

The Metropolitan Environmental Trust

**Financial Statements
with Independent Auditors' Report**

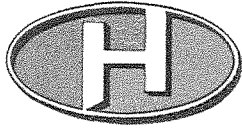
June 30, 2016



The Metropolitan Environmental Trust
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**HINKLE &
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Business Advisors

Independent Auditors' Report on Financial Statements

Board of Directors
The Metropolitan Environmental Trust
Tulsa, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of The Metropolitan Environmental Trust as of and for the year ended June 30, 2016, the related notes to the financial statements, which collectively, comprise the Trust'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.

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Metropolitan Environmental Trust as of June 30, 2016, and the changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page i be presented to supplement the financial statements. Such information, although not a part of the financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2016 on our consideration of the Trust's internal control over financial reporting and 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 result of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

Hick & Company

Tulsa, Oklahoma
December 2, 2016



The Metropolitan Environmental Trust
Management's Discussion and Analysis (Unaudited)
June 30, 2016

Financial Highlights:

- The Trust's net position significantly increased from \$53,652 to \$113,740 from the 2015 to 2016 End of FY.
- Total Operating Revenues decreased 13% from \$199,160 in 2015 to \$172,613 in 2016. This is due solely to what we see as a bottom out in commodity pricing.
- Total Operating Expenses dropped in 2016 to \$1,103,174 from \$1,225,917 in 2015 which is 10%.

General Comments:

The 2016 FY was a challenging year combining previous year shortfalls with a sharply declining commodity market. Despite these conditions, The M.e.t.'s position has improved through 2016 and expected to continue into 2017.

Statement of Net Position

The following table reflects the condensed Statements of Net Position compared to prior year:

ASSETS	<u>2016</u>	<u>2015*</u>
Current Assets	\$ 76,696	\$ 45,273
Capital Assets, net	<u>103,570</u>	<u>131,703</u>
 Total Assets	 <u>180,266</u>	 <u>176,976</u>
 LIABILITIES		
Current Liabilities	66,526	123,324
Non-current Liabilities	<u>-</u>	<u>-</u>
 Total Current Liabilities	 <u>66,526</u>	 <u>123,324</u>
 Net Position		
Net investment in capital assets		130,813
Restricted		-
Unrestricted		<u>(77,161)</u>
 Total net position	 <u>113,740</u>	 <u>53,652</u>
 Total liabilities and net position	 <u>\$ 180,266</u>	 <u>\$ 176,976</u>

*Show as restated

The Metropolitan Environmental Trust
Statements of Net Position
June 30, 2016

	2016
<u>ASSETS</u>	
Current Assets	
Cash and cash equivalents	\$ 9,853
Accounts receivable, no allowance for doubtful accounts	49,793
Inventory	12,028
Prepaid	<u>5,022</u>
Total Current Assets	<u>76,696</u>
 Capital Assets	
Equipment	196,544
Vehicles	286,816
Leasehold improvements	214,016
Accumulated depreciation	<u>(593,806)</u>
Fixed Assets, Net	<u>103,570</u>
Total Assets	<u>\$ 180,266</u>
 <u>LIABILITIES</u>	
Current Liabilities	
Accounts payable	\$ 253
Checks drawn in excess of cash	<u>66,273</u>
Total Current Liabilities	<u>66,526</u>
 Net Position	
Net Investment in capital assets	103,570
Unrestricted	<u>10,170</u>
Total Net Position	<u>113,740</u>
Total Liabilities and Net Position	<u>\$ 180,266</u>



The Metropolitan Environmental Trust
Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

	2016
Operating Revenues	
Recycling depot income	\$ 156,973
Other income	<u>15,640</u>
Total Operating Revenues	<u>172,613</u>
Operating Expenses	
Administrative	51,727
Advertising	7,961
Contract labor	297,984
Insurance	17,039
Professional fees	99,800
Operations	530,393
Storage rental	57,199
Depreciation	<u>41,071</u>
Total Operating Expenses	<u>1,103,174</u>
Operating loss	<u>(930,561)</u>
Non-Operating Revenues	
Membership assessments	845,120
Private donations	69,427
Grants	71,300
Gain on sale of asset	4,800
Interest income	<u>2</u>
Total Non-Operating Revenues	<u>990,649</u>
Change in Net Position	60,088
Net Position, Beginning of Year	<u>53,652</u>
Net Position, End of Year	<u>\$ 113,740</u>



