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OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)

Reports on Examinations of Financial Statements

For the Years Ended April 30, 2011 and 2010

OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)

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GLENN ELLIOTT & Associates inc.

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Independent Auditors' Report

To the Board of Trustees of the
Oklahoma Ordnance Works Authority:

We have audited the accompanying financial statements of the OKLAHOMA ORDNANCE WORKS AUTHORITY (the "Authority"), a public trust created under the laws of the State of Oklahoma, as of and for the years ended April 30, 2011 and 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. 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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and supplementary schedules 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OKLAHOMA ORDNANCE WORKS AUTHORITY as of April 30, 2011 and 2010, and the changes in financial position and cash flows thereof 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 September 21, 2011, on our consideration of the OKLAHOMA ORDNANCE WORKS 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 and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages two through five is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Glenn Elliott & Associates, Inc.

Tulsa, Oklahoma
September 21, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the OKLAHOMA ORDNANCE WORKS AUTHORITY'S (the "Authority") annual financial report presents our discussion and analysis of the Authority's financial performance for the year ended April 30, 2011. Please read this discussion and analysis in conjunction with the Independent Auditors' Report and the Authority's basic financial statements and footnotes, which follow this section.

OVERVIEW OF THE AUTHORITY'S BASIC FINANCIAL STATEMENTS

The Authority's annual financial report consists of three parts, (1) management's discussion and analysis (this section), (2) the basic financial statements and (3) accompanying notes to the basic financial statements and, when applicable, required supplementary information. The basic financial statements are provided to the Auditor of the State of Oklahoma, as the Authority is a public trust whose ultimate beneficiary is the State of Oklahoma. The remainder of this overview section of management's discussion and analysis explains the structure and contents of the Authority's basic financial statements.

Basic Financial Statements

The Authority is considered a proprietary enterprise fund for purposes of governmental fund classification. As such, the Authority's financial statements are presented in a similar format as a private business.

<i>Required financial statements:</i>	Statement of Net Assets Statement of Revenues, Expenses and Changes in Net Assets Statement of Cash Flows
<i>Accounting basis and measurement focus:</i>	Accrual accounting and economic resource management focus
<i>Type of asset and liability information:</i>	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of inflow/outflow information:</i>	All revenues and expenses during year, regardless of when cash is received or paid

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes follow the basic financial statements.



OKLAHOMA ORDNANCE WORKS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (Continued)

FINANCIAL AND OPERATIONAL HIGHLIGHTS

The year ended April 30, 2011 was another strong year for the Authority as total net assets increased to \$148,637,853, an increase of 5.1% from the previous year. The following comparative condensed financial statements provide a brief overview of the Authority's financial and operating results:

Comparative Condensed Statements of Net Assets

	<u>April 30, 2011</u>	<u>April 30, 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets:				
Current assets	\$ 11,239,416	\$ 8,954,709	\$ 2,284,707	25.5%
Property and equipment, net	111,541,146	114,823,955	(3,282,809)	-2.9%
Investments	110,468,609	104,750,375	5,718,234	5.5%
Prepaid expenses, non-current	356,360		356,360	NA
Direct financing leases, net		196,048	(196,048)	-100.0%
Total assets	<u>\$ 233,605,531</u>	<u>\$ 228,725,087</u>	<u>\$ 4,880,444</u>	2.1%
Liabilities:				
Current liabilities	\$ 417,817	\$ 604,381	\$ (186,564)	-30.9%
Deferred revenue, non-current		2,085,487	(2,085,487)	-100.0%
Long-term debt	84,549,861	84,549,861	-	0.0%
Total liabilities	<u>84,967,678</u>	<u>87,239,729</u>	<u>(2,272,051)</u>	-2.6%
Net assets	<u>148,637,853</u>	<u>141,485,358</u>	<u>7,152,495</u>	5.1%
Total liabilities and net assets	<u>\$ 233,605,531</u>	<u>\$ 228,725,087</u>	<u>\$ 4,880,444</u>	2.1%

Comparative Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>Year Ended April 30, 2011</u>	<u>Year Ended April 30, 2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Total revenues	<u>\$ 24,852,119</u>	<u>\$ 21,866,523</u>	<u>\$ 2,985,596</u>	13.7%
Expenses:				
Operating	5,797,499	5,443,585	353,914	6.5%
General and administrative	2,231,141	2,023,607	207,534	10.3%
Non-operating expenses:				
Interest	5,224,857	5,224,857	-	0.0%
Depreciation	4,446,127	4,434,269	11,858	0.3%
Total expenses	<u>17,699,624</u>	<u>17,126,318</u>	<u>573,306</u>	3.3%
Changes in net assets	7,152,495	4,740,205	2,412,290	50.9%
Beginning net assets	<u>141,485,358</u>	<u>136,745,153</u>	<u>4,740,205</u>	3.5%
Ending net assets	<u>\$ 148,637,853</u>	<u>\$ 141,485,358</u>	<u>\$ 7,152,495</u>	5.1%

OKLAHOMA ORDNANCE WORKS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (Continued)

FINANCIAL ANALYSIS OF OKLAHOMA ORDNANCE WORKS AUTHORITY

Asset and Debt Administration

At the end of April 30, 2011, the Authority's operating cash and certificate of deposit position was \$9,490,566, an increase of \$1,945,472 from the prior year. At April 30, 2011, the balance of total current assets was \$11,239,416, an increase of \$2,284,707 from the previous year. The total balance of investments in U.S. Treasury obligations, GNMA bonds and investments in common stock also showed an increase of \$5,760,932, to \$110,468,609. The reason for these changes was a shift in investment strategy to larger holdings in U.S. Treasury obligations and GNMA bonds due to low interest rates on cash and cash equivalents. Overall, total assets increased by \$4,880,444 or 2%, to an April 30, 2011, total of \$233,605,531.

