

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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PART I

Audited Financial Statements

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2011

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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, 2011 and 2010 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, 2011 and 2010, 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 December 2, 2011 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
December 2, 2011

Smith, Carney - Co., p.c.

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STATEMENTS OF NET ASSETS

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

	June 30,	
	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 384,998	\$ 524,392
Short-term investments	20,000	20,000
Accounts receivable, net	542,965	521,750
Accrued interest receivable	2,576	4,953
Prepaid expenses	2,191	-
Deposits	1,092	1,092
Deferred repairs and maintenance expenses	170,000	13,500
Total Current Assets	<u>1,123,822</u>	<u>1,085,687</u>
<u>Capital Assets</u>		
Land and improvements	888,649	876,017
Buildings	1,313,584	1,294,969
Computers	27,830	26,930
Office equipment and furniture	61,438	52,101
Software	28,108	27,828
Machinery and equipment	6,936,840	6,822,777
Automotive equipment	3,546,525	3,264,187
	<u>12,802,974</u>	<u>12,364,809</u>
Less: Accumulated depreciation	<u>(8,067,798)</u>	<u>(7,158,597)</u>
Capital Assets, Net	<u>4,735,176</u>	<u>5,206,212</u>
<u>Other Assets</u>		
Restricted cash	34,464	33,876
Restricted investments	1,912,115	1,785,059
Rental property	1,032,116	1,032,116
Less: Accumulated depreciation	<u>(170,940)</u>	<u>(147,816)</u>
	<u>2,807,755</u>	<u>2,703,235</u>
	<u>\$ 8,666,753</u>	<u>\$ 8,995,134</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts payable	\$ 262,762	\$ 219,812
Accrued interest payable	2,042	2,042
Accrued payroll expenses	159,739	121,106
Customer deposits	13,453	7,714
Current portion of notes payable	762,958	642,955
Current portion of capital lease	62,723	60,514
Total Current Liabilities	<u>1,263,677</u>	<u>1,054,143</u>
<u>Long-Term Liabilities</u>		
Accrued closure and post-closure costs	1,745,260	1,694,854
Notes payable, net of current portion	2,224,683	2,557,671
Obligations under capital lease, net of current portion	16,035	73,797
Total Long-Term Liabilities	<u>3,985,978</u>	<u>4,326,322</u>
Total Liabilities	<u>5,249,655</u>	<u>5,380,465</u>
<u>NET ASSETS</u>		
Restricted for closure/post-closure costs	1,946,580	1,818,935
Unrestricted	1,470,518	1,795,734
Total Net Assets	<u>3,417,098</u>	<u>3,614,669</u>
	<u>\$ 8,666,753</u>	<u>\$ 8,995,134</u>

See Notes to Financial Statements.

STATEMENTS OF ACTIVITIES

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

	For The Year Ended June 30,	
	2011	2010
<u>OPERATING REVENUE</u>		
Disposal fees and hauling income	\$ 4,334,556	\$4,106,659
Recycling income	70,733	66,026
Grinder income	-	1,650
Service charges	8,134	14,848
Discounts earned	-	6,919
Total Operating Revenue	<u>4,413,423</u>	<u>4,196,102</u>
<u>OPERATING EXPENSES</u>		
Advertising	26,982	30,498
Bad debt	-	248
Closure and post-closure costs	50,406	43,880
Contract services	68,424	40,413
Damages	2,702	1,261
Depreciation	921,701	887,238
Donations	2	2,717
Employee retirement	142,341	114,950
Engineering	15,830	18,961
Fuel and diesel	475,997	385,032
Inmate expenses	13,295	11,511
Insurance	284,456	268,509
Interest	133,920	142,174
Landfill host fees	13,266	14,083
Legal and accounting fees	39,519	30,364
Office expense	40,649	24,124
Operating safety supplies	62,953	100,528
Payroll taxes	110,688	99,385
Permits, licenses, and fees	20,201	7,118
Repairs and maintenance	770,179	759,510
Salaries and wages	1,391,993	1,253,007
Turnpike tolls and mileage	10,477	11,083
Utilities and telephone	70,350	60,995
Waste disposal tax	64,296	80,275
Environmental Officer expense	28,275	23,925
Miscellaneous	64,177	51,559
Total Operating Expenses	<u>4,823,079</u>	<u>4,463,348</u>
Operating Loss	<u>(409,656)</u>	<u>(267,246)</u>
<u>NON-OPERATING REVENUES</u>		
Interest income	33,214	48,204
Insurance proceeds	2,384	3,747
Miscellaneous income	30,158	4,619
Rent income, net of related expense	131,979	134,981
Gain on disposal of assets	14,350	6,130
	<u>212,085</u>	<u>197,681</u>
Net Income (Loss)	<u>\$ (197,571)</u>	<u>\$ (69,565)</u>

