

**OKLAHOMA ENVIRONMENTAL
MANAGEMENT AUTHORITY**

Audit Report

June 30, 2012

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

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PART I

Audited Financial Statements

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2012

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Statements of Net Assets of the Oklahoma Environmental Management Authority (a public trust) as of June 30, 2012 and 2011 and the related Statements of Activities, Changes in Net Assets, and Cash Flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Environmental Management Authority as of June 30, 2012 and 2011, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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 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.

Oklahoma City, Oklahoma
March 26, 2013

Smith, Carney & Co., P.C.

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 SMITH, CARNEY & CO., P.C.

STATEMENTS OF NET ASSETS

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

	June 30,	
	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 672,518	\$ 384,998
Short-term investments	47,828	20,000
Accounts receivable, net	564,015	542,965
Accrued interest receivable	2,152	2,576
Prepaid expenses	-	2,191
Deposits	1,092	1,092
Deferred repairs and maintenance expenses	-	170,000
Total Current Assets	<u>1,287,605</u>	<u>1,123,822</u>
<u>Capital Assets</u>		
Land and improvements	888,649	888,649
Buildings	1,329,550	1,313,584
Computers	30,793	27,830
Office equipment and furniture	63,381	61,438
Software	28,962	28,108
Machinery and equipment	6,943,240	6,936,840
Automotive equipment	3,708,066	3,546,525
	<u>12,992,641</u>	<u>12,802,974</u>
Less: Accumulated depreciation	<u>(8,493,765)</u>	<u>(8,067,798)</u>
Capital Assets, Net	<u>4,498,876</u>	<u>4,735,176</u>
<u>Other Assets</u>		
Restricted cash	34,829	34,464
Restricted investments	2,011,629	1,912,115
Rental property	1,039,693	1,032,116
Less: Accumulated depreciation	<u>(194,301)</u>	<u>(170,940)</u>
	<u>2,891,850</u>	<u>2,807,755</u>
	<u>\$ 8,678,331</u>	<u>\$ 8,666,753</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts payable	\$ 295,855	\$ 262,762
Accrued interest payable	2,042	2,042
Accrued payroll expenses	186,460	159,739
Customer deposits	18,495	13,453
Current portion of notes payable	817,731	762,958
Current portion of capital lease	16,035	62,723
Total Current Liabilities	<u>1,336,618</u>	<u>1,263,677</u>
<u>Long-Term Liabilities</u>		
Accrued closure and post-closure costs	1,832,119	1,745,260
Notes payable, net of current portion	2,099,455	2,224,683
Obligations under capital lease, net of current portion	-	16,035
Total Long-Term Liabilities	<u>3,931,574</u>	<u>3,985,978</u>
Total Liabilities	<u>5,268,192</u>	<u>5,249,655</u>
<u>NET ASSETS</u>		
Restricted for closure/post-closure costs	2,046,458	1,946,580
Unrestricted	<u>1,363,681</u>	<u>1,470,518</u>
Total Net Assets	<u>3,410,139</u>	<u>3,417,098</u>
	<u>\$ 8,678,331</u>	<u>\$ 8,666,753</u>

See Notes to Financial Statements.

