

**Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital**
A Component Unit of the City of Blackwell, Oklahoma
Independent Auditor's Reports and Financial Statements
December 31, 2017



Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
December 31, 2017

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Independent Auditor's Report

Board of Trustees
Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
Blackwell, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Blackwell Hospital Trust Authority d/b/a Blackwell Regional Hospital (the Authority), a component unit of the City of Blackwell, Oklahoma, as of and for the year ended December 31, 2017, 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 an opinion on these financial statements based on our audit. We conducted our audit 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2017, and the changes in its 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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2018, 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 effectiveness of the Authority's 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.

BKD, LLP

Tulsa, Oklahoma
November 21, 2018

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Balance Sheet
December 31, 2017

Assets

Current Assets

Cash and cash equivalents	\$ 2,650,180
Patient accounts receivable, net of allowance – \$902,000	910,849
City appropriations receivable	111,993
Supplies	99,038
Prepaid expenses and other	<u>283,125</u>

Total current assets 4,055,185

Capital Assets, Net

2,132,722

Total assets \$ 6,187,907

Liabilities and Net Position

Current Liabilities

Current maturities of long-term debt	\$ 221,855
Accounts payable	521,241
Accrued expenses	311,590
Estimated amounts due to third-party payers	<u>30,000</u>

Total current liabilities 1,084,686

Long-Term Debt

484,110

Net Position

Net investment in capital assets	2,132,722
Unrestricted	<u>2,486,389</u>

Total net position 4,619,111

Total liabilities and net position \$ 6,187,907

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2017

Operating Revenues	
Net patient service revenue, net of provision for uncollectible accounts – \$3,129,314	\$ 6,597,369
Other	<u>70,001</u>
Total operating revenues	<u>6,667,370</u>
Operating Expenses	
Salaries and wages	3,509,107
Employee benefits	756,928
Purchased services and professional fees	3,672,243
Supplies and other expenses	1,901,098
Depreciation	<u>301,391</u>
Total operating expenses	<u>10,140,767</u>
Operating Loss	<u>(3,473,397)</u>
Nonoperating Revenues (Expenses)	
Noncapital grants and gifts	40,408
Noncapital appropriations – City of Blackwell, Oklahoma	627,966
Investment income	16,822
Interest expense	<u>(23,616)</u>
Total nonoperating revenues (expenses)	<u>661,580</u>
Decrease in Net Position	(2,811,817)
Net Position, Beginning of Year	<u>7,430,928</u>
Net Position, End of Year	<u>\$ 4,619,111</u>

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Statement of Cash Flows
Year Ended December 31, 2017

Operating Activities	
Receipts from and on behalf of patients	\$ 6,985,678
Payments to suppliers and contractors	(5,739,789)
Payments to and on behalf of employees	(4,131,378)
Other receipts, net	<u>70,001</u>
Net cash used in operating activities	<u>(2,815,488)</u>
Noncapital Financing Activities	
Noncapital appropriations – City of Blackwell, Oklahoma	650,973
Principal paid on noncapital debt	(235,306)
Interest paid on noncapital debt	(23,616)
Noncapital grants and gifts	<u>40,408</u>
Net cash provided by noncapital financing activities	<u>432,459</u>
Capital and Related Financing Activities	
Purchase of capital assets	<u>(161,469)</u>
Net cash used in capital and related financing activities	<u>(161,469)</u>
Investing Activities	
Interest on investments	<u>16,822</u>
Net cash provided by investing activities	<u>16,822</u>
Decrease in Cash and Cash Equivalents	(2,527,676)
Cash and Cash Equivalents, Beginning of Year	<u>5,177,856</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,650,180</u></u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities	
Operating loss	\$ (3,473,397)
Depreciation	301,391
Provision for uncollectible accounts	3,129,314
Changes in operating assets and liabilities	
Patient accounts receivable, net	(2,781,005)
Estimated amounts due to/from third-party payers	40,000
Accounts payable and accrued expenses	99,527
Supplies, prepaid expenses and other receivables	<u>(131,318)</u>
Net cash used in operating activities	<u><u>\$ (2,815,488)</u></u>
Supplemental Cash Flows Information	
Capital asset acquisitions included in accounts payable	\$ 127,930

