



**SOUTH CENTRAL OKLAHOMA
ENVIRONMENTAL AUTHORITY
Annual Financial Report**

Fiscal Year Ended June 30, 2018

Stephens County, Oklahoma

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Board of Trustees

Jason McPherson	Chairman
Chuck Ralls	Vice-Chairman
Jimmy Peters	Trustee



Elfrink and Associates, PLLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
South Central Oklahoma Environmental Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the South Central Oklahoma Environmental Authority ("SCOEA"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise SCOEA'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.

Basis for Qualified Opinion

On May 2, 2005, SCOEA entered into a contract whereby the contractor was to build a new waste transfer station at the sole expense of the contractor in return for the rights to collect revenues generated by the transfer station over a twenty-five year term. Upon expiration of the term, the improvements made by the contractor become the property of SCOEA. Management has not determined if Governmental Accounting Standards Board Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* applies to this contract. The Statement

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2 Government and Nonprofit Auditing

provides guidance on whether the transferor or the operator should report the capital asset on its financial statements and how to record any obligations of the transferor to the operator. If the Statement is determined to apply, the amount by which the application of this statement would affect SCOEA's assets, liabilities, net position, revenues or expenses has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in "Basis for Qualified Opinion", the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of SCOEA as of June 30, 2018, and the change in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

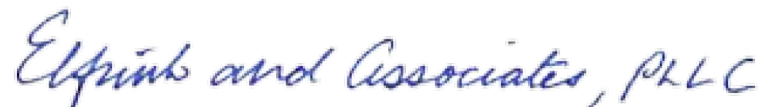
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-6 be presented to 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2020 on our consideration of SCOEA'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 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.



Elfrink and Associates, PLLC

Tulsa, Oklahoma
January 24, 2020

Management Discussion and Analysis

This section of the South Central Oklahoma Environmental Authority's ("SCOEA") annual financial report presents management's analysis of SCOEA's financial performance during the fiscal year ended June 30, 2018. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

- SCOEA's net position decreased \$325, which was essentially unchanged from the prior year.
- Cash deposits increased \$59,067 due the collection of an arrearage in the prior year.
- SCOEA had a net operating loss of \$1,545.

Overview of the Financial Statements

This annual report consists of two parts: management's discussion and analysis of the financial statements and the financial statements. The financial statements also include notes that explain the information contained in the financial statements in greater detail.

Required Financial Statements

The financial statements of SCOEA use accounting methods similar to those used by private sector companies. The statement of net position includes all of SCOEA's assets and liabilities and provides information about the nature and amounts of investment in resources (assets) and the obligations of SCOEA to creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and noncurrent assets and liabilities. Current assets are those assets expected to be converted to cash or used to pay current liabilities within 12 months. Conversely, noncurrent assets and liabilities are those expected to extend beyond a 12-month period. The statement of net position also provides the basis for computing rate of return, evaluating the capital structure of SCOEA, and assessing the liquidity and financial flexibility of SCOEA. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and change in net position. This statement reports information about SCOEA's activities and measures the success of SCOEA's operations over the past year.

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about SCOEA's sources and uses of cash during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of SCOEA

Our analysis of SCOEA begins with a measure of SCOEA's financial position or financial health by reporting its assets and liabilities and the difference between them, the "net position". Over time, increases and decreases in SCOEA's net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as demand for sanitary services,

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economic conditions, population growth, state and federal regulation, and changes in government legislation must also be considered in evaluating SCOEA's financial health. The statement of revenues, expenses, and changes in net position provides information that is useful in evaluating whether SCOEA has successfully recovered all of its costs through its member rates and other charges, as well as its creditworthiness.

Net Position

A summary of SCOEA's statements of net position is presented in Table 1.

Table 1
Condensed Statements of Net Position

	FY 2018
Current and other assets	\$ 827,216
Land	5,000
Total assets	832,216
Accounts payable	722,763
Total liabilities	722,763
Net position	
Net investment in capital assets	5,000
Unrestricted	104,453
Total net position	\$ 109,453

Table 2 reflects the statements of revenues, expenses, and changes in net position and provides information as to the nature and source of these changes.