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN NET ASSETS

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

For The Year Ended June 30, 2011

	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)	-	(197,571)	(197,571)
BALANCE AT END OF YEAR	<u>\$1,946,580</u>	<u>\$1,470,518</u>	<u>\$3,417,098</u>

	2010		
	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
BALANCE AT BEGINNING OF YEAR (Previously Reported)	\$1,612,548	\$1,974,502	\$3,587,050
Adjustment for error in accrual of closure and post-closure costs	-	97,184	97,184
BALANCE AT BEGINNING OF YEAR (As Restated)	1,612,548	2,071,686	3,684,234
Transfers in (out)	206,387	(206,387)	-
Net income (loss)	-	(69,565)	(69,565)
BALANCE AT END OF YEAR	<u>\$1,818,935</u>	<u>\$1,795,734</u>	<u>\$3,614,669</u>

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

	For The Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers	\$4,392,209	\$4,120,630
Other receipts	221,046	239,899
Payments to employees for salaries and benefits	(1,353,359)	(1,251,022)
Payments to suppliers and others	<u>(2,566,792)</u>	<u>(2,737,407)</u>
Net Cash Provided By Operating Activities	<u>693,104</u>	<u>372,100</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of capital assets	(206,616)	(450,829)
Proceeds from sale of capital assets	<u>14,350</u>	<u>6,130</u>
Net Cash Used By Investing Activities	<u>(192,266)</u>	<u>(444,699)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Increase in restricted assets	(127,645)	(206,387)
Proceeds from debt	242,963	1,006,889
Principal paid on long-term debt	<u>(755,550)</u>	<u>(642,057)</u>
Net Cash Provided (Used) By Financing Activities	<u>(640,232)</u>	<u>158,445</u>
Net Increase (Decrease) In Cash	(139,394)	85,846
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	<u>524,392</u>	<u>438,546</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$ 384,998</u>	<u>\$ 524,392</u>
<u>RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Net income (loss)	\$ (197,571)	\$ (69,565)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	944,825	910,362
Closure/post-closure costs	50,406	43,880
Bad debt expense	-	248
Gain on sale of assets	(14,350)	(6,130)
(Increase) in accounts receivable and accrued receivables	(18,838)	(68,329)
(Increase) decrease in:		
Prepaid expenses	(2,191)	-
Deposits	-	25,000
Deferred expenses	(156,500)	(13,500)
Increase (decrease) in accounts payable and accrued expenses	<u>87,323</u>	<u>(449,866)</u>
Net Cash Provided By Operating Activities	<u>\$ 693,104</u>	<u>\$ 372,100</u>
<u>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</u>		
Cost of equipment	\$ 450,665	\$ 674,479
Amount financed	<u>(244,049)</u>	<u>(223,650)</u>
Cash Paid For Equipment	<u>\$ 206,616</u>	<u>\$ 450,829</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2011

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:

	Balance Sheet Amount	Less: Non-Liquid Investments	Cash And Cash Equivalents
Current Assets:			
Cash	\$384,998	\$ -	\$384,998
Short-term investments in CD's	<u>20,000</u>	<u>(20,000)</u>	<u>-</u>
	<u>\$404,998</u>	<u>\$(20,000)</u>	<u>\$384,998</u>

Capital Assets: Capital assets are recorded at cost. Maintenance and repairs are expensed in the year incurred. Gains or losses on retirement, sales, or

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2011

NOTE B--SIGNIFICANT ACCOUNTING POLICIES--Continued

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, 2011, capital asset/rental property balances changed as follows:

	<u>Balance At</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance At</u> <u>June 30, 2011</u>
Capital Assets	\$12,364,809	\$ 450,665	\$(12,500)	\$12,802,974
Rental Property	1,032,116	-	-	1,032,116
Less: Accumulated Depreciation	<u>(7,306,413)</u>	<u>(944,825)</u>	<u>12,500</u>	<u>(8,238,738)</u>
Capital Assets/ Rental Property, Net	<u>\$ 6,090,512</u>	<u>\$ (494,160)</u>	<u>\$ -</u>	<u>\$ 5,596,352</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, 2011 and 2010 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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2011

NOTE C--FAIR VALUE MEASUREMENTS

FASB Codification 820-10, formerly Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements* (FASB Statement No. 157), 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.

The following table sets forth by level, within the fair value hierarchy, the Authority's assets at fair value as of June 30, 2011 and 2010.

