

OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)

Reports on Examinations of Financial Statements

For the Years Ended April 30, 2012 and 2011

OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)

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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, 2012 and 2011, 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, 2012 and 2011, 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 October 4, 2012, 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
October 4, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the OKLAHOMA ORDINANCE 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, 2012. 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.

Required financial statements:

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows

Accounting basis and measurement focus:

- Accrual accounting and economic resource management focus

Type of asset and liability information:

- All assets and liabilities, both financial and capital, and short-term and long-term

Type of inflow/outflow information:

- 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, 2012 was another strong year for the Authority as total net assets increased to \$155,489,895, an increase of 4.6% 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, 2012</u>	<u>April 30, 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets:				
Current assets	\$ 29,342,326	\$ 11,239,416	\$ 18,102,910	161.1%
Property and equipment, net	107,336,425	111,541,146	(4,204,721)	-3.8%
Investments	103,812,603	110,468,609	(6,656,006)	-6.0%
Prepaid expenses, non-current		356,360	(356,360)	-100.0%
Total assets	<u>\$ 240,491,354</u>	<u>\$ 233,605,531</u>	<u>\$ 6,885,823</u>	2.9%
Liabilities:				
Current liabilities	\$ 451,599	\$ 417,817	\$ 33,782	8.1%
Long-term debt	84,549,861	84,549,861	-	NA
Total liabilities	<u>85,001,460</u>	<u>84,967,678</u>	<u>33,782</u>	0.0%
Net assets	<u>155,489,894</u>	<u>148,637,853</u>	<u>6,852,041</u>	4.6%
Total liabilities and net assets	<u>\$ 240,491,354</u>	<u>\$ 233,605,531</u>	<u>\$ 6,885,823</u>	2.9%

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

	<u>Year Ended April 30, 2012</u>	<u>Year Ended April 30, 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues:				
Operating revenues	\$ 19,612,254	\$ 21,162,063	\$ (1,549,809)	-7.3%
Investment income	3,717,948	3,690,056	27,892	0.8%
Gain on sales of assets	1,500,723		1,500,723	NA
Total revenues	<u>24,830,925</u>	<u>24,852,119</u>	<u>(21,194)</u>	-0.1%
Expenses:				
Operating	5,971,261	5,797,499	173,762	3.0%
General and administrative	2,265,867	2,231,141	34,726	1.6%
Non-operating expenses:				
Interest	5,224,857	5,224,857	-	NA
Depreciation	4,516,899	4,446,127	70,772	1.6%
Total expenses	<u>17,978,884</u>	<u>17,699,624</u>	<u>279,260</u>	1.6%
Changes in net assets	6,852,041	7,152,495	(300,454)	-4.2%
Beginning net assets	<u>148,637,853</u>	<u>141,485,358</u>	<u>7,152,495</u>	5.1%
Ending net assets	<u>\$ 155,489,894</u>	<u>\$ 148,637,853</u>	<u>\$ 6,852,041</u>	4.6%

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, 2012, the Authority's operating cash and certificate of deposit position was \$27,314,447, an increase of \$17,823,881 from the prior year. At April 30, 2012, the balance of total current assets was \$29,342,327, an increase of \$18,102,911 from the previous year. The total balance of investments in U.S. Treasury obligations, GNMA bonds and investments in common stock showed a decrease of \$6,656,006, to \$103,812,603. The reason for these changes was a shift in investment strategy to larger holdings in cash and cash equivalents and certificates of deposit. Overall, total assets increased by \$6,885,824 or 3%, to an April 30, 2012, total of \$240,491,355.