Change in Net Position

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Net Position

	FY 2018
Operating revenues	\$ 4,324,725
Operating expenses	4,326,270
Operating loss	(1,545)
Interest income	1,220
Change in net position	(325)
Net position - beginning	109,778
Net position - ending	\$ 109,453

As shown in Table 2, the net position decreased from the prior year by \$325, which is essentially unchanged.

Capital Assets and Long-term Debt

SCOEA had invested \$5,000 in land at June 30, 2018. SCOEA did not have any long-term debt.

Economic Factors and Next Year's Budget and Rates

Rates for solid waste collection by SCOEA's contractor, Waste Connections, Inc. increased 1.28% effective April 1, 2018 and consequently both revenue and expense is expected to reflect that increase in the fiscal year ending June 30, 2019.

This financial report is designed to provide a general overview of SCOEA's finances for those having an interest therein. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the South Central Oklahoma Environmental Authority, 720 Willow, Duncan, OK 73533.

Statement of Net Position
June 30, 2018

Assets

Current assets:

Cash and cash equivalents	\$ 60,184
Investments	43,809
Due from lessee	1,000
Due from other Governments	722,223
Total current assets	<u>827,216</u>

Non-Current Assets

Land	<u>5,000</u>
Total assets	<u>832,216</u>

Liabilities

Current liabilities:

Accounts payable	722,763
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Net position

Invested in capital assets	5,000
Unrestricted	<u>104,453</u>
Total net position	<u>\$ 109,453</u>

See accompanying notes to the financial statements

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Statement of Revenues, Expenses, and Change in Net Position
Year Ended June 30, 2018

Operating revenues	
Revenue from sanitation services	\$ 4,319,345
Tonnage royalty revenue	4,380
Transfer station lease revenue	<u>1,000</u>
Total operating revenues	<u>4,324,725</u>
Operating expenses	
Waste collection services	4,324,265
Insurance	<u>2,005</u>
Total operating expenses	<u>4,326,270</u>
Net operating loss	(1,545)
Nonoperating revenues	
Interest income	<u>1,220</u>
Total nonoperating revenues	1,220
Change in net position	(325)
Net position - beginning	<u>109,778</u>
Net position - ending	<u>\$ 109,453</u>

See accompanying notes to the financial statements

Statement of Cash Flows
Year Ended June 30, 2018

Operating activities

Receipts from customers	\$ 4,370,299
Payments for goods and services	<u>(4,312,452)</u>
Net cash provided by operating activities	<u>57,847</u>

Investing activities

Interest and dividends	1,220
Additions to certificates of deposit	<u>(766)</u>
Net cash provided by investing activities	<u>454</u>

Net change in cash and cash equivalents	58,301
Cash and cash equivalents, beginning of year	<u>1,883</u>
Cash and cash equivalents, end of year	<u>\$ 60,184</u>

**Reconciliation of operating loss to net cash
provided by operating activities**

Operating loss	\$ (1,545)
Changes in operating assets and liabilities:	
Decrease in accounts receivable	49,955
Decrease in prepaid insurance	2,005
Increase in accounts payable	<u>7,432</u>
Net cash provided by operating activities	<u>\$ 57,847</u>

See accompanying notes to the financial statements

Notes to the Financial Statements

1. Organization

The South Central Oklahoma Environmental Authority (SCOEA) was created on February 1, 1998 pursuant to Title 60, Oklahoma Statutes 2011, section 176 to 180.4, for benefit of the cities of Duncan, Marlow, and Comanche to collect and/or receive solid waste from public and private customers. The trust is governed by a three-member Board of Trustees; one member from each of the member cities.

The accompanying financial statements include all functions and activities over which SCOEA exercises financial accountability. SCOEA is considered a primary government as defined by the Governmental Accounting Standards Board (GASB) and has no other component units within its reporting entity.

