

**OKLAHOMA ENVIRONMENTAL
MANAGEMENT AUTHORITY**

Audited Financial Statements

June 30, 2015

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2015

Table of Contents

- I. Financial Statements
- II. Required Supplemental Information
- III. Report on Compliance and Internal Control
 - A. 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
 - B. Findings and Responses

PART I

Audited Financial Statements

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2015

Independent Auditors' Report.	1
Statements of Net Position.	3
Statements of Revenues, Expenses, and Changes in Net Position	5
Statements of Cash Flows.	6
Notes to Financial Statements	7

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma Environmental Management Authority (the "Authority") as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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PCAOB Registered Firm

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Proportional Share of Net Pension Liability and the Schedule of Pension Plan contributions supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Adoption of GASB Statement No. 68, Accounting
and Financial Reporting for Pensions

As discussed in Note K to the financial statements, the Authority changed its method of accounting and financial reporting of pensions as a result of the adoption of GASB Statement No. 68, effective July 1, 2014. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Smith, Carney - Co., P.C.

Oklahoma City, Oklahoma
December 4, 2015

STATEMENTS OF NET POSITION

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

	June 30,	
	2015	2014
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 871,864	\$ 2,102,229
Short-term investments	10,401	37,542
Accounts receivable, net	490,986	637,296
Accrued interest receivable	2,680	642
Total Current Assets	<u>1,375,931</u>	<u>2,777,709</u>
<u>Capital Assets</u>		
Land and improvements	1,365,717	1,282,736
Buildings	1,343,462	1,318,157
Computers	34,645	33,401
Office equipment and furniture	60,741	58,637
Software	40,757	40,757
Machinery and equipment	7,607,525	7,461,124
Automotive equipment	6,096,018	4,863,629
	<u>16,548,865</u>	<u>15,058,441</u>
Less: Accumulated depreciation	<u>(11,142,868)</u>	<u>(10,105,390)</u>
Capital Assets, Net	<u>5,405,997</u>	<u>4,953,051</u>
<u>Other Assets</u>		
Restricted cash	35,379	55,926
Restricted investments	2,230,230	2,165,397
Rental property	1,039,693	1,039,693
Less: Accumulated depreciation	<u>(264,582)</u>	<u>(241,155)</u>
	<u>3,040,720</u>	<u>3,019,861</u>
Total Assets	<u>9,822,648</u>	<u>10,750,621</u>
<u>Deferred Outflows of Resources</u>		
Pension related	<u>164,137</u>	<u>-</u>
	<u>\$ 9,986,785</u>	<u>\$ 10,750,621</u>

SEE NOTES TO FINANCIAL STATEMENTS.

STATEMENTS OF NET POSITION -- Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

	June 30,	
	<u>2015</u>	<u>2014</u>
<u>LIABILITIES, DEFERRED INFLOWS</u>		
<u>OF RESOURCES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts payable	\$ 177,799	\$ 260,999
Accrued interest payable	73,207	83,122
Accrued payroll expenses	203,960	190,206
Customer deposits	50,396	32,946
Current portion of long-term debt	455,924	487,651
Current portion of capital lease	59,626	55,242
Total Current Liabilities	<u>1,020,912</u>	<u>1,110,166</u>
<u>Long-Term Liabilities</u>		
Accrued closure and post-closure costs	2,038,055	1,984,759
Long-term debt, net of current portion	3,800,000	4,256,104
Net pension liability	96,518	-
Obligations under capital lease, net of current portion	<u>282,512</u>	<u>346,783</u>
Total Long-Term Liabilities	<u>6,217,085</u>	<u>6,587,646</u>
Total Liabilities	<u>7,237,997</u>	<u>7,697,812</u>
<u>Deferred Inflows of Resources</u>		
Pension related	<u>354,513</u>	-
Total Liabilities and Deferred Inflows	<u>7,592,510</u>	<u>7,697,812</u>
<u>NET POSITION</u>		
Investment in capital assets, net	1,583,046	605,809
Restricted for closure/postclosure costs	227,554	236,564
Unrestricted	<u>583,675</u>	<u>2,210,436</u>
Total Net Position	<u>2,394,275</u>	<u>3,052,809</u>
	<u>\$ 9,986,785</u>	<u>\$ 10,750,621</u>

SEE NOTES TO FINANCIAL STATEMENTS.