As in the previous year, the Authority's total current liabilities at April 30, 2012, were negligible in comparison to total current assets. Total current liabilities, consisting of accounts payable and various accrued liabilities at April 30, 2012, were \$451,599 as compared to a balance of \$417,817 at April 30, 2011. Long-term debt was unchanged at \$84,549,861 from the previous year ended April 30, 2011. Long-term debt consists of two portions; \$81,549,861 of non-recourse debt which is due to a park tenant for the former 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, 2012, the Authority's total revenues were \$24,830,924, a decrease of \$21,195 or (.1%) over the previous year. Total revenues for the year ended April 30, 2012 are lower due to a large decrease in building rental income from the previous year, due to the recognition of a large pre-payment from a park tenant in the prior year. This decrease in building rental income more than offset an increase in water sales, waste treatment income and the gain on sales of assets. 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 \$158,918 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 \$24,672,006 for the year ended April 30, 2012.

At April 30, 2012, total expenses were \$17,978,882, an increase of \$279,258 or 1.6% over the previous year. The primary expense categories that caused the increase in total expenses were chemicals, power, water and marketing. 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, 2012 was \$6,852,042 as compared to a change in net assets of \$7,152,495 for the year ended April 30, 2011, which represents a decrease of 4.2%.

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, 2012 and 2011

	<u>Assets</u>	
	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents (Notes A and B)	\$ 4,715,762	\$ 3,107,090
Certificates of deposit (Notes A and B)	22,598,685	6,383,476
Accounts receivable, net (Note A)	1,280,890	917,875
Accrued interest income receivable	320,074	369,579
Inventory-chemicals (Note A)	101,854	111,413
Prepaid expenses (Note A)	325,061	349,983
	<hr/>	<hr/>
Total current assets	29,342,326	11,239,416
Investments (Notes A and B):		
Investments, GNMA bonds	56,538,075	70,916,279
Investments, U.S. Treasury obligations	47,216,797	39,500,757
Investments, Common stock	57,731	51,573
	<hr/>	<hr/>
Total investments	103,812,603	110,468,609
Property, plant and equipment, net (Notes A and C):		
Industrial park facilities, net	79,875,685	83,652,339
Water plant facilities, net	15,335,541	15,685,132
Waste treatment facilities, net	10,250,075	10,978,412
Construction in progress	1,850,990	1,204,203
Spare parts	24,134	21,060
	<hr/>	<hr/>
Total property, plant and equipment, net	107,336,425	111,541,146
Prepaid expenses, non-current portion (Note A)		<hr/>
		356,360
Total assets	<hr/> <u>\$ 240,491,354</u>	<hr/> <u>\$ 233,605,531</u>
 <u>Liabilities and Net Assets</u> 		
Current liabilities:		
Accounts payable	\$ 224,595	\$ 195,724
Accrued liabilities (Note E)	227,004	222,093
	<hr/>	<hr/>
Total current liabilities	451,599	417,817
Long-term debt (Note D)	<hr/>	<hr/>
	84,549,861	84,549,861
Total liabilities	<hr/>	<hr/>
	85,001,460	84,967,678
Net assets (Note F):		
Net assets, unrestricted	48,153,469	37,096,707
Net assets, invested in capital assets	107,336,425	111,541,146
	<hr/>	<hr/>
Total net assets	155,489,894	148,637,853
Total liabilities and net assets	<hr/> <u>\$ 240,491,354</u>	<hr/> <u>\$ 233,605,531</u>