As in the previous year, the Authority's total current liabilities at April 30, 2011, were negligible in comparison to total current assets. Total current liabilities at April 30, 2011, were \$417,817 as compared to a balance of \$604,381 at April 30, 2010. Deferred revenue decreased to zero at April 30, 2011, due to a park tenant occupying the Labinal facility which had been vacated in a prior year. Long-term debt was unchanged at \$84,549,861 this year due to prior year completion of construction of the Gatorade facility. Long-term debt consists of two portions; \$81,549,861 of non-recourse debt which is due to a park tenant for the Gatorade facility that is presently being leased by the tenant from the Authority and \$3,000,000 which is due to another park tenant as a future development fund, subject to certain constraints. Both of these items are long-term in nature and are detailed more fully in the accompanying audit report.

Revenues, Expenses and Changes in Net Assets

At April 30, 2011, the Authority's total revenues were \$24,852,119, an increase of \$2,985,596 or 13.7% over the previous year. Total revenues for the year ended April 30, 2011 are higher due to an increase in water sales, building rentals, interest income and airport income from the previous fiscal year. The decrease in waste treatment income can be attributed to one park tenant starting their own waste pre-treatment program. A portion of building rental income and all of the interest expense can be viewed as offsetting items which are related to the Gatorade agreement. The details of the arrangement for the use of the Gatorade facility are more fully explained in the financial statements that accompany the annual audit report. Also included in the Authority's total revenues is an upward adjustment of \$10,864 in the market valuation of the Authority's investments. Almost all of the Authority's investments are fixed income securities with market values that are primarily impacted by changes in interest rates. The Governmental Accounting Standards Board requires this adjustment, in order to fairly present the current market value of investments. As such, total annual revenues are impacted by fluctuations in the market value of investments. Hypothetically, if the market valuation adjustment were removed, the Authority would have recognized total revenues of \$24,841,253 for the year ended April 30, 2011.

At April 30, 2011, total expenses were \$17,699,624, an increase of \$573,306 or 3.3% over the previous year. The primary expense categories that caused the increase in total expenses were chemicals, power and legal and professional fees. As noted in the previous year's management's discussion and analysis, the Authority continues to experience increased expenditures for chemicals and power and this trend is expected to continue with further increases in future years. Overall, the total change in net assets for the year ended April 30, 2011 was \$7,152,495 as compared to a change in net assets of \$4,740,205 for the year ended April 30, 2010, which represents an increase of 50.9%.

**OKLAHOMA ORDNANCE WORKS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (Continued)**

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This discussion and analysis has been designed to provide its readers with a general overview of the Authority's finances and objectives. If you have any questions about this report or need additional information, contact the OKLAHOMA ORDNANCE WORKS AUTHORITY, MID AMERICA INDUSTRIAL PARK, Attention: Mr. DeWayne Couch, P.O. Box 945, Pryor Creek, Oklahoma 74362.

OKLAHOMA ORDNANCE WORKS AUTHORITY

(A Public Trust)

Statements of Net Assets

April 30, 2011 and 2010

	<u>Assets</u>	
	2011	2010
Current assets:		
Cash and cash equivalents (Notes A and B)	\$ 3,107,090	\$ 2,924,153
Certificates of deposit (Notes A and B)	6,383,476	4,620,941
Accounts receivable, net (Note A)	917,875	884,496
Accrued interest income receivable	369,579	388,547
Inventory-chemicals (Note A)	111,413	102,066
Prepaid expenses (Note A)	349,983	34,506
Total current assets	11,239,416	8,954,709
Investments (Notes A and B):		
Investments, GNMA bonds	70,916,279	70,862,808
Investments, U.S. Treasury obligations	39,500,757	33,845,600
Investments, Common stock	51,573	41,967
Total investments	110,468,609	104,750,375
Property, plant and equipment, net (Notes A and C):		
Industrial park facilities, net	83,652,339	85,897,353
Water plant facilities, net	15,685,132	16,726,354
Waste treatment facilities, net	10,978,412	11,732,695
Construction in progress	1,204,203	437,699
Spare parts	21,060	29,854
Total property, plant and equipment, net	111,541,146	114,823,955
Prepaid expenses, non-current portion (Note A)	356,360	
Direct financing leases receivable (Notes A and D)		196,048
Total assets	\$ 233,605,531	\$ 228,725,087
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 195,724	\$ 222,702
Accrued liabilities (Note F)	222,093	202,915
Deferred revenue, current portion		178,764
Total current liabilities	417,817	604,381
Deferred revenue		2,085,487
Long-term debt (Note E)	84,549,861	84,549,861
Total liabilities	84,967,678	87,239,729
Net assets (Note G):		
Net assets, unrestricted	37,096,707	26,661,403
Net assets, invested in capital assets	111,541,146	114,823,955
Total net assets	148,637,853	141,485,358
Total liabilities and net assets	\$ 233,605,531	\$ 228,725,087

The accompanying notes are an integral part of the financial statements.