2. Summary of Significant Accounting Policies

Operating Revenue and Expense

SCOEA considers all revenue and expense associated with the collection of solid waste to customers to be operating activities. All other revenue and expense are considered to be nonoperating activities.

Net position

Net position is classified into three components:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources is included in the same net position component as the unspent proceeds.
- *Restricted* – This component consists of net position whose use is subject to external constraints (such as through debt covenants) by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This component consists of net position elements that do not meet the definition of restricted or net investment in capital assets.

When SCOEA incurs an expenditure where it can use both restricted and unrestricted funds SCOEA will first use restricted funds.

The accounting policies and practices of SCOEA conform to accounting principles generally accepted in the United States applicable to an enterprise fund of a government unit.

Measurement Focus and Basis of Accounting

SCOEA is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting in the preparation of financial statements. The accounting and reporting policies of SCOEA conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB). SCOEA follows private sector guidance contained in GASB Statement No. 62, *Codification of Accounting and Financial Reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements*.

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and have original maturities of 91 days or less.

Investments

Investments are reported at fair value in the statement of net position, except for money market funds and U.S. government obligations with original maturities less than one year, which are reported at amortized cost as permitted by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All changes in the fair value of investments are recognized as gains or losses in the statement of revenues, expenses, and change in net position.

Capital Assets

It is SCOEA's policy to capitalize property and equipment having an original cost in excess of \$1,000 and a useful life longer than one year. Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives. At June 30, 2018, SCOEA's assets consisted entirely of land which is not depreciated.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

Uses 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 certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

3. Rate-Making Policies and Procedures

As the result of a competitive bid solicitation, SCOEA entered into a contract with Waste Connections of Oklahoma, Inc. ("WC") on November 6, 2006 to provide waste collection services. That contract has been extended periodically with the latest extension expiring March 31, 2023. Under that agreement, unit

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prices may be adjusted upward or downward on April 1 of each year determined by 60% of the net percentage change in the Consumer Price Index for Urban Wage Earners and Clerical (CPI-W) (All Items) for the United States using index values as of January of the adjustment year versus January of the immediate preceding year.

4. Deposits and Investments

As of June 30, 2018, the total carrying amount of SCOEA's deposits and investments were as follows:

Type	Fair Value	Credit Rating	Maturity	
			On demand	< 1 year
Demand deposits and cash on hand	\$ 60,184	n/a	\$ 60,184	\$ -
Certificates of deposit	43,809	n/a	-	43,809
	<u>\$ 103,993</u>		<u>\$ 60,184</u>	<u>\$ 43,809</u>

Reconciliation to Statement of net position:

Cash and cash equivalents	\$ 60,184
Investments	43,809
	<u>\$ 103,993</u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, SCOEA's deposits may not be returned to it. SCOEA's deposits were fully insured by FDIC at June 30, 2018, and the bank has pledged collateral sufficient to cover normal operating fluctuations during the year.

5. Capital Assets

Capital assets at June 30, 2018 consisted of land valued at \$5,000.

6. Related Parties and Common Control

SCOEA's revenues are derived from the participating municipalities of Duncan, Comanche and Marlow, Oklahoma, which are also beneficiaries of the Trust as per the Indenture. Representatives of each municipality serve on SCOEA's Board of Trustees.

7. Risk Management

SCOEA is exposed to various risks of loss related to errors and omissions and manages the risk of loss by carrying commercial insurance with a deductible of \$1,000.

8. Commitments and Contingencies

Solid Waste Transfer Station

On May 2, 2005, SCOEA entered into a contract with Waste Connections of Oklahoma, Inc. (“WCI”) whereby WCI leased the premises of the solid waste transfer station. The contract provides for the construction of a new transfer station at the sole expense of WCI, with the provision that any improvements made by WCI will become the property of SCOEA upon expiration of the term. The term of the contract is twenty-five years.