The Metropolitan Environmental Trust
Statements of Cash Flows
For the Year Ended June 30, 2016

	2016
Cash Flows from Operating Activities	
Recycle income	\$ 156,973
Cash received from grants	71,300
Cash received from other	15,640
Payments to suppliers and employees	<u>(1,112,328)</u>
Net cash used in operating activities	<u>(868,415)</u>
Cash flow from non-capital financing activities	
Membership assessments	816,677
Private donations	<u>69,427</u>
Net cash provided by non-capital financing activities	<u>886,104</u>
Cash flow from capital and related financing activities	
Cash paid for capital assets	(12,938)
Gain on sale of assets	<u>4,800</u>
Net cash used in capital and related financing activities	<u>(8,138)</u>
Cash flow from investing activities	
Interest income	<u>2</u>
Net cash provided by investing activities	<u>2</u>
Net increase in Cash and Cash Equivalents	<u>\$ 9,553</u>
Cash and Cash Equivalents, Beginning of Year	<u>\$ 300</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,853</u>
Reconciliation of Decrease in Net Position to Net Cash Used in Operating Activities	
Operating income	
Adjustments to reconcile change in net assets to net cash used in operating activities	<u>\$ 60,088</u>
Depreciation	<u>41,071</u>
Changes in operating assets and liabilities	
Accounts receivable	(28,443)
Prepaid expenses	3,402
Inventory and asset additions	(9,767)
Accounts payable	<u>(56,798)</u>
Net cash provided by operating activities	<u>\$ 9,553</u>



The Metropolitan Environmental Trust
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows.

Background

The Metropolitan Environmental Trust (the Trust), was established August 5, 1988 and is a public trust created under Section 176, Title 60 of the Oklahoma Statutes and Oklahoma Trust Act. The Trust is a cooperative effort of the city and county governments in Northeast Oklahoma, created to develop solid waste management solutions for participating communities. It provides planning, education recycling, and bulk wasted projects and other solid waste programs for its members. The majority of the Trust's operating revenue is from recycling. The members of the Trust include the cities of Bixby, Broken Arrow, Claremore, Collinsville, Coweta, Glenpool, Jenks, Owasso, Sand Springs, Tulsa and County of Tulsa.

The Friends of the M.E.T., Inc. was established August 4, 2010, and is a not-for-profit entity and is tax exempt under Section 501(c)(3) of the Internal Revenue Code. The purpose of Friends of M.E.T. is to provide charitable support to the recycling, environmental and educational activities of The Metropolitan Environmental Trust, its member communities and the State of Oklahoma in an effort to lessen the burdens of government and educate the public about recycling, the future of solid waste disposal and strategies to reduce the amount of trash entering landfills. Friends of the M.E.T., Inc., is considered a component unit of the Trust and its financial statements are consolidated with the Trust. All significant intercompany accounts have been eliminated.

Basis of Accounting and Presentation

The financial statements of the Trust have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expense, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. The Trust distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses consist of revenues and expenses associated with recycling. All other revenues, including membership assessments, and expenses are reported as non-operating.

The financial statements of the Trust are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The activities of the Trust are accounted for in a proprietary fund. Proprietary funds are used to account for a government's ongoing organizations and activities that are similar to those found in the private sector. The measurement focus is on the determination of net income, financial position, and cash flows.



The Metropolitan Environmental Trust
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

Receivables

Receivables primarily represent short-term, non-interest bearing, and are considered past due if any portion of the receivable balance is outstanding after 30 days. The Trust has historically not experienced significant uncollectible accounts, but has provided an allowance for doubtful accounts. The Trust typically does not charge interest or require collateral on receivables.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

Net position is displayed in three components:

- 1) Invested in Capital Assets
This component of net assets includes restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes that are attributable to the acquisition, construction or improvements of those assets.
- 2) Restricted Net Position
This component consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors or laws or regulations, or law through constitutional provisions or enabling legislation.
- 3) Unrestricted Net Position
This component consists of all other net assets that do not meet the definition of 'restricted' or 'invested in capital assets, net of related debt.' The Trust's policy is to first apply unrestricted resources when an expense is incurred for the purposes for which both restricted and unrestricted net assets are available.