OKLAHOMA ORDNANCE WORKS AUTHORITY

(A Public Trust)

Statements of Revenues, Expenses and
Changes in Net Assets

For the Years Ended April 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues:		
Water sales (Note L)	\$ 11,194,180	\$ 10,889,330
Building rentals	8,234,443	6,120,813
Interest income	3,679,192	3,364,831
Waste treatment income	1,152,833	1,175,488
Airport income (Note J)	353,789	142,964
Income from direct financing leases	191,904	196,558
Gain on sales of assets		401,563
Miscellaneous income	34,914	39,443
Unrealized gain/(loss) in fair value of investments	<u>10,864</u>	<u>(464,467)</u>
 Total revenues	 <u>24,852,119</u>	 <u>21,866,523</u>
 Expenses - operating:		
Chemicals	2,254,495	2,037,381
Power	924,773	810,303
Wages and payroll	838,168	821,674
Water	669,991	762,003
General maintenance	483,794	495,372
Waste and sludge disposal	148,900	125,077
Permits and testing	72,139	86,579
Laboratory	10,343	7,035
Other expenses	<u>394,896</u>	<u>298,161</u>
 Total operating expenses	 <u>5,797,499</u>	 <u>5,443,585</u>
 Expenses - general and administrative:		
Administrative salaries	1,468,334	1,425,438
Legal and professional	260,902	156,185
Marketing	230,357	174,621
Insurance	172,531	166,242
Travel and entertainment	50,654	50,136
Other expenses	<u>48,363</u>	<u>50,985</u>
 Total general and administrative expenses	 <u>2,231,141</u>	 <u>2,023,607</u>
 Expenses - non-operating:		
Interest	5,224,857	5,224,857
Depreciation	<u>4,446,127</u>	<u>4,434,269</u>
 Total expenses	 <u>17,699,624</u>	 <u>17,126,318</u>
 Changes in net assets	 7,152,495	 4,740,205
 Net assets, beginning of year	 <u>141,485,358</u>	 <u>136,745,153</u>
 Net assets, end of year	 <u>\$ 148,637,853</u>	 <u>\$ 141,485,358</u>

The accompanying notes are an integral part of the financial statements.

OKLAHOMA ORDNANCE WORKS AUTHORITY

(A Public Trust)

Statements of Cash Flows

For the Years Ended April 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from sources	\$ 21,162,063	\$ 18,564,596
Cash paid to suppliers and employees	(10,996,286)	(7,465,394)
Interest income	3,679,192	3,364,831
Interest (expense)	(5,224,857)	(5,224,857)
	<u>8,620,112</u>	<u>9,239,176</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
(Purchases) or redemptions of certificates of deposit	(1,762,535)	9,039,511
(Purchases) or redemptions of U.S. Treasury obligations	(5,653,899)	4,490,941
(Purchases) of GNMA bonds	(53,470)	(24,517,336)
(Purchases) of property, plant and equipment	(1,163,319)	(194,918)
Proceeds from sales of property, plant and equipment		401,098
	<u>(8,633,223)</u>	<u>(10,780,704)</u>
Net cash (used in) investing activities		
Cash flows from financing activities:		
Payments received on direct financing leases	196,048	251,850
	<u>196,048</u>	<u>251,850</u>
Net cash provided by financing activities		
Net increase or (decrease) in cash and cash equivalents	182,937	(1,289,678)
Cash and cash equivalents, beginning of year	<u>2,924,153</u>	<u>4,213,831</u>
Cash and cash equivalents, end of year	<u>\$ 3,107,090</u>	<u>\$ 2,924,153</u>
Reconciliation of changes in net assets to net cash provided by operating activities:		
Changes in net assets	\$ 7,152,495	\$ 4,740,205
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	4,446,127	4,434,269
(Gain) on sales of assets		(401,563)
Unrealized (gain) or loss in fair value of investments	(10,864)	464,467
Changes in assets and liabilities:		
(Increase) in accounts receivable	(33,379)	(162,149)
Decrease in accrued interest income receivable	18,968	224,111
(Increase) decrease in inventory-chemicals	(9,347)	46,395
(Increase) in prepaid expenses	(671,837)	(4,748)
(Decrease) increase in accounts payable	(26,978)	60,840
Increase in accrued liabilities	19,178	16,114
(Decrease) in deferred revenue	(2,264,251)	(178,765)
	<u>1,467,617</u>	<u>4,498,971</u>
Total adjustments and changes in assets and liabilities		
Net cash provided by operating activities	<u>\$ 8,620,112</u>	<u>\$ 9,239,176</u>

The accompanying notes are an integral part of the financial statements.

OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)

Notes to the Basic Financial Statements

(A) NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities

The OKLAHOMA ORDNANCE WORKS AUTHORITY (the "Authority") was established to stimulate the economy of northeastern Oklahoma by attracting additional industrial investments and employment to the Mid-America Industrial Park located near Pryor, Oklahoma. The Authority's revenues are derived from the operation of a water plant, waste treatment plant, the sale or lease of the Authority's buildings or land and interest income earned on the Authority's investment holdings and loans made to industrial park tenants. The Authority's customers consist of municipalities, rural water districts and industries located in northeastern Oklahoma. Sales to these customers are made on account. The Authority is not subject to federal or state income taxes and is organized as a public trust whose ultimate beneficiary is the State of Oklahoma. The State of Oklahoma considers the Authority to be a related organization.

Basis of Accounting and Financial Statement Presentation

The Authority is considered to be a proprietary enterprise fund for purposes of governmental fund classification. Such funds are used to account for a government's activities that are similar to those of the private sector. As a result, the basic financial statements of the Authority are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with generally accepted accounting principles ("GAAP") as applied to governmental units. This basis of accounting requires that revenue be recognized when earned and expenses be recognized when incurred, regardless of actual receipt or payment of cash.