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

	For The Year Ended June 30,	
	2015	2014
<u>OPERATING REVENUE</u>		
Disposal fees and hauling income	\$ 5,060,481	\$ 5,434,527
Recycling income	108,338	78,061
Grinder income	22,200	49,881
Service charges	-	8,284
Total Operating Revenue	<u>5,191,019</u>	<u>5,570,753</u>
<u>OPERATING EXPENSES</u>		
Advertising, promotion and public awareness	37,645	29,157
Bad debts	40,302	22,890
Closure and post-closure costs	53,295	78,657
Contract services	171,495	167,548
Depreciation	1,066,430	966,309
Employee retirement	153,553	146,570
Engineering	22,708	16,483
Fuel and diesel	419,531	556,863
Inmate expenses	14,483	19,712
Insurance	429,596	383,209
Landfill host fees	15,393	17,720
Legal and accounting fees	44,190	37,468
Office expense	26,681	16,589
Operating safety supplies	101,990	112,254
Payroll taxes	122,791	120,861
Permits, licenses, and fees	11,851	40,250
Repairs and maintenance	1,039,917	1,037,463
Salaries and wages	1,601,818	1,602,040
Turnpike tolls and mileage	8,117	10,792
Utilities and telephone	75,217	72,522
Waste disposal tax	84,119	89,636
Environmental Officer expense	26,100	27,132
Miscellaneous	96,746	82,522
Total Operating Expenses	<u>5,663,968</u>	<u>5,654,647</u>
Operating Income (Loss)	<u>(472,949)</u>	<u>(83,894)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest expense	(175,306)	(171,314)
Interest income	12,081	10,899
Insurance proceeds	11,600	61,718
29th Street road project	-	(107,884)
Miscellaneous income	57,158	6,758
Rent income, net of related expense	190,837	139,887
Gain (loss) on disposal of assets	10,000	-
	<u>106,370</u>	<u>(59,936)</u>
Change in net position	<u>(366,579)</u>	<u>(143,830)</u>
<u>NET POSITION AT BEGINNING OF YEAR</u>		
<u>(AS PREVIOUSLY REPORTED)</u>	3,052,809	3,196,639
Prior period adjustment	(291,955)	-
<u>NET POSITION AT BEGINNING OF YEAR</u>		
<u>(AS RESTATED)</u>	<u>2,760,854</u>	<u>3,196,639</u>
<u>NET POSITION AT END OF YEAR</u>		
	<u>\$ 2,394,275</u>	<u>\$ 3,052,809</u>

SEE NOTES TO FINANCIAL STATEMENTS.

STATEMENTS OF CASH FLOWS

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

	For The Year Ended June 30,	
	2015	2014
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers	\$ 5,354,779	\$ 5,480,392
Other receipts	271,676	227,546
Payments to employees for salaries and benefits	(1,588,064)	(1,573,165)
Payments to suppliers and others	(3,207,944)	(3,194,809)
Net Cash Provided By Operating Activities	<u>830,447</u>	<u>939,964</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of capital assets	(1,495,949)	(327,657)
Decrease in short-term investments	27,141	2,728
Net Cash Used By Investing Activities	<u>(1,468,808)</u>	<u>(324,929)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Increase in restricted assets	(44,286)	(42,667)
Proceeds from debt	74,385	21,069
Principal paid on long-term debt	(622,103)	(250,517)
Net Cash Used By Financing Activities	<u>(592,004)</u>	<u>(272,115)</u>
Net Increase (Decrease) in cash	(1,230,365)	342,920
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	<u>2,102,229</u>	<u>1,759,309</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$ 871,864</u>	<u>\$ 2,102,229</u>
<u>RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Change in net position	\$ (366,579)	\$ (143,830)
Adjustments to reconcile change in net position (loss) to net cash provided by operating activities		
Depreciation	1,066,430	966,309
Closure/post-closure costs	53,296	78,657
Bad debt expense	40,302	22,890
Pension expense	(5,061)	-
(Increase) decrease in accounts receivable and accrued receivables	103,970	(107,679)
Increase (decrease) in accounts payable and accrued expenses	(61,911)	123,617
Net Cash Provided By Operating Activities	<u>\$ 830,447</u>	<u>\$ 939,964</u>
<u>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</u>		
Cost of Equipment	\$ 1,495,949	\$ 842,885
Amount financed	-	(515,228)
Cash Paid For Equipment	<u>\$ 1,495,949</u>	<u>\$ 327,657</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NOTES TO FINANCIAL STATEMENTS

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2015

NOTE A--ORGANIZATION

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

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

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

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Changes in Capital Assets/Rental Property: For the year ended June 30, 2015, capital asset/rental property balances changed as follows:

