The Authority is also authorized to invest in certain government obligations. Deposits of the Authority were insured or collateralized as follows:

| | |
|---|--------------------|
| Federal Deposit Insurance | \$2,761,856 |
| Deposits with qualified bank securities pledged as collateral | 1,450,000 |
| Uninsured and uncollater- alized | <u> -</u> |
| Total | <u>\$4,211,856</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2013

NOTE K--SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 5, 2013, the date which financial statements were available for issue.

PART II

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

REPORT ON COMPLIANCE AND INTERNAL CONTROL

FOR THE YEAR ENDED JUNE 30, 2013

SMITH, CARNEY & Co., P.C.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees
Oklahoma Environmental Management Authority
El Reno, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma Environmental Management Authority (the "Authority") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 5, 2013.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that 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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Oklahoma City, Oklahoma
December 5, 2013

Smith, Carney - Co., p.c.