The *Governmental Accounting Standards Board ("GASB")* is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As required by *GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority has elected to apply all applicable *GASB* pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict *GASB* pronouncements; Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Revenues and expenses are classified as operating or non-operating according to the following criteria: Operating revenues include activities that have the characteristics of an exchange transaction (i.e. transactions where essentially equal value is exchanged. Non-operating revenues include activities that have the characteristics of non-exchange transactions such as investment income which is defined as non-operating revenue by *GASB Statement No. 9, Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Government Entities that use Proprietary Fund Accounting* and *GASB Statement No. 34*. Operating expenses include activities that have the characteristics of an exchange transaction. Non-operating expenses include activities that have the characteristics of non-exchange transactions not meeting the above definition for operating expenses.

Cash and Cash Equivalents and Certificates of Deposit

For purposes of the statements of net assets and cash flows, cash and cash equivalents consist of all highly liquid depository accounts with initial maturities of three months or less when purchased. Certificates of deposits are stated separately from cash and cash equivalents on the statement of net assets as the Authority's certificates of deposit have maturity dates in excess of ninety days.

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)
Notes to the Basic Financial Statements

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Accounts Receivable

Accounts receivable are related to water sales and rental income and are recorded when invoices are issued. Accounts receivable are presented in the statement of net assets net of an allowance for doubtful accounts, if applicable. The allowance for doubtful accounts is estimated based on the Authority's historic collection experience(s) with various customers. At April 30, 2011, management of the Authority did not believe that an allowance for doubtful accounts was necessary.

Inventory

The Authority records its inventory of chemical products and materials at cost using the first-in, first-out method.

Investments

The Authority's investment policies allow for investments in bonds that are backed by the full faith and credit of the U.S. government including U.S. Treasury obligations and mortgage-backed securities or Ginnie Mae bonds issued by the Government National Mortgage Association "GNMA", which are carried at market value based upon published market quotations. While these securities are held to maturity by the Authority, they are subject to market fluctuations during the holding period(s).

The Authority also holds approximately three thousand (3,000) shares of the common stock of a publicly traded company that was received as payment in a prior year for outstanding accounts receivable that was previously owed to the Authority.

Property, Plant and Equipment, Net of Accumulated Depreciation

Property, plant and equipment are recorded at cost, net of accumulated depreciation. The Authority provides for depreciation of property, plant and equipment under the straight-line method over the estimated useful lives of the respective assets. The Authority's policy is to consider capitalization for individual property and equipment items with values of \$100 or greater. Lesser amounts are expensed. Construction in progress represents costs accumulated for various construction projects that were not completed at year end.

Direct Financing Leases Receivable

The Authority's leasing operations consist principally of the leasing of buildings, equipment and land. The Authority's leases are classified as direct financing leases receivable or operating leases.

Prepaid Expenses

During the year ended April 30, 2011, the Authority entered into an agreement with the Grand River Dam Authority ("GRDA") in which the Authority prepaid amounts due to GRDA on the Authority's raw water contract related to GRDA's "capital cost recovery" for river pump station expenditures. The Authority's pre-payment of \$854,806 will be amortized and recovered from raw water customers ratably on a monthly basis over a time period which is estimated to be at least twenty-two (22) months in length.

Donated Property

The Authority is eligible to participate in federal and state grant programs. Property donated to the Authority under such programs is carried at estimated fair value when donated. Property acquired with grant proceeds is recorded at cost and is depreciated in the same manner as property acquired with the Authority's funds.

Income Tax

By statute, the Authority is exempt from Federal and State income taxes.

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)
Notes to the Basic Financial Statements

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts from the April 30, 2010 financial statements have been reclassified for comparative purposes to conform to current year presentation with no effect on the change in net assets.

Advertising Costs

The Authority expenses advertising costs in the period in which they are incurred.

(B) BANK DEPOSITS AND INVESTMENTS:

Bank Deposits

All bank deposits are held with national and local financial institutions and are included in the accompanying statements of net assets as cash and cash equivalents and certificates of deposit. The carrying amounts of these deposits totaled \$9,490,566 and \$7,545,094 for the years ended April 30, 2011 and 2010, respectively. The financial institution balances for these deposits totaled \$9,619,742 and \$7,619,640 for the years ended April 30, 2011 and 2010, respectively. Any differences between the carrying amounts and the financial institution balances are due to outstanding checks and outstanding deposits.

Investments

As of April 30, 2011, the Authority had the following investments:

	<u>Fair Value</u>	<u>Cost</u>	<u>Credit Quality</u>	<u>Weighted Average Days to Maturity</u>
GNMA bonds	\$ 70,916,279	\$ 70,639,016	N/A	N/A
U.S. Treasury obligations	39,500,757	39,495,199	N/A	163 Days
Common stock	<u>51,573</u>	<u>50,496</u>	N/A	N/A
Total investments:	<u>\$110,468,609</u>	<u>\$110,184,711</u>		

The Authority's investments in U.S. Treasury obligations tend to have short maturity durations whereas the Authority's investments in GNMA bonds have very long durations. The durations on the investments in GNMA bonds can be as long as thirty years, but these bonds are subject to early redemption due to pre-payment of the underlying mortgages. Credit quality for the investments in U.S. Treasury obligations and GNMA bonds is listed as "N/A" due to the fact that these investments are backed by the full faith and credit of the U.S. government. The investment in common stock does not have either a credit quality or maturity component and the entire value of the investment is at risk at all times.