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Blackwell Hospital Trust Authority d/b/a Blackwell Regional Hospital (the Authority) is a public trust and an agency of the state of Oklahoma. The Authority is a component unit of the City of Blackwell, Oklahoma (the City), as the Blackwell City Council appoints the majority of the members of the Board of Trustees of the Authority. The Authority operates, as its sole activity, Blackwell Regional Hospital under the terms of a trust indenture originally dated July 1, 1985. Effective September 3, 2016, the Authority began earning revenue primarily by providing inpatient, outpatient and emergency care services to patients in Blackwell, Oklahoma, and surrounding communities. The Authority also operates a physician clinic in the same geographic area.

Basis of Accounting and Presentation

The accompanying financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Noncapital grants and gifts that are not program-specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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.

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017, cash equivalents consisted of money market accounts.

Blackwell Hospital Trust Authority
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Notes to Financial Statements
December 31, 2017

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. The Authority did not have any settled claims for the year ended December 31, 2017.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

Buildings	40 years
Major moveable and fixed equipment	3–13 years

Compensated Absences

Authority policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

Blackwell Hospital Trust Authority
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Notes to Financial Statements
December 31, 2017

Net Position

Net position of the Authority is classified in two components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the City, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

Supplemental Hospital Offset Payment Program

On January 17, 2012, the Centers for Medicare and Medicaid Services approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is currently scheduled to sunset on December 31, 2020. The SHOPP is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

**Blackwell Hospital Trust Authority
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Notes to Financial Statements
December 31, 2017**

During the year ended December 31, 2017, the Authority had the following activity related to the SHOPP:

SHOPP funds received	\$	418,000
SHOPP assessment fees paid		408,000
Net benefit under SHOPP	\$	10,000

The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. SHOPP revenue is recorded as part of net patient service revenue and SHOPP assessment fees are recorded as part of other expenses on the accompanying statement of revenues, expenses and changes in net position.

County Appropriations

Effective October 1, 2016, the citizens of the City approved a 1% sales tax for the operations of the Authority for a five-year term. The City collects the sales tax and remits it monthly to the Authority. The Authority received approximately 8% of its financial support from county appropriations related to the sales tax during 2017. Revenue from county appropriations is recognized in the year in which the sales tax is earned.

Note 2: Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Substantially all inpatient and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor.
- **Medicaid** – The Authority has also been reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustment. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Blackwell Hospital Trust Authority
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Notes to Financial Statements
December 31, 2017

Approximately 78% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended December 31, 2017. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law, which requires the collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

At December 31, 2017, none of the Authority's bank balances of \$369,398 were exposed to custodial credit risk.

Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2017, consisted of:

Medicare	\$ 296,081
Medicaid	74,368
Other third-party payers	1,044,199
Patients	<u>398,201</u>
	1,812,849
Less allowance for uncollectible accounts	<u>902,000</u>
	<u><u>\$ 910,849</u></u>

Blackwell Hospital Trust Authority
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Notes to Financial Statements
December 31, 2017

Note 5: Capital Assets

Capital asset activity for the year ended December 31, 2017, was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 69,794	\$ -	\$ -	\$ -	\$ 69,794
Buildings	1,963,385	-	-	-	1,963,385
Major moveable equipment	518,618	268,603	-	-	787,221
Fixed equipment	-	20,796	-	-	20,796
	<u>2,551,797</u>	<u>289,399</u>	<u>-</u>	<u>-</u>	<u>2,841,196</u>
Less accumulated depreciation					
Buildings	392,677	98,169	-	-	490,846
Major moveable equipment	14,406	202,298	-	-	216,704
Fixed equipment	-	924	-	-	924
	<u>407,083</u>	<u>301,391</u>	<u>-</u>	<u>-</u>	<u>708,474</u>
Capital assets, net	<u>\$ 2,144,714</u>	<u>\$ (11,992)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,132,722</u>