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, 2012 and 2011

Revenues:	<u>2012</u>	<u>2011</u>
Water sales (Note K)	\$ 11,581,669	\$ 11,194,180
Building rentals (Note G)	6,463,531	8,234,443
Interest income	3,565,188	3,679,192
Waste treatment income	1,276,995	1,152,833
Airport income (Note H)	142,614	353,789
Income from direct financing leases	104,279	191,904
Miscellaneous income	43,166	34,914
Gain on sales of assets	1,500,723	
Unrealized gain/(loss) in fair value of investments	<u>152,760</u>	<u>10,864</u>
 Total revenues	 <u>24,830,925</u>	 <u>24,852,119</u>
 Expenses - operating:		
Chemicals	2,443,182	2,254,495
Power	1,021,853	924,773
Wages and payroll	843,968	838,168
Water	705,036	669,991
General maintenance	414,747	483,794
Waste and sludge disposal	91,969	148,900
Pre-treatment program	47,257	18,368
Permits and testing	39,038	53,771
Laboratory	9,361	10,343
Other expenses	<u>354,850</u>	<u>394,896</u>
 Total operating expenses	 <u>5,971,261</u>	 <u>5,797,499</u>
 Expenses - general and administrative:		
Administrative salaries	1,504,561	1,468,334
Marketing	271,570	230,357
Legal and professional	203,701	260,902
Insurance	179,634	172,531
Travel and entertainment	55,177	50,654
Other expenses	<u>51,224</u>	<u>48,363</u>
 Total general and administrative expenses	 <u>2,265,867</u>	 <u>2,231,141</u>
 Expenses - non-operating:		
Interest	5,224,857	5,224,857
Depreciation	<u>4,516,899</u>	<u>4,446,127</u>
 Total expenses	 <u>17,978,884</u>	 <u>17,699,624</u>
 Changes in net assets	 6,852,041	 7,152,495
 Net assets, beginning of year	 <u>148,637,853</u>	 <u>141,485,358</u>
 Net assets, end of year	 <u>\$ 155,489,894</u>	 <u>\$ 148,637,853</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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from sources	\$ 19,612,254	\$ 21,162,063
Cash paid to suppliers and employees	(8,126,015)	(10,996,286)
Interest income	3,565,188	3,679,192
Interest (expense)	(5,224,857)	(5,224,857)
	<u>9,826,570</u>	<u>8,620,112</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
(Purchases) or redemptions of certificates of deposit	(16,215,209)	(1,762,535)
(Purchases) or redemptions of U.S. Treasury obligations	(7,569,438)	(5,653,899)
(Purchases) or redemptions of GNMA bonds	14,378,204	(53,470)
(Purchases) of property, plant and equipment	(1,797,117)	(1,163,319)
Proceeds from sales of property, plant and equipment	2,985,662	
	<u>(8,217,898)</u>	<u>(8,633,223)</u>
Net cash (used in) investing activities		
Cash flows from financing activities:		
Payments received on direct financing leases		196,048
		<u>196,048</u>
Net cash provided by financing activities		
Net increase in cash and cash equivalents	1,608,672	182,937
Cash and cash equivalents, beginning of year	3,107,090	2,924,153
	<u>\$ 4,715,762</u>	<u>\$ 3,107,090</u>
Cash and cash equivalents, end of year		
Reconciliation of changes in net assets to net cash provided by operating activities:		
Changes in net assets, net of non-cash items (a)	\$ 6,699,281	\$ 7,141,631
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	4,516,899	4,446,127
(Gain) on sales of assets	(1,500,723)	
Changes in assets and liabilities:		
(Increase) in accounts receivable	(363,015)	(33,379)
Decrease in accrued interest income receivable	49,505	18,968
Decrease (increase) in inventory-chemicals	9,559	(9,347)
Decrease (increase) in prepaid expenses	381,282	(671,837)
Increase (decrease) in accounts payable	28,871	(26,978)
Increase in accrued liabilities	4,911	19,178
(Decrease) in deferred revenue		(2,264,251)
	<u>3,127,289</u>	<u>1,478,481</u>
Total adjustments and changes in assets and liabilities		
Net cash provided by operating activities	<u>\$ 9,826,570</u>	<u>\$ 8,620,112</u>

(a) Non-cash items consisted of unrealized investment gains of \$152,760 and \$10,864

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

OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)

Notes to the Basic Financial Statements
As of and For the Years Ended April 30, 2012 and 2011

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

Origins of the Authority and 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 ORDNANCE WORKS AUTHORITY
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Notes to the Basic Financial Statements
As of and For the Years Ended April 30, 2012 and 2011

(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, 2012, 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/"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 yet completed at the end of the Authority's fiscal year.

Prepaid Expenses

During a previous fiscal year, 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 initial pre-payment of \$854,806, which was made during the year ended April 30, 2011, is being 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.