	Balance At July 1, 2014	<u>Additions</u>	<u>Disposals</u>	Balance At June 30, 2015
Capital Assets	\$15,058,441	\$ 1,495,949	\$ (5,525)	\$16,548,865
Rental Property	1,039,693	-	-	1,039,693
Less: Accumulated Depreciation	<u>(10,346,545)</u>	<u>(1,066,430)</u>	<u>5,525</u>	<u>(11,407,450)</u>
Net	<u>\$ 5,751,589</u>	<u>\$ 429,519</u>	<u>\$ -</u>	<u>\$ 6,181,108</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2015

NOTE B--SIGNIFICANT ACCOUNTING POLICIES--Continued

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

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

Allowance for Bad Debts: The Authority uses the allowance method of accounting for uncollectible accounts. The allowance for possible loss of accounts receivable as of June 30, 2015 and 2014 was \$41,080 and \$56,255, respectively.

Short-Term Investments: Unrestricted and undesignated certificates of deposit with original maturities of over 90 days and not over one year are classified as short-term investments. As of June 30, 2015, the Authority had investments of \$10,401 in collateralized mortgage obligations. Management considers these to be short-term investments.

Pension: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Oklahoma Public Employees Retirement Plan (OPER) and additions to/deductions from OPER's fiduciary net position have been determined on the same basis as they are reported by OPER. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Concentration of Risk: The Authority occasionally has bank deposits in excess of federally insured limits. The risk is mitigated by maintaining all deposits in high quality financial institutions and maintaining collateralization agreements. The Authority had \$3,212,930 and \$4,234,020 in deposits (collected bank balances) as of June 30, 2015 and 2014, respectively. These deposits are secured from risk by \$1,677,381 and \$2,817,019 of federal deposit insurance, and collateral agreements of \$1,535,549 and \$1,375,072 at June 30, 2015 and 2014, respectively. The authority had cash balances in excess of FDIC insurance and collateral agreements of \$-0- and \$41,929 as of June 30, 2015 and 2014, respectively. The Authority has not experienced any losses and does not believe it is exposed to any significant credit risk on cash balances.

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

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

Reclassification: Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation. Total net assets were not affected because of the reclassification.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2015

NOTE C--FAIR VALUE MEASUREMENTS

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

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

Level 2--Inputs to the valuation methodology include:

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

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

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

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

The following table sets forth by level, within the fair value hierarchy, the Authority's assets at fair value as of June 30, 2015 and 2014.

Assets At Fair Value As Of June 30, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-Term Investments	\$ -	\$ 10,401	\$ -	\$ 10,401
Restricted Investments	-	2,230,230	-	2,230,230
Total Assets At Fair Value	<u>\$ -</u>	<u>\$2,240,631</u>	<u>\$ -</u>	<u>\$2,240,631</u>

Assets At Fair Value As Of June 30, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-Term Investments	\$ -	\$ 37,542	\$ -	\$ 37,542
Restricted Investments	-	2,165,397	-	2,165,397
Total Assets At Fair Value	<u>\$ -</u>	<u>\$2,202,939</u>	<u>\$ -</u>	<u>\$2,202,939</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2015

NOTE D--LONG-TERM DEBT

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

	<u>2015</u>	<u>2014</u>
Note payable to CAT Financial, dated October 15, 2013, payable monthly, with interest at 0.00%. Secured by equipment. Matures November 6, 2015.	\$ 25,924	\$ 88,755
Revenue note payable to F&M Bank, dated June 25, 2013, payable semi-annually with interest at 3.45%. Secured by revenues of the authority. Matures July 1, 2023.	4,230,000	4,655,000
	<u>4,255,924</u>	<u>4,743,755</u>
Less: Current Maturities	<u>(455,924)</u>	<u>(487,651)</u>
	<u>\$3,800,000</u>	<u>\$4,256,104</u>

For the year ended June 30, 2015 the Authority's long-term debt changed as follows:

<u>Type Of Debt</u>	<u>Balance At July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance At June 30, 2015</u>	<u>Amounts Due Within One Year</u>
Bank debt	<u>\$4,743,755</u>	<u>\$ -</u>	<u>\$487,831</u>	<u>\$4,255,924</u>	<u>\$455,924</u>

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

	<u>Principal</u>	<u>Interest</u>
2016	\$ 455,924	\$142,226
2017	460,000	127,133
2018	465,000	111,263
2019	490,000	95,048
2020	495,000	78,056
Thereafter	<u>1,890,000</u>	<u>132,653</u>
	<u>\$4,255,924</u>	<u>\$686,379</u>

NOTE E--LEASE COMMITMENTS

The Authority leases automotive equipment and software with financing through F&M Bank and Desert Micro under capital leases. The economic substance of the leases is that the Authority is financing the acquisition of the assets through the lease and, accordingly, it is recorded in the Authority's assets and liabilities.