Investment Policy

The Authority has adopted a formal investment policy. The primary objective of the Authority's investment policy is safety of principal and as such, the Authority is limited to investments with some form of U.S. government guarantee. Under the investment policy, the standard of care to be used shall be the "prudent person" standard, and shall be applied in the context of managing an overall portfolio.

**OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)**

Notes to the Basic Financial Statements

(B) BANK DEPOSITS AND INVESTMENTS - (Continued):

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The Authority's investment policy requires collateralization on all demand deposit accounts and certificates of deposit. The Authority also minimizes custodial credit risk by pre-qualifying the custodial or depository institutions, brokers/dealers, intermediaries and advisors with which the Authority will do business. The Authority's interest-bearing demand deposits and certificates of deposit held at all national and local financial institutions are currently insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. The entire balance of non-interest bearing accounts are fully insured by the FDIC. At April 30, 2011 and 2010, the Authority held deposits of \$2,222,567 and \$4,591,265, respectively, which were in excess of FDIC insurance limits with one financial institution. However, the Authority has obtained collateral for these deposits and the excess deposits are collateralized by securities held by the pledging financial institution. In effect, the Authority did not have any un-collateralized deposits that were in excess of FDIC insurance coverage levels at April 30, 2011 and 2010.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In order to address credit risk, the Authority has a formal, written investment policy statement that defines which securities are suitable for investment. The Authority invests only in U.S. Treasury obligations and GNMA bonds that are backed by the full faith and credit of the U.S. government. As such, the Authority has reduced credit risk to the lowest possible level as all investments have some form of guarantee by the U.S. government. Credit quality has been listed as "NA" or not applicable for the Authority's investments in U.S. Treasury obligations and GNMA bonds because the applicable securities are considered to be risk-free, in terms of credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In order to address interest rate risk, the Authority actively manages investment maturities as a means of managing exposure to fair value losses due to changes in interest rates. The Authority's stated investment objective is to hold all investments to maturity; hence fair value losses should be only of a temporary, unrealized nature. However, over the short to intermediate term, the value of the Authority's portfolio of U.S. Treasury obligations and GNMA bonds are directly affected by interest rate fluctuations. A hypothetical example of how one of the Authority's U.S. Treasury obligations would be impacted by an increase in interest rates is as follows:

	Impact on Fair Value of Basis		
	<u>Point (Bps) Increase of:</u>		
	<u>100 Bps</u>	<u>200 Bps</u>	<u>300 Bps</u>
U.S. Treasury obligation:			
\$1,000,000 Treasury Bond, 4% Yield	\$971,993	\$944,919	\$918,742

This example assumes changes in interest rates of exactly 100, 200 and 300 basis points. The length of time to maturity would affect the above example.

In the case of the Authority's investments in GNMA bonds, the impact of interest rate fluctuations cannot be quantified. The market values of the Authority's investments in GNMA bonds are affected by factors other than interest rates including thin trading volumes and wide bid/ask spreads.

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)
Notes to the Basic Financial Statements

(B) BANK DEPOSITS AND INVESTMENTS - (Continued):

Concentration of Credit Risk

Certain of the Authority's investments are diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer or specific class of securities. However, it should be noted that all of the Authority's investments are un-diversified in that they are all backed by some form of guarantee offered by the U.S. government.

Risks and Uncertainties

The Authority maintains a significant portion of its total assets in bonds and holds a small common stock position. Investment securities are exposed to various risks, such as interest rate, market fluctuation and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect investments and the amounts reported in the combined statements of net assets.

Investments – Fair Value Measurements

Prior to fiscal 1999, the Authority recorded its investments at amortized cost, recording amortization of discount or premium monthly. During fiscal 1999, the Authority adopted *GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools,"* which requires governmental entities to report certain investments at fair value. Accordingly, the investments held by the Authority are recorded at fair value in the statements of net assets and consist of the following at April 30:

	<u>2011</u>	<u>2010</u>
Investments, registered in the Authority's name and held by brokerage firms	\$110,092,315	\$104,307,188
Investments, registered, and held in certificate form by the Authority	<u>376,294</u>	<u>401,220</u>
Total investments	<u>\$110,468,609</u>	<u>\$104,708,408</u>

The Financial Accounting Standards Board's ASB 820 defines fair value under U.S. generally accepted accounting principles, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. This standard defines fair value as the exchange price that would be received for an asset, or paid to transfer a liability (an exit price), in the principal or most advantageous market for the asset or liability, in an orderly transaction value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value. The following provides a description of the three levels of inputs that may be used to measure fair value under the standard, the types of investments that fall under each category and the valuation methodologies used to measure these investments at fair value.

Level 1 Fair Value Measurements

Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date. All of the Authority's investments could be considered to be Level 1 assets.

Level 2 Fair Value Measurements

Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies. There were no Level 2 investments as of the reporting date.

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)
Notes to the Basic Financial Statements

(B) BANK DEPOSITS AND INVESTMENTS - (Continued):

Investments – Fair Value Measurements – (Continued)

Level 3 Fair Value Measurements

Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk. There were no Level 3 investments as of the reporting date.