Note 6: Medical Malpractice Claims

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, no such accrual has been made as of December 31, 2017. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Long-Term Obligation

The following is a summary of long-term obligation transactions for the Authority for the year ended December 31, 2017:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable to the City	\$ 941,271	\$ -	\$ (235,306)	\$ 705,965	\$ 221,855

Blackwell Hospital Trust Authority
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A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2017

The note payable to the City consists of \$1,000,000 loaned to the Authority for the purpose of operating Blackwell Regional Hospital for the benefit of the citizens of Blackwell, Oklahoma, and the surrounding communities. The note agreement, dated October 2016, is to be repaid to the City in monthly installments of \$20,000, including principal and interest imputed at 3%. These monthly installments are to be withheld from the Authority's share of city sales tax appropriations through 2021.

The debt service requirements of the note payable to the City as of December 31, 2017, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2018	\$ 240,000	\$ 221,855	\$ 18,145
2019	240,000	228,603	11,397
2020	240,000	235,556	4,444
2021	20,000	19,951	49
	<u>\$ 740,000</u>	<u>\$ 705,965</u>	<u>\$ 34,035</u>

Note 8: Charity Care and Uncompensated Care

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Uncompensated costs relating to charity allowances were approximately \$6,000 for the year ended December 31, 2017.

The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. In addition to uncompensated costs, the Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

Blackwell Hospital Trust Authority
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Notes to Financial Statements
December 31, 2017

Note 9: Pension Plan

During 2017, the Authority established a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. During 2017, there were no employer or employee contributions to the plan.

Note 10: Contingencies

Litigation

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Authority's commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 11: Management Services Agreement

In September 2016, the Authority entered into a management services agreement with Stillwater Medical Center Authority (SMCA) for a period of one year with the option to renew for successive one-year terms. The current extension of this agreement expires in September 2019 and requires compensation for executive personnel be reimbursed to SMCA at the actual salary and benefits cost for hours dedicated to the Authority plus 10% for overhead. During the year ended December 31, 2017, the Authority incurred expenses of \$857,480 related to this management services agreement.

**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**

Independent Auditor's Report

Board of Trustees
Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
Blackwell, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Blackwell Hospital Trust Authority d/b/a Blackwell Regional Hospital (the Authority), a component unit of the City of Blackwell, Oklahoma, which comprise the balance sheet as of December 31, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2018, which contained an *Other Matters* paragraph regarding omission of required supplementary information.

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 opinion 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and responses as item 2017-01 that we consider to be a material weakness.

Board of Trustees
Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital

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, 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*.

The Authority's Response to the Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
November 21, 2018

**Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Schedule of Findings and Responses
Year Ended December 31, 2017**

Reference Number	Finding
2017-01	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal controls to promote accurate recording and classification of accounting transactions.</p> <p>Condition – Management’s procedures for recording and classifying accounting transactions and procedures for preparing general ledger reconciliations did not prevent inaccurate recording of transactions. In addition, procedures for evaluating and recording significant estimates did not produce materially accurate results.</p> <p>Context – Potential material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Effect – Material journal entries were made to multiple general ledger accounts during the audit to correct misstatements not identified by management.</p> <p>Cause – Recording and monitoring procedures in the internal control over financial reporting process were not performed accurately.</p> <p>Recommendation – Management should ensure that controls are adequate to properly record accounting entries. Management should also ensure that monthly general ledger reconciliations are completed timely and accurately and all reconciling items are researched and resolved on a timely basis. Management should periodically evaluate the methodologies used to estimate significant estimates in the financial statements to determine if those methodologies used to prepare estimates are still appropriate when compared to historical information.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to evaluate the current internal controls over the recording and classification of accounting transactions and prepare accurate monthly reconciliations, including resolving any variances.</p>