

**OLD TOWNE SQUARE, INC.  
LAWTON, OKLAHOMA**

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL DATA**

**TWELVE MONTHS ENDED JUNE 30, 2020 AND 2019**

**Mike Estes, P.C.**  
A Professional Accounting Corporation

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## Independent Auditor's Report

To the Directors of Old Towne Square, Inc:

We have audited the accompanying financial statements of the Old Towne Square, Inc., HUD Project #117EE040, which comprise the statement of financial position as of and for the year ended June 30, 2020 and 2019, and the related statement of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our 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 financial statements. The procedures selected depend on the auditor's judgment, including 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 and audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Old Towne Square, Inc. as of June 30, 2020 and 2019, and the changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Report on Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information shown on pages 29 to 32 is presented for purposes of additional analysis as required by the *Uniform Financial Reporting Standards* issued by the U.S. Department of Housing and Urban Development, and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations (CFR) part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. The above described supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the above described supplemental information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2021 on our consideration of the Old Towne Square Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is *solely* to describe the scope of the 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 internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of this audit.



Mike Estes, P.C.  
Fort Worth, Texas  
November 26, 2021

OLD TOWNE SQUARE, INC.  
 HUD PROJECT #117EE040  
 STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 25,247	\$ 29,481
Accounts receivable	3,945	16,264
Prepaid expenses	7,197	1,670
Restricted deposits	290,162	242,712
Restricted investments	16,079	16,079
Property and equipment, net	2,449,870	2,521,604
	2,792,500	2,827,810
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 27,574	\$ 17,805
Mortgage payable	3,215,700	3,215,700
	3,243,274	3,233,505
<b>NET ASSETS</b>		
Without donor restrictions	(450,774)	(405,695)
With donor restrictions	0	0
	\$ (450,774)	(405,695)
Total Liabilities and Net Assets	\$ 2,792,500	\$ 2,827,810

The Notes to the Financial Statements are an integral part of these statements.

OLD TOWNE SQUARE, INC.  
 HUD PROJECT #117EE040  
 STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2020 AND 2019

	Without Donor Restrictions 2020	With Donor Restrictions 2020	Without Donor Restrictions 2019	With Donor Restrictions 2019
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>OPERATING ACTIVITIES</b>				
<b>REVENUES AND OTHER SUPPORT</b>				
Rent revenue	\$ 169,995	\$ 0	168,604	\$ 0
Financial income	618	0	591	0
Other income	1,730	0	1,585	0
	<u>172,343</u>	<u>0</u>	<u>170,780</u>	<u>0</u>
Total revenues and other support				
<b>EXPENSES</b>				
Operating expenses	217,422	0	208,279	0
Change in net assets from operations	<u>(45,079)</u>	<u>0</u>	<u>(37,499)</u>	<u>0</u>
Non Operating Expenses				
Change in net assets	(45,079)	0	(37,499)	0
Net assets, beginning of year	<u>(405,695)</u>	<u>0</u>	<u>(368,196)</u>	<u>0</u>
Net assets, end of year	<u><u>\$ (450,774)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ (405,695)</u></u>	<u><u>\$ 0</u></u>

The Notes to the Financial Statements are an integral part of these statements.

OLD TOWNE SQUARE, INC.  
HUD PROJECT #117EE040  
STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2020 AND 2019

	Program Services 2020	Program Services 2019
Salaries	\$ 24,975	\$ 23,120
Other administration	29,729	37,998
Utilities	15,340	13,754
Operating and maintenance	49,623	46,451
Taxes and insurance	21,238	10,630
Depreciation	76,517	76,326
Total Operating Expenses	<u>\$ 217,422</u>	<u>\$ 208,279</u>

The Notes to the Financial Statements are an integral part of these statements.

OLD TOWNE SQUARE, INC.  
HUD PROJECT #117EE040  
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (45,079)	\$ (37,498)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	76,517	76,326
Decrease (increase) in accounts receivable	14,690	(15,873)
(Increase) in prepaid expenses	(5,527)	(21)
Decrease (increase) in cash restricted for tenant security deposits	(3)	359
Increase in accounts payable	10,664	2,410
(Decrease) in accrued liabilities	(3,269)	(2,512)
Increase (decrease) in security deposits	3	(359)
Increase in deferred revenues	0	10
	47,996	22,842
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net purchase of fixed assets	(4,784)	(19,890)
(Increase) Decrease in restricted deposits	(47,446)	(39,215)
	(52,230)	(59,105)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(4,234)	(36,263)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of Fiscal Year	29,481	65,744
<b>CASH AND CASH EQUIVALENTS</b>		
End of Fiscal Year	\$ 25,247	\$ 29,481

The Notes to the Financial Statements are an integral part of these statements.



OLD TOWNE SQUARE, INC.  
HUD PROJECT #117EE040  
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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OLD TOWNE SQUARE, INC.  
HUD PROJECT #117EE040  
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

**NOTE A – NATURE OF ORGANIZATION AND OPERATIONS**

Nature of Organization and Operations

Old Towne Square, Inc., project #117-EE040 is a 34 unit apartment project located in Lawton, Oklahoma. Legal title to this project is held by Old Towne Square, Inc., a non-profit corporation organized under the laws of the State of Oklahoma. The only asset of the corporation is the project and its only activity is its operation.

The project is also subject to Section 8 housing assistance payment agreements with the U.S. Department of Housing and Urban Development, and a significant portion of the project's rental income is received from HUD.