As of June 30, 2016, the Trust had no restricted net position.

Capital Assets

Government Accounting Standards Board Statement No. 34 (GASB No. 34), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* requires governmental entities to depreciate all capital assets, except certain non-depreciable assets such as land and construction in progress.

Capital assets are reported at historical cost. Donated capital assets are valued at the estimated fair value at the date of donation. All items with estimated useful lives beyond one year are depreciated principally under the straight-line method. Depreciation expense was \$41,071 for June 30, 2016. Maintenance and repairs are charged to operations when incurred and improvements are capitalized when useful lives are estimated beyond one year.



The Metropolitan Environmental Trust
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

The Trust's capitalized furniture and fixtures is depreciated using the straight-line method over estimated useful lives ranging from five (5) to ten (10) years.

The Trust's capitalized site improvements is depreciated using the straight-line method over estimated useful lives ranging from five (5) to ten (10) years.

The Trust's capitalized transportation equipment is depreciated using the straight-line method over estimated useful lives ranging from five (5) to twelve (12) years.

The Trust's capitalized processing equipment is depreciated using the straight-line method over estimated useful lives ranging from three (3) to ten (10) years.

Classification of Revenue and Expenses

All revenues and expenses are defined as all revenue sources and uses directly related to the mission of the Trust and are defined according to the following criteria.

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as administrative fee income, bond redemption and grant revenue.

Non-operating revenue: Non-operating revenues include activities that have the characteristics of non-exchange transactions such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, Reporting Cash Flows and Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB No. 34, Basic Financial Statements- and Management's Discussion and Analysis-for State and Local Governments investment income.

Membership assessments

The membership assessments are made to member governments for a holistic environmental educational effort that concentrate in three separate general areas, each having a unique cost sharing formula. The first formula is for general membership assessment of the Trust and includes many fixed administrative costs, of which a portion of the cost sharing is based on a population formula. The second formula consists of contributions on the recycling program (the deposit assessment) for both capital and operations, which is based on the relative populations of the members coupled with a portion due to specific depot costs/revenue. The third formula is for public education and events. This formula is based on limited fixed costs and primarily based on the amount of work that goes into each specific trust government remembering that some of The Trust's efforts simultaneously benefit the entire membership such as in various media outlets including social, website, newspaper, radio, magazines and TV.



The Metropolitan Environmental Trust
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

Inventories

Inventories consist principally of compost container bins. Inventories are stated at the lower of cost (first-in, first-out) or market.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and time deposits maintained at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). All bank deposits at June 30, 2016 were insured.

Deposits with banks and financial institutions are carried at cost. The table presented below is designed to disclose the level of custody credit risk assumed by the Trust based upon how its deposits were insured or secured with collateral at June 30, 2016. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC or collateralized by securities held by the Trust or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Trust's name.

Category 3 – Deposits which are not collateralized or insured.

A summary of the deposits at June 30, 2016 consisted of the following:

Type of Deposits	June 30, 2015				Carrying Value
	Total Bank Balance	Custody (Category 1)	Credit Risk (Category 2)	Uninsured (Category 3)	
<u>Demand Deposits</u>					
Operating Account	\$ 47,875	\$ 47,875	\$ —	\$ —	\$ 47,875
Money Market Business	3,444	3,444	—	—	3,444
Total Deposits	<u>\$ 51,319</u>	<u>\$ 51,319</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 51,319</u>

Capital asset activity for the Trust for the year ended June 30, 2016 was:

	Balance at June 30, 2015	Additions	Reclass/ Deletions	Balance at June 30, 2016
Site improvements	\$ 213,876	\$ —	\$ 141	\$ 214,017
Office furniture & Equipment	21,243	—	565	21,808
Transportation equipment	287,360	—	(544)	286,816
Processing equipment	<u>169,968</u>	<u>12,938</u>	<u>(8,170)</u>	<u>174,736</u>
Total capital assets being depreciated	692,447	12,938	(8,008)	697,377
Less accumulated depreciation	<u>(560,744)</u>	<u>(41,071)</u>	<u>8,008</u>	<u>(593,807)</u>
Capital Assets, Net	<u>\$ 131,703</u>	<u>\$ (28,133)</u>	<u>\$ —</u>	<u>\$ 103,570</u>



The Metropolitan Environmental Trust
Notes to Financial Statements
June 30, 2016

Note 3: Tax-Exempt Status

The Trust is recognized as a subdivision of the State of Oklahoma and is therefore not subject to income taxes.