Assets At Fair Value As Of June 30, 2011

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>

Assets At Fair Value As Of June 30, 2010

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-Term Investments	\$ -	\$ 20,000	\$ -	\$ 20,000
Restricted Investments		1,785,059		1,785,059
Total Assets At Fair Value	<u>\$ -</u>	<u>\$1,805,059</u>	<u>\$ -</u>	<u>\$1,805,059</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2011

NOTE D--LONG-TERM NOTES PAYABLE

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

	<u>2011</u>	<u>2010</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.	\$ 284,706	\$ 392,774
Note payable to All American Bank, dated October 18, 2006, payable monthly, with interest at 4.38%. Secured by equipment. Matures November 18, 2012.	144,828	249,034
Note payable to Bank of Union, dated June 9, 2006, payable monthly, with interest at 3.75%. Secured by equipment. Matures May 10, 2014. (Partially refinanced in July, 2009.)	436,103	573,627
Note payable to Bank of Union, dated September 17, 2007, payable monthly, with interest at 4.75%. Secured by property. Matures September 15, 2017.	256,644	293,865
Note payable to Bank of Union dated July 29, 2009, payable monthly, with interest at 3.89%. Secured by equipment. Matures July 30, 2016.	1,227,132	1,440,095
Note payable to All American Bank, dated January 7, 2010, payable monthly, with interest at 3.58%. Secured by equipment. Matures January 1, 2017.	219,388	251,231
Note payable to F & M Bank dated September 24, 2010, payable monthly, with interest at 3.05%. Secured by vehicles. Matures September 24, 2015	418,840	-
	<u>2,987,641</u>	<u>3,200,626</u>
Less: Current Maturities	<u>(762,958)</u>	<u>(642,955)</u>
	<u>\$2,224,683</u>	<u>\$2,557,671</u>

For the year ended June 30, 2011 the Authority's long-term notes payable changed as follows:

<u>Type Of Debt</u>	<u>Balance At July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance At June 30, 2011</u>	<u>Amounts Due Within One Year</u>
Bank debt	<u>\$3,200,626</u>	<u>\$487,011</u>	<u>\$(699,996)</u>	<u>\$2,987,641</u>	<u>\$762,958</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2011

NOTE D--LONG TERM NOTES PAYABLE--Continued

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

	<u>Principal</u>	<u>Interest</u>
2012	\$ 762,958	\$103,861
2013	717,337	73,358
2014	593,131	47,120
2015	434,248	28,186
2016	371,411	12,285
Thereafter	<u>108,556</u>	<u>2,127</u>
	<u>\$2,987,641</u>	<u>\$266,937</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.

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, 2011.

2012	\$62,723
2013	<u>16,035</u>
Present Value Of Minimum Lease Payments	<u>\$78,758</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:

2012	\$2,343
2013	2,343
2014	2,343
2015	<u>1,757</u>
	<u>\$8,786</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2011

NOTE E--LEASE COMMITMENTS--Continued

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>2011</u>	<u>2010</u>
Minimum rentals	\$13,327	\$7,561
Contingent rentals	<u>-</u>	<u>-</u>
	<u>\$13,327</u>	<u>\$7,561</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.

	<u>2011</u>	<u>2010</u>
Agricultural real estate	\$421,219	\$421,219
Commercial real estate	610,897	610,897
Accumulated depreciation	<u>(170,940)</u>	<u>(147,816)</u>
Rental Property (Net)	<u>\$861,176</u>	<u>\$884,300</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, 2011 and 2010, employer contributions were \$142,341 and \$113,087, 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.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2011

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 82% of the total estimated capacity. The estimated remaining landfill life is 6.81 years. The Authority accrued \$50,406 and \$43,880 for closure and post-closure costs for the years ended June 30, 2011 and 2010, respectively. The Authority has estimated total costs of landfill closure and post-closure of \$2,119,982 of which \$1,745,260 has been recognized and \$374,722 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 reinsurance 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 two years was used to determine escrow payments for financial assurance.

The Authority has restricted cash of \$34,464 and \$33,876 and restricted investments of \$1,912,115 and \$1,785,059 at June 30, 2011 and 2010, respectively. Annual deposits were made to these escrow accounts of \$98,693 in 2011 and \$168,461 in 2010. 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, 2011 and 2010.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 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	\$1,309,003
Deposits with qualified bank securities pledged as collateral	<u>1,091,236</u>
Total Deposits	<u>\$2,400,239</u>

NOTE K--SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 2, 2011, the date which the financial statements were available for issue.

On October 4, 2011, the Authority entered into a new loan agreement with F&M Bank for \$180,658, payable monthly, with an interest rate of 2.75%. The loan is secured by vehicles and matures on October 4, 2016. Debt service requirements on this loan are as follows:

2012	\$ 22,705
2013	34,847
2014	35,817
2015	36,815
2016	37,840
Thereafter	<u>12,634</u>
	<u>\$180,658</u>

Effective July 1, 2011, the Authority entered into a new short-term lease for its agriculture real estate rental property.