Advertising Costs

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

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)

Notes to the Basic Financial Statements
As of and For the Years Ended April 30, 2012 and 2011

(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, 2011 financial statements have been reclassified for comparative purposes to conform to current year presentation with no effect on the change in net assets.

Date of Management's Review

Subsequent events were evaluated through October 4, 2012 which is the date that the financial statements were available for issuance.

(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 \$27,314,447 and \$9,490,566 for the years ended April 30, 2012 and 2011, respectively. The financial institution balances for these deposits totaled \$27,731,962 and \$9,619,742 for the years ended April 30, 2012 and 2011, 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, 2012, 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	\$ 56,538,075	\$ 56,114,479	N/A	N/A
U.S. Treasury obligations	47,216,797	47,210,671	N/A	144 Days
Common stock	57,731	50,496	N/A	N/A
Total investments:	<u>\$103,812,603</u>	<u>\$103,375,646</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 longer 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 or implicit guarantee 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.

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

As of and For the Years Ended April 30, 2012 and 2011

(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, 2012 and 2011, the Authority held deposits which were in excess of FDIC insurance limits with two financial institutions. However, the Authority has obtained collateral for these deposits and the excess deposits are collateralized by securities held by the pledging financial institutions. The Authority also held cash in the amount of \$460,625 at April 30, 2012 in brokerage accounts with Raymond James that were not covered by FDIC insurance but were fully collateralized by investment securities.

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 or implicit guarantee 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 hold almost no 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:

EXAMPLE :

	Impact on Fair Value of Basis		
	Point (Bps) Increase of:		
	100 Bps	200 Bps	300 Bps
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 ORDNANCE WORKS AUTHORITY
(A Public Trust)

Notes to the Basic Financial Statements
As of and For the Years Ended April 30, 2012 and 2011

(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.

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>2012</u>	<u>2011</u>
Investments, registered in the Authority's name and held by brokerage firms	\$103,567,790	\$110,092,315
Investments, registered, and held in certificate form by the Authority	<u>244,813</u>	<u>376,294</u>
Total investments	<u>\$103,812,603</u>	<u>\$110,468,609</u>

The Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*, 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 investments.

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
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Notes to the Basic Financial Statements
As of and For the Years Ended April 30, 2012 and 2011

(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, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Industrial park facilities, net:		
Buildings	\$ 88,382,446	\$ 92,640,051
Airport and improvements	4,819,818	4,819,818
Streets and other improvements	2,802,228	2,657,452
Machinery and equipment	707,800	701,903
Undeveloped land (non-depreciable)	665,629	618,879
Furniture and fixtures	347,888	347,573
Automobiles, trucks and tractors	338,698	312,829
Computer equipment	306,607	358,673
Accumulated depreciation	(18,526,851)	(18,836,260)
Total industrial park facilities, net	<u>79,844,263</u>	<u>83,620,918</u>
Water plant and related facilities:		
Equipment	20,057,700	20,025,889
Distribution system	11,521,244	10,708,272
Building	295,557	295,557
Water plant land (non-depreciable)	31,421	31,421
Accumulated depreciation	(16,538,960)	(15,344,586)
Total water plant facilities, net	<u>15,366,962</u>	<u>15,716,553</u>
Waste treatment facilities:		
Waste treatment plant	17,521,457	17,502,807
Landfill	46,161	46,161
Accumulated depreciation	(7,317,542)	(6,570,556)
Total waste treatment facilities, net	<u>10,250,076</u>	<u>10,978,412</u>
Construction in progress (non-depreciable)	1,850,990	1,204,203
Spare parts (non-depreciable)	<u>24,134</u>	<u>21,060</u>
Total property and equipment, net	<u>\$ 107,336,425</u>	<u>\$ 111,541,146</u>

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)

Notes to the Basic Financial Statements
As of and For the Years Ended April 30, 2012 and 2011

(D) LONG TERM DEBT:

A summary of long-term debt at April 30, 2012, 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, 2012, 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.

(E) 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, 2012 and 2011, total accrued leave was \$227,005 and \$205,352, respectively, which is included in accrued liabilities.

OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)

Notes to the Basic Financial Statements
As of and For the Years Ended April 30, 2012 and 2011

(F) NET ASSETS:

The Authority's net assets at April 30, 2012 and 2011 were \$155,489,895 and \$148,637,853, respectively. Net assets are classified as follows:

- *Unrestricted* - Consist of operating funds over which the Board of Directors retains full control to use in achieving any of its authorized purposes.
- *Invested in capital assets* - Consist of the Authority's total investment in property, plant and equipment (capital assets).
- *Restricted* - Consist of 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. 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 \$167,685,500 will be needed to complete capital projects for the next five years as of the year ended April 30, 2012. For the years ending after April 30, 2012, the Authority's capital budget estimates are as follows; 2013 - \$15,136,500, 2014 - \$1,476,500, 2015 - \$20,415,500, 2016 - \$988,000 and 2017 - \$129,669,000.

(G) BUILDING RENTALS AND OPERATING LEASES:

For the years ended April 30, 2011 and 2010, the Authority recognized building rental income of \$6,463,531 and \$8,234,443, 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, 2012; 2013 - \$667,470, 2014 - \$132,438, 2015 - \$33,795, 2016 - \$33,795, 2017 - \$30,195 and 2018 to 2022 - \$150,975. As such, total future minimum payments receivable under the non-cancelable operating leases are anticipated to be \$1,048,668.

(H) FEDERAL GRANTS:

During the year ended April 30, 2012 and 2011, 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, 2012 and 2011, audits under Circular A-133 were not required.

OKLAHOMA ORDINANCE WORKS AUTHORITY
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Notes to the Basic Financial Statements
As of and For the Years Ended April 30, 2012 and 2011

(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 non-recourse debt at April 30:

	<u>2012</u>	<u>2011</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) 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 participating state agencies for fiscal year ending April 30, 2012 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.

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

OKLAHOMA ORDNANCE WORKS AUTHORITY

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Notes to the Basic Financial Statements

As of and For the Years Ended April 30, 2012 and 2011

(J) RETIREMENT PLAN – (Continued):

Deferred Compensation Plan - Continued

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.

(K) CONCENTRATION(S) OF REVENUES:

During the years ended April 30, 2012 and 2011, 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 municipal customer noted above has started construction on a municipal water plant and has made public announcements that they intend to discontinue purchasing water from the Authority within the next two to three years.

(L) COMMITMENTS AND CONTINGENCIES:

The Authority is presently involved in a dispute with the Grand River Dam Authority ("GRDA") over the rate at which the Authority was billed for raw water for a two year period ending June 30, 2012. The Authority paid all GRDA invoices during this time period under protest and believes that it was overcharged for raw water during this timeframe.

(M) SUBSEQUENT EVENTS:

The Authority is, from time to time, involved in lawsuits arising in the ordinary course of business. As of the date of our audit report, the Authority resolved one such lawsuit in its favor related to amounts due for past due rent and damage sustained to a building leased by a former park tenant. The total settlement amount of this lawsuit was \$650,000.

The Authority has been involved in ongoing negotiations with the Oklahoma Department of Environmental Quality ("ODEQ") regarding proposed modifications to its renewal permit for discharge from the Authority's wastewater treatment plant into the Grand Neosho River. The Authority was concerned that the ODEQ's proposed modifications could negatively impact the Authority by limiting discharge limits into the Grand Neosho River, thus limiting future growth of the industrial park. The Authority had been operating under a memorandum of agreement with the ODEQ with verbal extensions of the Authority's old permit, pending further studies of the water quality of the Grand Neosho River. The old permit allowed for 1,584 pounds of waste treatment discharge into the Grand Neosho River per day, on an annual basis. Subsequent to the year ended April 30, 2012, the Authority received a new permit from the ODEQ dated September 1, 2012 which will expire on August 31, 2017. The new permit allows for 697 pounds of waste treatment discharge per day into the Grand Neosho River from June 1 to October 30th and allows for the volume limits allowed by the old permit during the remainder of the year.