STATEMENTS OF ACTIVITIES

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

	For The Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
<u>OPERATING REVENUE</u>		
Disposal fees and hauling income	\$4,709,512	\$ 4,334,556
Recycling income	82,950	70,733
Grinder income	-	-
Service charges	-	8,134
Discounts earned	-	-
Total Operating Revenue	<u>4,792,462</u>	<u>4,413,423</u>
 <u>OPERATING EXPENSES</u>		
Advertising	38,568	26,982
Bad debt	195	-
Closure and post-closure costs	86,859	50,406
Contract services	207,853	68,424
Damages	1,530	2,702
Depreciation	908,047	921,701
Donations	1,444	2
Employee retirement	133,943	142,341
Engineering	8,843	15,830
Fuel and diesel	528,619	475,997
Inmate expenses	14,035	13,295
Insurance	320,859	284,456
Interest	111,628	133,920
Landfill host fees	15,440	13,266
Legal and accounting fees	27,453	39,519
Office expense	48,615	40,649
Operating safety supplies	77,747	62,953
Payroll taxes	104,691	110,688
Permits, licenses, and fees	11,185	20,201
Repairs and maintenance	626,289	770,179
Salaries and wages	1,350,226	1,391,993
Turnpike tolls and mileage	11,311	10,477
Utilities and telephone	70,115	70,350
Waste disposal tax	84,898	64,296
Environmental Officer expense	26,192	28,275
Miscellaneous	72,174	64,177
Total Operating Expenses	<u>4,888,759</u>	<u>4,823,079</u>
Operating Loss	<u>(96,297)</u>	<u>(409,656)</u>
 <u>NON-OPERATING REVENUES</u>		
Interest income	17,592	33,214
Insurance proceeds	-	2,384
Miscellaneous income	16,192	30,158
Rent income, net of related expense	124,357	131,979
Gain (loss) on disposal of assets	(68,803)	14,350
	<u>89,338</u>	<u>212,085</u>
Net Income (Loss)	<u>\$ (6,959)</u>	<u>\$ (197,571)</u>

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN NET ASSETS

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

For The Year Ended June 30, 2012

	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)	<u>-</u>	<u>(6,959)</u>	<u>(6,959)</u>
BALANCE AT END OF YEAR	<u>\$2,046,458</u>	<u>\$1,363,681</u>	<u>\$3,410,139</u>

	2011		
	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
BALANCE AT BEGINNING OF YEAR	\$1,818,935	\$1,795,734	\$3,614,669
Transfers in (out)	127,645	(127,645)	-
Net income (loss)	<u>-</u>	<u>(197,571)</u>	<u>(197,571)</u>
BALANCE AT END OF YEAR	<u>\$1,946,580</u>	<u>\$1,470,518</u>	<u>\$3,417,098</u>

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

	For The Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers	\$4,771,218	\$4,392,209
Other receipts	160,754	221,046
Payments to employees for salaries and benefits	(1,323,507)	(1,353,359)
Payments to suppliers and others	<u>(2,335,296)</u>	<u>(2,566,792)</u>
Net Cash Provided By Operating Activities	<u>1,273,169</u>	<u>693,104</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of capital assets	(363,514)	(206,616)
Proceeds from sale of capital assets	75,000	14,350
(Increase) decrease in short-term investments	<u>(27,828)</u>	<u>-</u>
Net Cash Used By Investing Activities	<u>(316,342)</u>	<u>(192,266)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Increase in restricted assets	(99,878)	(127,645)
Proceeds from debt	350,408	242,963
Principal paid on long-term debt	<u>(919,837)</u>	<u>(755,550)</u>
Net Cash Used By Financing Activities	<u>(669,307)</u>	<u>(640,232)</u>
Net Increase (Decrease) In Cash	287,520	(139,394)
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	<u>384,998</u>	<u>524,392</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$ 672,518</u>	<u>\$ 384,998</u>
<u>RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Net income (loss)	\$ (6,959)	\$ (197,571)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	908,047	944,825
Closure/post-closure costs	86,859	50,406
Bad debt expense	195	-
Gain (loss) on sale of assets	68,803	(14,350)
(Increase) in accounts receivable and accrued receivables	(20,822)	(18,838)
(Increase) decrease in:		
Prepaid expenses	2,191	(2,191)
Deferred expenses	170,000	(156,500)
Increase (decrease) in accounts payable and accrued expenses	<u>64,855</u>	<u>87,323</u>
Net Cash Provided By Operating Activities	<u>\$1,273,169</u>	<u>\$ 693,104</u>
<u>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</u>		
Cost of equipment	\$ 799,766	\$ 450,665
Amount financed	<u>(436,252)</u>	<u>(244,049)</u>
Cash Paid For Equipment	<u>\$ 363,514</u>	<u>\$ 206,616</u>
See Notes to Financial Statements.		