Note 4: Economic Dependency

The Trust receives a significant portion of its revenue from funds provided through membership assessments. If significant budget cuts are made at these levels, the amount of the funds the Trust receives could be reduced significantly and have an adverse impact on its operation. Management is not aware of any actions that will adversely affect the amount of funds the Trust will receive in the next fiscal year.

Note 5: Leases

The Trust leases facilities for the bailing center under non-cancellable operating leases. These leases require a total minimum monthly payment of approximately \$2,850. Approximately future minimum rent obligations at June 30, 2016 are as follows:

The lease payment schedule for the next 2 years is as follows:

2017	\$	33,600
2018		10,400

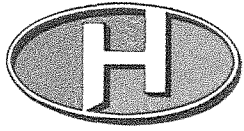
Note 6: Subsequent Events

The Trust has evaluated subsequent events through December 2, 2016, which is the date the financial statements were issued.

Note 7: Risk Management

The Trust is exposed to certain risks related to the recycling of waste products. Any significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage.





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**Independent Auditors' Report on Internal Control over Financial
Reporting and Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with Government
Auditing Standards**

Board of Directors
The Metropolitan Environmental Trust
Tulsa, Oklahoma

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 Metropolitan Environmental Trust, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise The Metropolitan Environmental Trust's basic financial statements, and have issued our report thereon dated December 2, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Metropolitan Environmental Trust'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 Metropolitan Environmental Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of The Metropolitan Environmental Trust'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 Metropolitan Environmental Trust'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.

Hick & Company

Tulsa, Oklahoma
December 2, 2016



The Metropolitan Environmental Trust
Summary Schedule of Prior Audit Findings
June 30, 2016

Finding 2015-A

Condition: The Metropolitan Environmental Trust does not have a process in place to prepare the financial statements and does not have a year-end financial reporting control system in place to prepare the financial statements related footnotes disclosures in accordance with Generally Accepted Accounting Principles (GAAP).

Criteria: The development and implementation of a year-end financial reporting control system is the responsibility of the Trust's management. This process includes the preparation of financial statements and footnotes including all adjustments necessary to be presented in accordance with Generally Accepted Accounting Principles (GAAP). The auditor should not be a part of the Trust's financial reporting control system. In addition, controls should be in place for the selection and application of accounting principles, in accordance with GAAP, and preparation of the related footnotes.

Cause: The Trust has not implemented a process to prepare the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Context: The Trust's financial statements were exported out of its accounting software. The financial statements did not include the required disclosures. In addition, material adjustments were found.

Effect: The audit firm prepared the audited financial statements and related footnotes.

Recommendation: We recommend a control process be put in place to properly prepare the Trust's financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Response: The Trust will look into and implement cost effective ways to separate the generation of financial statements from the auditing process.

Corrective Action: The Trust has contracted with a bookkeeping service who prepares the financial statements in conformity with generally accepted accounting principles.



The Metropolitan Environmental Trust
Summary Schedule of Prior Audit Findings
June 30, 2016

(Continued)

Finding 2015-B

Condition: During the course of the engagement, the auditors proposed material audit adjustments for both the current period and prior period that would not have been identified as a result of the Trust's existing internal controls, and therefore could have resulted in a misstatement of the Trust's financial statements.

Criteria: A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Cause: The Trust does not have an internal control system designed to identify all necessary adjustments.

Context: This finding impacts the Trust's internal control for all significant accounting functions.

Effect: Material misstatements of the Trust's financial statements that would not be prevented or detected.

Recommendation: A thorough review and reconciliation of accounts should take place prior to the beginning of the audit. This review should be done at the bookkeeper and supervisor level.

Response: This should be an isolated occurrence due to a transition in bookkeepers. Processes have been implemented with the new bookkeeper to ensure proper recording of all future entries.

Corrective Action: The Trust has contracted with a bookkeeping service who prepares the financial statements in conformity with generally accepted accounting principles.