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, 2012 and 2011

Administration

	<u>2012</u>	<u>2011</u>
Revenues:		
Building rentals	\$ 6,463,531	\$ 8,234,443
Interest income	3,565,188	3,679,192
Gain on sales of assets	1,500,723	
Income from direct financing leases	104,279	191,904
Airport income	142,614	353,789
Miscellaneous income	43,166	34,914
Unrealized gain in fair value of investments	152,760	10,864
Total revenues	<u>11,972,261</u>	<u>12,505,106</u>
Expenses-operating:		
Wages and payroll	215,627	235,251
General maintenance	214,303	196,151
Other expenses	13,713	17,997
Total operating expenses	<u>443,643</u>	<u>449,399</u>
Expenses-general and administrative:		
Administrative salaries	686,842	669,040
Marketing	271,570	230,357
Legal and professional	203,701	260,902
Insurance	110,317	105,705
Travel and entertainment	38,941	35,032
Other expenses	43,748	41,226
Total general and administrative expenses	<u>1,355,119</u>	<u>1,342,262</u>
Expenses - non-operating:		
Interest	5,224,857	5,224,857
Depreciation	2,575,539	2,553,206
Total expenses	<u>9,599,158</u>	<u>9,569,724</u>
Changes in net assets	<u>\$ 2,373,103</u>	<u>\$ 2,935,382</u>

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, 2012 and 2011

Water Plant

	<u>2012</u>	<u>2011</u>
Revenues:		
Water sales	\$ 11,581,669	\$ 11,194,180
Expenses-operating:		
Chemicals	2,443,182	2,247,550
Power	806,029	722,163
Water	704,975	669,930
Wages and payroll	544,592	521,783
General maintenance	97,268	206,695
Waste and sludge disposal	81,912	131,880
Permits and testing	35,848	19,636
Laboratory	6,565	8,355
Other expenses	339,819	375,493
Total operating expenses	<u>5,060,190</u>	<u>4,903,485</u>
Expenses-general and administrative:		
Administrative salaries	616,639	609,921
Insurance	61,225	59,448
Travel and entertainment		22
Other expenses	6,114	5,443
Total general and administrative expenses	683,978	674,834
Expenses - non-operating:		
Depreciation	<u>1,194,374</u>	<u>1,124,505</u>
Total expenses	<u>6,938,542</u>	<u>6,702,824</u>
Changes in net assets	<u>\$ 4,643,127</u>	<u>\$ 4,491,356</u>

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, 2012 and 2011

Waste Treatment Plant

	<u>2012</u>	<u>2011</u>
Revenues:		
Waste treatment income	\$ 1,276,995	\$ 1,152,833
Expenses-operating:		
Power	215,824	202,610
General maintenance	103,176	80,948
Wages and payroll	83,749	81,134
Pre-treatment program	47,257	18,368
Waste and sludge disposal	10,057	17,020
Permits and testing	3,190	34,135
Laboratory	2,796	1,988
Water	61	61
Chemicals		6,945
Other expenses	1,318	1,406
Total operating expenses	<u>467,428</u>	<u>444,615</u>
Expenses-general and administrative:		
Administrative salaries	201,080	189,373
Travel and entertainment	16,236	15,600
Insurance	8,092	7,378
Other expenses	1,362	1,694
Total general and administrative expenses	226,770	214,045
Expenses - non-operating:		
Depreciation	<u>746,986</u>	<u>768,416</u>
Total expenses	<u>1,441,184</u>	<u>1,427,076</u>
Changes in net assets	<u>\$ (164,189)</u>	<u>\$ (274,243)</u>

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

GLENN ELLIOTT & Associates inc.

Certified Public Accountants



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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, 2012 and 2011, which collectively comprise the OKLAHOMA ORDNANCE WORKS AUTHORITY's financial statements and have issued our report thereon dated October 4, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective 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 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.

**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

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 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 October 4, 2012.

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
October 4, 2012