In May, 2010, a truck owned by the Authority suffered significant damage by a third party. The Authority settled with the third party insurance company in November, 2011 for \$170,000 to cover the costs of repairs. The Company originally recorded expenses related to the damages as repairs and maintenance. The amount received has been accrued as deferred repairs and maintenance, and the repairs and maintenance expense account has been adjusted accordingly.

PART II

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

REPORT ON COMPLIANCE AND INTERNAL CONTROL

FOR THE YEAR ENDED JUNE 30, 2011

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

www.smithcarney.com

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, 2011 and 2010 and have issued our report thereon dated December 2, 2011. 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

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.

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 2010-1).

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 2011-1, 2011-2, 2011-3, 2011-4, 2010-2, 2010-3, 2010-6, and 2010-7).

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.

Smil, Carnia & Co., P.C.

Oklahoma City, Oklahoma
December 2, 2011

FINDINGS AND RESPONSES

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2011

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

Finding 2011-01

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

Condition: During our tests of cash disbursements, 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 2011-2:

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.

FINDINGS AND RESPONSES--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2011

Finding 2011-2--Continued

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 2011-3:

Criteria: Capital assets should be properly classified.

Condition: During our tests, we noted several expensed assets that should have been capitalized.

Effect: Fixed assets were understated, and expenses were overstated.

Cause: Employees of the Authority incorrectly classified fixed assets as expenses.

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

Management's Response: Management will establish procedures for a capable employee to review transaction classifications.

Finding 2011-4

Criteria: Payments and charges to the accounts receivable roll-off account should be periodically reconciled.

Condition: The accounts receivable roll-off account has accrued a balance due to a lack of monitoring. The account balance should typically be zero.

Effect: Accounts receivable and revenues are overstated.

Cause: Accounts receivable is automatically debited when customers receive roll-off containers. Most customers are required to pay in advance; therefore, revenue is credited for both the accounts receivable transaction and the cash payment.

FINDINGS AND RESPONSES--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2011

Finding 2011-4--Continued

Recommendation: We recommend that management reconcile this account monthly to identify duplicate transactions or customers that need to be invoiced.

Management's Response: Each month, a capable employee will reconcile payments to tickets as part of the accounts receivable roll-forward process. Any unpaid tickets will be invoiced, and paid tickets will be removed from accounts receivable.

DEFICIENCIES COMMUNICATED IN PRIOR YEAR
ALSO APPLICABLE TO CURRENT YEAR

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.

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: Timecards should be reviewed by a supervisor to ensure accuracy and existence in order to accurately calculate payroll.

Condition: There is not a formal documented process for the review of employee timecards.

FINDINGS AND RESPONSES--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2011

Finding 2010-2--Continued

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 an employee misstating the amount of time that they worked.

Cause: The Authority has not required supervisors to review and indicate approval on employee timecards.

Recommendation: The Authority should require a supervisor to review and indicate approval on employee timecards before processing payroll.

Management Response: Management performs a review of all time cards before employees are paid. Management will establish a procedure to document such approval.

Finding 2010-3

Criteria: All transactions should be reviewed or approved by someone who does not initiate the transaction.

Condition: An office assistant possesses an Authority debit card and performs the function of approving transactions.

Effect: It does not appear that any misstatements have occurred in the current year, but the lack of review or approval 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 debit card.

Cause: The employee charged with reviewing payments has been given an Authority debit card without requiring another individual to review or monitor the use of the debit card.

Recommendation: We recommend that another employee review the payment authorization and receipts for the use of the debit card.

Management Response: Management performs a review of all debit card transactions. Management will establish a procedure to document approval. In addition, the Authority has discontinued the use of debit cards and implemented a purchase card system for more control over transactions.

FINDINGS AND RESPONSES--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2011

Finding 2010-6

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.

Finding 2010-7

Criteria: Bank reconciliations should agree with the Trial Balance. If cash entries are made that would affect a previously performed reconciliation, the reconciliation should be updated.

Condition: One bank reconciliation did not reconcile with the Trial Balance.

Effect: One bank reconciliation did not reconcile with the Trial Balance, in this instance the difference was immaterial.

Cause: Transactions were posted to the cash account subsequent to the performance of the reconciliation.

Recommendation: We recommend that the bank reconciliation be redone if cash entries are made that would affect the end of year bank reconciliation after it has been completed.

Management Response: Management will agree bank reconciliations to the financial statements on a monthly basis. Any discrepancies will be promptly investigated and corrected.