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

Automobiles	\$384,700
Software	34,425
Less: Accumulated depreciation	<u>(109,547)</u>
	<u>\$309,578</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2015

NOTE E--LEASE COMMITMENTS--Continued

The following is a schedule by years of present value of the future minimum lease payments as of June 30, 2015:

2016	\$ 59,626
2017	61,362
2018	55,097
2019	57,800
2020	60,637
Thereafter	<u>47,616</u>
	<u>\$342,138</u>

The Authority entered into an operating lease in 2012 for a copier. The lease has a minimum payment of \$195 per month for 60 months. The Authority also entered into an operating lease for office space in 2011. The lease has a minimum payment of \$875 per month for 12 months. Effective June, 2013, the lease terms changed to month-to-month.

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

	For The Year Ended	
	June 30,	
	<u>2015</u>	<u>2014</u>
Minimum rentals	\$1,757	\$2,343
Contingent rentals	<u>-</u>	<u>-</u>
	<u>\$1,757</u>	<u>\$2,343</u>

NOTE F--LEASING ACTIVITIES

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

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

	<u>2015</u>	<u>2014</u>
Agricultural real estate	\$421,219	\$421,219
Commercial real estate	618,474	618,474
Accumulated depreciation	<u>(264,582)</u>	<u>(241,155)</u>
Rental Property (Net)	<u>\$775,111</u>	<u>\$798,538</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2015

NOTE G--PENSION PLAN

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

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

Contributions: Authority employees are required to contribute 4% of earned compensation. The Authority contributes 16% of earned compensation. Contributions to the pension plan from the Authority were \$158,614 and \$146,570 for the years ended June 30, 2015 and 2014, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension: At June 30, 2015, the Authority reported a liability of \$96,518 for its proportionate share of the net pension liability. The net pension liability was measured at June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on actual contributions made to the Plan during fiscal year 2014 and are representative of future contributions. At June 30, 2014 the Authority's proportion was .05257993%.

For the year ended June 30, 2015 and 2014, the Authority recognized pension expense of \$153,553 and \$146,570, respectively. At June 30, 2015, the Authority reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 31,955
Changes of assumptions	5,523	-
Net difference between projected and actual investment earnings on pension plan investments	-	322,558
Authority contributions subsequent to the measurement date	<u>158,614</u>	<u>-</u>
	<u>\$164,137</u>	<u>\$354,513</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2015

NOTE G--PENSION PLAN--Continued

Deferred outflows of resources of \$158,614 results from Authority contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2016	\$2,581	\$ (95,572)
2017	2,581	(95,572)
2018	361	(82,730)
2019	<u>-</u>	<u>(80,639)</u>
	<u>\$5,523</u>	<u>\$(354,513)</u>

Actuarial Assumptions: The total pension liability as of June 30, 2014, was determined based on an actuarial valuation prepared as of July 1, 2014, using the following actuarial assumptions:

- Assumed inflation rate - 3.0%
- Salary increases - 4.5% to 8.4% per year including inflation
- Investment rate of return - 7.5% compounded annually net of investment expense and including inflation

Mortality rates for active participants and nondisabled pensioners were based on the RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years).

The actuarial assumptions used in the July 1, 2014, valuation are based on the results of the most recent actuarial experience study, which covers the three-year period ending June 30, 2013. The experience study report is dated May 9, 2014.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Large Cap Equity	37%	5.3%
U.S. Small Cap Equity	6%	5.6%
U.S. Fixed Income	25%	0.7%
International Stock	18%	5.6%
Emerging Market Stock	6%	6.4%
TIPS	4%	0.7%
Rate Anticipation	4%	1.5%
Total	<u>100%</u>	

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2015

NOTE G--PENSION PLAN--Continued

Discount rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position was projected through 2113 to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the employer calculated using the discount rate of 7.50%, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current rate:

	<u>1% Decrease</u> <u>(6.5%)</u>	<u>Current Discount</u> <u>Rate (7.50%)</u>	<u>1% Increase</u> <u>(8.50%)</u>
Authority's proportionate share of the net pension liability	\$600,897	\$96,518	\$(332,277)

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report.