NOTES TO FINANCIAL STATEMENTS

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2012

NOTE A--ORGANIZATION

The Oklahoma Environmental Management Authority (the "Authority") was created March 15, 1971 under the name Canadian Solidwaste 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 in 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. Reconciliation of cash and cash equivalents per Statements of Cash Flows to Balance Sheet accounts is as follows:

	<u>Balance Sheet Amount</u>	<u>Less: Non-Liquid Investments</u>	<u>Cash And Cash Equivalents</u>
Current Assets:			
Cash	\$672,518	\$ -	\$672,518
Short-term			
Investments:			
Certificate			
of deposit	20,000	(20,000)	-
Collateral-			
ized mortgage			
obligation	<u>27,828</u>	<u>(27,828)</u>	<u>-</u>
	<u>\$720,346</u>	<u>\$ (47,828)</u>	<u>\$672,518</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2012

NOTE B--SIGNIFICANT ACCOUNTING POLICIES--Continued

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, 2012, capital asset/rental property balances changed as follows:

	<u>Balance At</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance At</u> <u>June 30, 2012</u>
Capital Assets	\$12,802,974	\$ 967,188	\$(777,521)	\$12,992,641
Rental Property	1,032,116	7,577	-	1,039,693
Less: Accumulated Depreciation	<u>(8,238,738)</u>	<u>(908,047)</u>	<u>458,719</u>	<u>(8,688,066)</u>
Capital Assets/ Rental Property, Net	<u>\$ 5,596,352</u>	<u>\$ 66,718</u>	<u>\$(318,802)</u>	<u>\$ 5,344,268</u>

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, 2012 and 2011 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, 2012, the Authority invested \$27,828 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 \$2,793,982 and \$2,400,239 in deposits (collected bank balances) as of June 30, 2012 and 2011, respectively. These deposits are secured from risk by \$1,302,292 and \$1,367,514 of federal deposit insurance, and collateral agreements of \$1,000,000 and \$1,100,000 at June 30, 2012 and 2011, respectively. The authority had cash balances in excess of FDIC insurance and collateral agreements of \$491,690 and \$-0- as of June 30, 2012 and 2011, respectively. The Authority has not experienced any losses and does not believe it is exposed to any significant credit risk on cash balances.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2012

NOTE B--SIGNIFICANT ACCOUNTING POLICIES--Continued

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:

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.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2012

NOTE C--FAIR VALUE MEASUREMENTS--Continued

The following table sets forth by level, within the fair value hierarchy, the Authority's assets at fair value as of June 30, 2012 and 2011.

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	-	2,011,629	-	2,011,629
Total Assets At Fair Value	<u>\$ -</u>	<u>\$2,059,457</u>	<u>\$ -</u>	<u>\$2,059,457</u>

Assets At Fair Value As Of June 30, 2011

Short-Term Investments	\$ -	\$ 20,000	\$ -	\$ 20,000
Restricted Investments	-	1,912,115	-	1,912,115
Total Assets At Fair Value	<u>\$ -</u>	<u>\$1,932,115</u>	<u>\$ -</u>	<u>\$1,932,115</u>

NOTE D--LONG-TERM NOTES PAYABLE

Long-term notes payable at June 30 consist of the following:

	<u>2012</u>	<u>2011</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	\$ 284,706
Note payable to All American Bank, dated October 18, 2006, payable monthly, with interest at 4.38%. Secured by equipment. Matures October 18, 2012.	-	144,828
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	436,103
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	256,644
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	1,227,132
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	219,388

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2012

NOTE D--LONG TERM NOTES PAYABLE--Continued

Note payable to F&M Bank, dated October 4, 2011, payable monthly, with interest at 2.75%. Secured by vehicle. Matures October 4, 2016.	<u>2012</u>	<u>2011</u>
	\$ 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	418,840
	<u>2,917,186</u>	<u>2,987,641</u>
Less: Current Maturities	<u>(817,731)</u>	<u>(762,958)</u>
	<u>\$2,099,455</u>	<u>\$2,224,683</u>

For the year ended June 30, 2012 the Authority's long-term notes payable changed as follows:

<u>Type Of Debt</u>	<u>Balance At July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance At June 30, 2012</u>	<u>Amounts Due Within One Year</u>
Bank debt	<u>\$2,987,641</u>	<u>\$ 786,659</u>	<u>\$(857,114)</u>	<u>\$2,917,186</u>	<u>\$817,731</u>