The preceding methods described may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. While the Authority's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(C) PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION:

Property and equipment and the related depreciable lives thereof, net of accumulated depreciation, for the years ended April 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Industrial park facilities, net:		
Buildings	\$ 92,640,051	\$ 92,640,051
Airport and improvements	4,819,818	4,537,686
Streets and other improvements	2,657,452	2,657,452
Machinery and equipment	701,903	693,511
Undeveloped land (non-depreciable)	618,879	618,879
Computer equipment	358,673	356,243
Furniture and fixtures	347,573	347,573
Automobiles, trucks and tractors	312,829	297,591
Water plant land (non-depreciable)	31,421	31,421
Accumulated depreciation	<u>(18,836,260)</u>	<u>(16,283,054)</u>
Total industrial park facilities, net	<u>83,652,339</u>	<u>85,897,353</u>
Water plant and related facilities:		
Equipment	20,025,889	19,947,477
Distribution system	10,708,272	10,703,400
Building	295,557	295,557
Accumulated depreciation	<u>(15,344,586)</u>	<u>(14,220,080)</u>
Total water plant facilities, net	<u>15,685,132</u>	<u>16,726,354</u>
Waste treatment facilities:		
Waste treatment plant	17,502,807	17,488,674
Landfill	46,161	46,161
Accumulated depreciation	<u>(6,570,556)</u>	<u>(5,802,140)</u>
Total waste treatment facilities, net	<u>10,978,412</u>	<u>11,732,695</u>
Construction in progress (non-depreciable)	1,204,203	437,699
Spare parts (non-depreciable)	<u>21,060</u>	<u>29,854</u>
Total property and equipment, net	<u>\$ 111,541,146</u>	<u>\$ 114,823,955</u>

OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)

Notes to the Basic Financial Statements

(D) MINIMUM LEASE PAYMENTS RECEIVABLE UNDER DIRECT FINANCING LEASES:

The gross minimum lease payments receivable under the following direct financing leases represents the total principal and interest to be received over the primary terms of the leases at April 30, 2011 and 2010. All direct financing leases were paid in full during the year ended April 30, 2011. Following is a detail of the gross minimum lease payment and the deferred gain and unearned interest on the direct financing leases that were in existence in the prior year ended April 30, 2010:

	<u>Gross Minimum Lease Payment</u>	<u>Deferred gain and Unearned Interest</u>	<u>Net Minimum Lease Payment</u>
<u>2010</u>			
Mitchell Coach Company, Inc.	\$ 698,309	\$ (502,359)	\$ 195,950
Other direct financing leases	98		98
	<u>\$ 698,407</u>	<u>\$ (502,359)</u>	<u>\$ 196,048</u>

(E) LONG TERM DEBT:

A summary of long-term debt at April 30, 2011, is as follows:

Long-term, non-recourse debt due to a former industrial park tenant for a building loan, interest at 6.5%. The maximum amount of funds available under the loan for all future phases of construction is \$200,000,000. Loan payments are to be interest-only for the life of the loan. \$ 81,549,861

Long-term debt due to an industrial park tenant for a potential future investment rebate, with no interest due under the loan. The balance of the \$3,000,000 or some portion thereof, will be repaid to the tenant by April 30, 2013 based upon the tenant's success in meeting various minimum "high impact investment" thresholds. 3,000,000

Total long-term debt \$ 84,549,861

Aggregate maturities of long-term debt for the five years ending after April 30, 2011, cannot be determined at this time.

Future payments on the non-recourse long-term debt balance of \$81,549,861 with the first industrial park tenant ("the tenant") are interest-only and do not provide for any reductions of principal. The specifics of the agreement provide for the Authority to construct a building and improvements in a finance arrangement with the tenant, with said tenant loaning the Authority the funds necessary to finance the construction. The long-term debt agreement is non-recourse in nature and in the event of a default by the Authority, the building and real estate improvement assets are pledged as collateral. The Authority will own the building and real estate improvements, and will receive lease payments from the tenant under the finance agreement which has a lease term of fifty (50) years with options for five (5) extensions of ten (10) years each. The contract with the tenant provides for a 6.5% rate of interest on the outstanding loan balance due. The tenant will then remit to the Authority a monthly lease payment which will be calculated as 100.75% of the monthly interest payment made by the Authority to the tenant. Lease payments from the tenant and interest payments from the Authority commenced during 2009 and annual amounts are scheduled to be lease payments of \$5,264,043 received by the Authority and interest payments of \$5,224,857 paid by the Authority.

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)
Notes to the Basic Financial Statements

(F) COMPENSATED ABSENCES:

The Authority's policy is to permit employees to accumulate earned but unused paid time off or accrued leave. Liabilities are recorded for accrued leave that the Authority will pay upon each employee's termination or retirement. The Authority allows employees to carry forward unused paid time off with the maximum accrual being thirty (30) hours per year with a maximum of two-hundred and forty (240) hours being carried forward. Certain administrative employees are allowed ninety (90) days per year of accrued leave with no maximum that can be carried forward. At April 30, 2011, the balance of accrued leave was \$205,352 which is included in accrued liabilities.

(G) NET ASSETS:

The Authority's net assets at April 30, 2011 and 2010 were \$148,637,853 and \$141,485,358, respectively. Net assets are classified as follows:

Invested in capital assets - Represent the Authority's total investment in property, plant and equipment (capital assets).

Restricted - Consist of those operating funds on which external restrictions have been imposed that limit the purposes for which such funds can be used. The Authority is legally or contractually obligated to spend these funds in accordance with the restriction imposed by third parties.

Unrestricted - Consist of those operating funds over which the Board of Directors retains full control to use in achieving any of its authorized purposes.

Under *GASB* requirements, a restriction of net assets only exists under either of the following conditions:

- A restriction externally imposed by a creditor, grantor or contributor, or
- A restriction imposed by law through enabling legislation.