NOTE H--LANDFILL CLOSURE AND POST-CLOSURE COSTS

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

The cumulative capacity used is approximately 85% of the total estimated capacity. The estimated remaining landfill life is 11.18 years. The Authority accrued \$53,295 and \$78,657 for closure and post-closure costs for the years ended June 30, 2015 and 2014, respectively. The Authority has estimated total costs of landfill closure and post-closure of \$2,286,427 of which \$2,038,055 has been recognized and \$248,372 has yet to be recognized. The Authority is accumulating assets to provide financial assurance to the Oklahoma Department of Environmental Quality for these closure and post-closure costs.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2015

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

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

The Authority has restricted cash of \$35,379 and \$55,926 and restricted investments of \$2,230,230 and \$2,165,397 at June 30, 2015 and 2014, respectively. Annual deposits were made to these escrow accounts of \$32,205 in 2015 and \$31,648 in 2014. Restricted cash and restricted investments represent the amount designated by the Authority for closure and post-closure costs.

NOTE I--CONTINGENCIES

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

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

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

During the fiscal year ending June 30, 2003, the Authority received a proposed penalty from the Internal Revenue Service alleging that the Authority violated IRS Code Section 6715 regarding the use of dyed fuel. The amount of the penalty is estimated at \$16,280. The Authority has requested an informal conference and appeals review. There has been no correspondence from the Internal Revenue Service regarding this penalty since 2003. The Authority plans to request that the Internal Revenue Service waive this penalty. The amount has not been accrued in the financial statements as of June 30, 2015 and 2014.

NOTE J--INVESTMENTS

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

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2015

NOTE J--INVESTMENTS

Federal Deposit Insurance	\$1,677,381
Deposits with qualified bank securities pledged as collateral	1,535,549
Uninsured and uncollater- alized	<u>-</u>
Total	<u>\$3,212,930</u>

NOTE K--PRIOR PERIOD ADJUSTMENT

The Authority implemented Governmental Accounting Standards Board (GASB) statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the Authority to record beginning net pension liability and the effects on net position of contributions made by the Authority during the fiscal year ending June 30, 2015. Statement No. 68 states that it may not be practical to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to pensions at the beginning of the period when the provisions of this statement are adopted. In such circumstances, the beginning deferred inflows of resources and deferred outflows of resources related to pensions should not be reported. Since the Authority was unable to determine these amounts related to pensions for prior periods, the restatement only includes the adjustment for the current year. As a result, the beginning net position for the Authority decreased by \$291,955 to recognize the net effect of implementing GASB 68.

NOTE L--SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 4, 2015, the date which financial statements were available for issue.

PART II

Required Supplemental Information

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2015

Required Supplemental Schedules

Schedule of Proportionate Share of Net	
Pension Liability (Unaudited)	17
Schedule of Pension Plan Contributions (Unaudited)	18

SCHEDULE OF PROPORTIONATE SHARE
 OF NET PENSION LIABILITY (UNAUDITED)

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

	June 30,	
	<u>2015</u>	<u>2014</u>
Authority's proportion of the net pension liability	0.05257993%	0.05257993%
Authority's proportionate share of the net pension liability	\$ 96,518	\$ 585,919
Authority's covered-employee payroll	\$ 991,356	\$ 916,063
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	9.74%	63.96%
Plan fiduciary net position as a percentage of the total pension liability	97.90%	81.60%

SEE NOTES TO FINANCIAL STATEMENTS.

SCHEDULE OF PENSION PLAN CONTRIBUTIONS (UNAUDITED)

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

	For The Year Ended June 30,	
	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 158,617	\$ 146,570
Contributions in relation to the contractually required contribution	<u>(158,617)</u>	<u>(146,570)</u>
	<u>\$ -</u>	<u>\$ -</u>
Direct covered-employee payroll	\$ 991,356	\$ 916,063
Contributions as a percentage of covered-employee payroll	16.00%	16.00%

SEE NOTES TO FINANCIAL STATEMENTS.

PART III

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

REPORT ON COMPLIANCE AND INTERNAL CONTROL

FOR THE YEAR ENDED JUNE 30, 2015

SMITH, CARNEY & CO., P.C.

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

To the Board of Trustees
Oklahoma Environmental Management Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma Environmental Management Authority (the "Authority") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 4, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith, Carney - Co., P.C.

Oklahoma City, Oklahoma
December 4, 2015

FINDINGS AND RESPONSES

OKLAHOMA ENVIRONMENTAL MANAGEMENT AUTHORITY

June 30, 2015

No current year findings reported.