Debt service requirements of long-term notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 817,731	\$ 90,944
2014	733,551	61,333
2015	578,191	38,583
2016	519,053	18,775
2017	220,431	4,717
Thereafter	<u>48,229</u>	<u>377</u>
	<u>\$2,917,186</u>	<u>\$214,729</u>

NOTE E--LEASE COMMITMENTS

The Authority leases equipment from Bank of America under a capital lease. The economic substance of the lease is that the Authority is financing the acquisition of the assets through the lease and, accordingly, it is recorded in the Authority's assets and liabilities.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2012

NOTE E--LEASE COMMITMENTS--Continued

The following is an analysis of the leased assets included in capital assets:

Machinery and equipment	\$398,865
Less: Accumulated depreciation	<u>(398,865)</u>
	<u>\$ -</u>

Following is a schedule by years of present value of the future minimum lease payments as of June 30, 2012.

2013	<u>\$16,035</u>
Present Value Of Minimum Lease Payments	<u>\$16,035</u>

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:

2013	\$2,343
2014	2,343
2015	<u>1,757</u>
	<u>\$6,443</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.

	For The Year Ended	
	June 30,	
	<u>2012</u>	<u>2011</u>
Minimum rentals	\$2,343	\$13,327
Contingent rentals	<u>-</u>	<u>-</u>
	<u>\$2,343</u>	<u>\$13,327</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, 2012

NOTE F--LEASING ACTIVITIES--Continued

	<u>2012</u>	<u>2011</u>
Agricultural real estate	\$421,219	\$421,219
Commercial real estate	618,474	610,897
Accumulated depreciation	<u>(194,301)</u>	<u>(170,940)</u>
Rental Property (Net)	<u>\$845,392</u>	<u>\$861,176</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 year ended June 30, 2012 and 2011, employer contributions were \$133,943 and \$142,341, 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 liability 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 6.61 years. The Authority accrued \$86,859 and \$50,406 for closure and post-closure costs for the years ended June 30, 2012 and 2011, respectively. The Authority has estimated total costs of landfill closure and post-closure of \$2,164,673 of which \$1,832,119 has been recognized and \$332,554 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, 2012

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

The Authority has restricted cash of \$34,829 and \$34,464 and restricted investments of \$2,011,629 and \$1,912,115 at June 30, 2012 and 2011, respectively. Annual deposits were made to these escrow accounts of \$85,667 in 2012 and \$98,693 in 2011. 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, 2012 and 2011.

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	\$1,302,292
Deposits with qualified bank securities pledged as collateral	1,000,000
Uninsured and uncollater- alized	<u>491,690</u>
Total Deposits	<u>\$2,793,982</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2012

NOTE K--SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 26, 2013 the date which financial statements were available for issue.

In March, 2013, The Authority began waste collection for the city of Kingfisher, Oklahoma.

The Authority maintains letters of credit with various banking institutions to offset credit risk. At June 30, 2012, the letter of credit with the Bank of Commerce in the amount of \$100,000 was not in force. This letter of credit was renewed on February 1, 2013 in the amount of \$100,000.

PART II

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

REPORT ON COMPLIANCE AND INTERNAL CONTROL

FOR THE YEAR ENDED JUNE 30, 2012

SMITH, CARNEY & Co., P.C.

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REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the Oklahoma Environmental Management Authority as of, and for, the years ended June 30, 2012 and 2011 and have issued our report thereon dated March 26, 2013. 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. The Oklahoma Environmental Management Authority has not presented 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 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.

Internal Control Over Financial Reporting

Management of the Oklahoma Environmental Management Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered Oklahoma Environmental Management Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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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. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a material weakness (Finding 2012-1).

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, to be significant deficiencies (Findings 2012-1, 2012-2, 2012-3, 2011-1, 2010-1 and 2010-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oklahoma Environmental Management 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 Governmental Auditing Standards.

Oklahoma Environmental Management Authority's responses to the findings identified in our audits are described in the accompanying Schedule of Findings and Responses. We did not audit Oklahoma Environmental Management Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of Management and the Board of Trustees of the Oklahoma Environmental Management Authority and is not intended to be and should not be used by anyone other than these specified parties.

Smith, Carney & Co., P.C.

Oklahoma City, Oklahoma
March 26, 2013

FINDINGS AND RESPONSES

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2012

The following is a description of each of the current year's findings and the status of those findings.