SCOEA has not determined if GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (“SCAs”) applies to this arrangement. Common examples of SCAs include long-term arrangements in which a government (the “transferor”) engages a company or another government (the “operator”) to operate a major capital asset—such as toll roads, hospitals, and student housing—in return for the right to collect fees from users of the capital asset. In these SCAs, the operator generally makes a large up-front payment to the transferor. Alternatively, the operator may build a new capital asset for the transferor and operate it on the transferor’s behalf. The Statement provides guidance on whether the transferor or the operator should report the capital asset in its financial statements, when to recognize up-front payments from an operator as revenue, and how to record any obligations of the transferor to the operator.

Litigation

SCOEA may be party to various legal proceedings, which normally occur in the ordinary course of business. Management has deemed that no accrual or provision is required at June 30, 2018 related to legal proceedings.

9. Subsequent Events

Management has evaluated subsequent events through the date of this report and determined that no additional information needs to be added to the financial statements.



Elfrink and Associates, PLLC

Certified Public Accountants

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
South Central Oklahoma Environmental 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 business-type activities of the South Central Oklahoma Environmental Authority ("SCOEA"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise SCOEA's basic financial statements, and have issued our report thereon dated January 24, 2020. Our opinion was qualified regarding a possible departure from generally accepted accounting principles related to the waste transfer station lease.

Internal Control over Financial Reporting

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

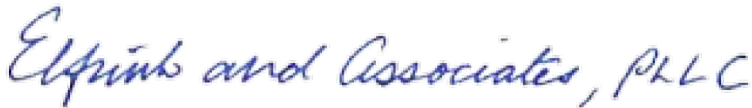
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and management responses as item 2018-01, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SCOEA'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.

A handwritten signature in blue ink that reads "Elfrink and Associates, PLLC". The signature is written in a cursive, flowing style.

Elfrink and Associates, PLLC

Tulsa, Oklahoma

January 24, 2020

SCHEDULE OF FINDINGS AND MANAGEMENT RESPONSES

This schedule is presented as an addendum to accompany the *“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”*. Consideration of the item listed should be made in conjunction with that report.

2018-01 – Internal Controls Over Financial Reporting - Waste Transfer Station

CONDITION: On May 2, 2005, SCOEA entered into a contract with Waste Connections of Oklahoma, Inc. (“WCI”) whereby WCI leased the premises of the solid waste transfer station. The contract provides for the construction of a new transfer station at the sole expense of WCI, with the provision that any improvements made by WCI will become the property of SCOEA upon expiration of the term. The term of the contract is twenty-five years. The Board approves the rates charged at the transfer station. WCI is making a lease payment to SCOEA in the amount of \$1,000 per year. Although the last audited financial statements included land valued at \$5,000, SCOEA is not aware of the ownership of any land. Management has not determined if GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (“SCAs”)* applies to this arrangement. The Statement provides guidance on whether the transferor or the operator should report the capital asset in its financial statements, when to recognize up-front payments from an operator as revenue, and how to record any obligations of the transferor to the operator.

CRITERIA: GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (“SCAs”)* includes long-term arrangements in which a government (the “transferor”) engages a company (the “operator”) to operate a major capital asset in return for the right to collect fees from users of the capital asset. In these SCAs, the operator may build a new capital asset for the transferor and operate it on the transferor’s behalf. The Statement provides guidance on whether the transferor or the operator should report the capital asset in its financial statements, when to recognize up-front payments from an operator as revenue, and how to record any obligations of the transferor to the operator.

CAUSE OF CONDITION: SCOEA’s financial statements have not been audited since June 30, 2009. GASB Statement No. 60 was required to be implemented for periods beginning after December 15, 2011, or SCOEA’s report that would have been dated June 30, 2013. There has been turnover in both the governing board and SCOEA’s management, and some of the understanding of the original transaction may have been lost.

POTENTIAL EFFECT OF CONDITION: The financial statements may not be presented in keeping with generally accepted accounting principles.

RECOMMENDATION: SCOEA should take the necessary steps to determine if GASB Statement No. 60 applies to the lease of the waste transfer station and, if so, make the necessary calculation and entries to record any effect.

RESPONSE: The SCOEA Board is aware of the issue listed and will be contracting a 3rd party to assist in the needed resolution.