When an expense is incurred that can be paid using restricted or unrestricted resources, the Authority's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

A significant amount of unrestricted net assets will be needed to finance future capital improvements. Under the Authority's capital budget, an estimated \$167,737,200 will be needed to complete capital projects for the next five years as of the year ended April 30, 2011. For the years ending after April 30, 2011, the Authority's capital budget estimates are as follows; 2012-\$13,537,400, 2013-\$12,126,400, 2014-\$1,467,400, 2015-\$11,925,500 and 2016 and future-\$128,680,500.

(H) BUILDING RENTALS AND OPERATING LEASES:

For the years ended April 30, 2011 and 2010, the Authority recognized building rental income of \$8,234,443 and \$6,120,813, respectively. The following is a listing of future minimum payments receivable under the non-cancelable operating leases in effect for years ending after April 30, 2011; 2012 - \$945,148, 2013 - \$234,259, 2014 - \$199,130, 2015 - \$30,137, 2016 - \$30,185 and 2017 to 2021 - \$150,926. As such, total future minimum payments receivable under the non-cancelable operating leases are anticipated to be \$899,528.

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)
Notes to the Basic Financial Statements

(I) NON-RECOURSE DEBT AND RELATED LEASE RECEIVABLES:

In the past, the Authority assisted some of its tenants in obtaining long-term financing through the issuance of industrial revenue bonds. Long-term debt incurred by the Authority is repaid from tenant leases which are payable in amounts equal to the long-term debt service requirements. These long-term financing arrangements are not general obligations of the Authority and it is the opinion of management and its legal counsel that, in the case of default by the borrower(s), the Authority has no responsibility for repayment of such financing arrangements. In accordance with the *American Institute of Certified Public Accountants Audit Guide, Audits of State and Local Governmental Units*, the non-recourse debt financing and the related lease receivables, interest income and interest expense have been excluded from the financial statements. Following is a summary of the non-recourse debt at April 30:

	<u>2011</u>	<u>2010</u>
Ralston Purina facility financing-\$1,725,000, 6.5% Series 1996 bonds payable on September 1, 2026, solely from Ralston Purina plant rental revenues	\$ 1,725,000	\$ 1,725,000
Ralston Purina facility financing-\$1,500,000, 6.3% Series 1996 revenue bonds, payable on September 1, 2015, solely from Ralston Purina plant rental revenues	<u>1,500,000</u>	<u>1,500,000</u>
Total non-recourse debt not required to be included within the statements of net assets	<u>\$ 3,225,000</u>	<u>\$ 3,225,000</u>

(J) FEDERAL GRANTS:

During the year ended April 30, 2011 and 2010, the Authority received grant funds from the Federal Aviation Administration ("FAA") for use on the Authority's airport. The U.S. Office of Management and Budget ("OMB") Circular A-133 and Government Auditing Standards require audits of annual expenditures of federal awards in excess of \$500,000. As the Authority's expenditures of federal awards was less than \$500,000 for the years ended April 30, 2011 and 2010, audits under Circular A-133 were not required.

(K) RETIREMENT PLAN:

State of Oklahoma Public Employees' Retirement Plan

The Authority contributes to the State of Oklahoma Public Employees' Retirement Plan ("the Plan") which is a cost sharing, multiple-employer defined benefit pension plan, administered by the Oklahoma Public Employees Retirement System (OPERS). The Plan was established by the State in accordance with the Oklahoma State statutes and provides retirement, disability and death benefits. OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Oklahoma Public Employees Retirement System, P.O. Box 53007, Oklahoma City, Oklahoma 73152-3007, or by calling 1-800-733-9008. The contribution rates for each member category of the OPERS Plan are established by the Oklahoma Legislature, based on actuarial calculations which are performed to determine the adequacy of such contribution rates. The current employer retirement contribution rate for all participating state agencies for fiscal year ending April 30, 2011 is 16.5% of salary. Employees who participate in the Plan make contributions of 3.5% of salary or 6.41% of salary if enrolled in the "step-up" plan election.

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)
Notes to the Basic Financial Statements

(K) RETIREMENT PLAN – (Continued):

Deferred Compensation Plan

The Authority also offers its employees a deferred compensation plan ("the Plan") created in accordance with Internal Revenue Code Section 457. The Plan, available to all Authority employees, permits them to defer a portion of their salary to future years, subject to current limits imposed by the Internal Revenue Code. The compensation deferred is available to employees upon termination, retirement, death or unforeseeable emergency. All assets and income of the deferred compensation plan are held in trust for the exclusive benefit of the employee. During October of 2000, the Authority also adopted an Internal Revenue Code Section 401(a) plan. This plan became effective in January of 2001. Under this plan, the Authority matches employee contributions to the 457 plan. The proceeds deferred are available to employees upon termination, retirement, death or unforeseeable emergency. All assets and income of the plan are held in trust for the exclusive benefit of the employee. As per the 401(a) Plan document, the Authority may contribute a matching contribution of a maximum of \$7,400 per employee per year.

(L) CONCENTRATION(S) OF REVENUES:

During the years ended April 30, 2011 and 2010, the Authority earned a significant portion (in excess of 60%) of its total water sales revenues from a single municipal customer. The loss of this municipal customer would have a material and severe economic impact on the Authority's revenues and change in net assets. Additionally, the significant municipal customer has made public announcements that they intend to build their own water plant within three years.

(M) COMMITMENTS AND CONTINGENCIES:

Since 1994, the Authority has had a coordinating agreement with the Oklahoma Department of Environmental Quality ("DEQ") in which the DEQ acts as the enforcement agent for the Authority's industrial pre-treatment program. Currently, the Authority and the DEQ are involved in a dispute over billings by the DEQ to the Authority that the Authority believes cannot be substantiated. The amount in dispute is approximately \$100,000. No amounts have been accrued in the financial statements as a liability owed by the Authority to the DEQ at April 30, 2011.