Finding 2012-01

Criteria: Financial statements should be prepared timely.

Condition: Financial information was not prepared in time to meet reporting deadlines.

Effect: The audited financial statements were not available to be provided to required governmental entities by the required deadline which could put the Authority at risk of fees or other penalties.

Cause: Due to employee turnover at the Authority, personnel were not able to complete the procedures necessary to finalize the financial statements.

Recommendation: We recommend that adequately trained personnel be hired and trained to complete the financial statements in a timely manner.

Management Response: The Authority has hired a new Controller for fiscal year 2013. The new Controller is a CPA and understands the need for timely financial information.

Finding 2012-02

Criteria: Receipts or invoices as well as purchases orders and approved claims lists should be retained in order to show the existence of the expense.

Condition: During our tests of credit cards, we noted several transactions that were not supported by proper documentation.

Effect: It does not appear that any misstatements have occurred in the current year, but the lack of documentation creates a situation that does not allow the Authority to identify and correct misstatements that could occur as a result of an employee misusing the Authority's funds.

Cause: Payments were submitted to vendors without proper support documents or authorizations.

Recommendation: We recommend that the Authority require proper documentation for all transactions to help ensure that all transactions are related to the Authority's activities and are not a result of employee abuse.

Management Response: Management will establish procedures to ensure proper documentation and approval of transactions are maintained.

Finding 2012-03

Criteria: Capital asset disposals should be properly recorded.

Condition: During our testing, we noted that an asset disposal was not properly accounted for during the year.

FINDINGS AND RESPONSES

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2012

Finding 2012-03--Continued

Effect: Expenses and depreciation were overstated. No gain on disposal was recognized.

Cause: The transaction to dispose of the asset was recorded incorrectly.

Recommendation: The Authority should establish procedures for review of transactions by a knowledgeable employee.

Management Response: Management will establish procedures for a capable employee to review transactions.

DEFICIENCIES COMMUNICATED IN PRIOR YEARS
ALSO APPLICABLE TO CURRENT YEAR

Finding 2011-1:

Criteria: Contemporaneous tracking of customers' security deposits should be prepared.

Condition: No controls exist over the customers' security deposit accounts.

Effect: It does not appear that any misstatements have occurred in the current year, but the lack of documentation and controls creates the potential for errors of misclassification as revenue which would understate the Authority's liabilities. Also, the subsequent treatment of customer deposits (i.e. refunded or applied to balances due) could affect revenues.

Cause: A lack of documentation exists over payments received from customers as deposits for certain containers.

Recommendation: We recommend that the Authority establish controls over the tracking of customers' security deposits.

Management's Response: Management will establish procedures to track customers' security deposits and ensure proper treatment of refunded amounts.

Finding 2010-1

Criteria: General journal entries should be reviewed and approved in order to ensure accuracy and existence.

Condition: General journal entries are not reviewed or approved by anyone except the person who initiates and posts the entries.

Effect: It does not appear that any misstatements have occurred in the current year, but the lack of review creates a situation that does not allow the Authority to identify and correct misstatements that could occur as a result of erroneous journal entries.

FINDINGS AND RESPONSES

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2012

Finding 2010-1--Continued

Cause: As personnel have changed, the Authority has failed to designate an individual charged with performing this function.

Recommendation: The Authority should designate someone who is capable of reviewing the journal entries, and is segregated from the initiating and posting, to perform this function.

Management Response: Management will establish a procedure for a capable employee to review all journal entities before posting to the accounting system.

Finding 2010-2

Criteria: Expenses should be properly recorded and classified.

Condition: On multiple occasions we found expenses that were not recorded in the proper account.

Effect: These errors caused certain liability accounts to be misstated by immaterial amounts. It also caused specific expense accounts to be misstated.

Cause: Payments that should have been split between expenses and liabilities were not properly recorded. Expenses that were recorded as such were not classified in the appropriate account.

Recommendation: We recommend that the Authority either assign account coding of payments to someone who has the accounting knowledge to ensure that the payments are properly classified or establish a more involved review process for the account coding.

Management Response: Management will establish a procedure to review the allocation between expense and liability and the proper account coding.