During the year ended April 30, 2008, the DEQ furnished the Authority a proposed modification to its renewal permit for the discharge of its wastewater treatment plant into the Grand Neosho River. The DEQ's proposed modifications could negatively impact the Authority by limiting future growth of the industrial park. The Authority had operated under a memorandum of agreement with the DEQ which was verbally extended to June 30, 2010. Since that time, the Authority has had further conversations with DEQ and has obtained verbal approval of an agreement with the DEQ which would be favorable for future industrial development. However no written agreement is in place at this time and the DEQ believes that further studies of the Grand Neosho River are necessary. As such, the ultimate outcome of this issue is uncertain at this point in time. Management of the Authority does not believe that a loss contingency is necessary at this time.

(N) SUBSEQUENT EVENTS AND DATE OF MANAGEMENT'S REVIEW:

Subsequent events were evaluated through September 21, 2011, which is the date the financial statements were available to be issued.

OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)
Supplemental Schedules of Revenues, Expenses and
Changes in Net Assets by Division
For the Years Ended April 30, 2011 and 2010

Administration

	2011	2010
Revenues:		
Building rentals	\$ 8,234,443	\$ 6,120,813
Interest income	3,679,192	3,364,831
Gain on sales of assets		401,563
Income from direct financing leases	191,904	196,558
Airport income	353,789	142,964
Miscellaneous income	34,914	39,443
Unrealized gain in fair value of investments	10,864	(464,467)
Total revenues	12,505,106	9,801,705
Expenses-operating:		
Wages and payroll	235,251	236,633
General maintenance	196,151	230,598
Other expenses	17,997	16,928
Total operating expenses	449,399	484,159
Expenses-general and administrative:		
Administrative salaries	669,040	641,724
Legal and professional	260,902	156,185
Marketing	230,357	174,621
Insurance	105,705	101,835
Travel and entertainment	35,032	34,258
Other expenses	41,226	44,368
Total general and administrative expenses	1,342,262	1,152,991
Expenses - non-operating:		
Interest	5,224,857	5,224,857
Depreciation	2,553,206	2,507,068
Total expenses	9,569,724	9,369,075
Changes in net assets	\$ 2,935,382	\$ 432,630

The accompanying notes are an integral part of the financial statements.

OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)
Supplemental Schedules of Revenues, Expenses and
Changes in Net Assets by Division
For the Years Ended April 30, 2011 and 2010

Water Plant

	2011	2010
Revenues:		
Water sales	\$ 11,194,180	\$ 10,889,330
Expenses-operating:		
Chemicals	2,247,550	2,029,456
Power	722,163	619,656
Water	669,930	761,942
Wages and payroll	521,783	506,132
General maintenance	206,695	174,177
Waste and sludge disposal	131,880	70,677
Permits and testing	19,636	33,545
Laboratory	8,355	6,280
Other expenses	375,493	279,589
Total operating expenses	4,903,485	4,481,454
Expenses-general and administrative:		
Administrative salaries	609,921	598,292
Insurance	59,448	57,422
Travel and entertainment	22	278
Other expenses	5,443	5,251
Total general and administrative expenses	674,834	661,243
Expenses - non-operating:		
Depreciation	1,124,505	1,140,429
Total expenses	6,702,824	6,283,126
Changes in net assets	\$ 4,491,356	\$ 4,606,204

The accompanying notes are an integral part of the financial statements.

OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)
Supplemental Schedules of Revenues, Expenses and
Changes in Net Assets by Division
For the Years Ended April 30, 2011 and 2010

Waste Treatment Plant

	<u>2011</u>	<u>2010</u>
Revenues:		
Waste treatment income	\$ 1,152,833	\$ 1,175,488
Expenses-operating:		
Power	202,610	190,647
Wages and payroll	81,134	78,909
General maintenance	80,948	90,597
Permits and testing	52,503	53,034
Waste and sludge disposal	17,020	54,400
Chemicals	6,945	7,925
Laboratory	1,988	755
Water	61	61
Other expenses	1,406	1,644
Total operating expenses	<u>444,615</u>	<u>477,972</u>
Expenses-general and administrative:		
Administrative salaries	189,373	185,422
Travel and entertainment	15,600	15,600
Insurance	7,378	6,985
Other expenses	1,694	1,366
Total general and administrative expenses	214,045	209,373
Expenses - non-operating:		
Depreciation	<u>768,416</u>	<u>786,772</u>
Total expenses	<u>1,427,076</u>	<u>1,474,117</u>
Changes in net assets	<u>\$ (274,243)</u>	<u>\$ (298,629)</u>

The accompanying notes are an integral part of the financial statements.



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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**

To the Board of Trustees of the
Oklahoma Ordnance Works Authority:

We have audited the financial statements of the business-type activities of the OKLAHOMA ORDNANCE WORKS AUTHORITY ("the Authority"), a public trust created under the laws of the State of Oklahoma, as of and for the years ended April 30, 2011 and 2010, which collectively comprise the OKLAHOMA ORDNANCE WORKS AUTHORITY's financial statements and have issued our report thereon dated September 21, 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.

Internal Control over Financial Reporting

In planning and performing our audits, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 over 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination

**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* – (Continued)**

Compliance and Other Matters – (Continued)

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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated September 21, 2011.

This report is intended solely for the information and use of the Board of Trustees, audit committee, management and the Oklahoma Office of the State Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.

Glenn Elliott & Associates, Inc.

Tulsa, Oklahoma
September 21, 2011