GASB Statement 14 establishes criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, Old Towne Square, Inc. is considered a primary government, since it is a special purpose government that has a separate governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement 14, fiscally independent means that Old Towne Square, Inc., may without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue bonded debt with HUD approval.

Governmental Accounting Standards Board (GASB) Codification Section 2100 establishes criteria for determining which, if any, component units should be considered part of the Old Towne Square, Inc. for financial reporting purposes. The basic criteria for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability, which includes:

- 1) Appointing a voting majority of an organization's governing body, and:
  - a) The ability of the government to impose its will on that organization and/or
  - b) The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the government.
- 2) Organizations for which the government does not appoint a voting majority but are fiscally dependent on the government.
- 3) Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Based on the previous criteria, Old Towne Square, Inc has determined that there are no component units that should be considered as part of the Old Towne Square, Inc reporting entity.

OLD TOWNE SQUARE, INC.  
HUD PROJECT #117EE040  
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation** – The financial statements of Old Towne Square, Inc. have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”), which require Old Towne Square, Inc. to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Old Towne Square, Inc.’s management and the board of directors.

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Old Towne Square, Inc. or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Old Towne Square, Inc. does not have any net assets with donor restrictions.

**Measure of operations** - The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Old Towne Square, Inc.’s ongoing rental operations and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature. There are no non operating activities recognized for years ended June 30, 2020 and 2019.

**Cash and cash equivalents** - Old Towne Square, Inc.’s cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase, except for those amounts that are held in the investment portfolio which are invested for long-term purposes.

**Property and equipment, net** – Property and equipment are stated at cost at the date of purchase or, for donated assets, at fair value at the date of donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. Buildings are depreciated over an estimated useful life of 40 years and equipment and furniture over an estimate useful life of 5 years. Old Towne Square, Inc.’s policy is to capitalize renewals and betterments acquired for greater than \$5,000 and expense normal repairs and maintenance as incurred. Old Towne Square, Inc.’s management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

**Investments** – Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statement of activities.

OLD TOWNE SQUARE, INC.  
HUD PROJECT #117EE040  
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

**Summary of Significant Accounting Policies (continued)**

**Fair value measures** – Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity’s assumptions (unobservable inputs). Old Towne Square, Inc. groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- |         |  |
|---------|--|
| Level 1 | Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.  |
| Level 2 | Other observable inputs, either directly or indirectly, including: <ul style="list-style-type: none"><li>• Quoted prices for similar assets/liabilities in active markets;</li><li>• Quoted prices for identical or similar assets in non-active markets;</li><li>• Inputs other than quoted prices that are observable for the asset/liability; and,</li><li>• Inputs that are derived principally from or corroborated by other observable data.</li></ul> |
| Level 3 | Unobservable inputs that cannot be corroborated by observable market data.   |

**Functional expenses** – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. The only activity is rental operations. All expenses are allocable and direct charged to rental operations.

**Use of estimates** – The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Distributions

The project’s regulatory agreement with the U.S. Department of Housing and Urban Development stipulates, among other things, that the corporation will not make distributions of assets or income to any of its officers or directors, except for reimbursement of out-of-pocket expenses, per diem payments, and fees for services.

Prepaid Expenses

Certain payments made to vendors reflect cost applicable to future periods. These payments are recorded as prepaid expenses.

OLD TOWNE SQUARE, INC.  
HUD PROJECT #117EE040  
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

**Summary of Significant Accounting Policies (continued)**

**Income taxes** – Old Towne Square, Inc. is exempt from income tax under IRC section 501 (c) (3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Old Towne Square, Inc. has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. Old Towne Square, Inc. has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

**Reclassifications** – Certain prior year amounts have been reclassified to conform to the current year presentation.

**New Accounting Pronouncement** – On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return.

**NOTE C – DEPOSITS AND INVESTMENTS**

Old Towne Square, Inc. has reported their investments with a maturity at time of purchase of one year or less at amortized costs. Investments with maturity at time of purchase of greater than one year are presented at fair value at June 30, 2020. Deposits are stated at cost, which approximates fair value.

Interest Rate Risk: The Housing Authority’s policy does not address interest rate risk.

Credit Rate Risk: GASB 40 disclosure of credit rate risk does not apply, since the Authority’s only investments are certificates of deposit.

Custodial Credit Risk: Old Towne Square, Inc’s policy requires the financial institution to cover the first \$250,000 of deposits with FDIC coverage. Any excess deposits must be collateralized with securities held by the pledging financial institution, with a fair market value that equals or exceeds the amount of excess deposits.

At June 30, 2020, Old Towne Square, Inc’s carrying amount of deposits was \$331,488 and the bank balance was \$341,209. \$266,079 of the bank balance was covered by FDIC Insurance. The remaining bank balance of \$75,130 was covered by pledged securities. However, this \$75,130 was exposed to custodial credit risk, as defined by GASBS No. 40, para. 8, because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent but not in the Housing Authority’s name.

OLD TOWNE SQUARE, INC.  
 HUD PROJECT #117EE040  
 NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

**NOTE D – RESTRICTED DEPOSITS AND HELD IN TRUST**

\$7,466 of deposits are held in trust, an amount equal to the amount of security deposits held. Under the terms of the Regulatory Agreement, the corporation is required to set aside specified amounts for the replacement of property and other project expenditures as approved by HUD. This amount is \$65,688 at June 30, 2020. According to the Regulatory Agreement, Restricted funds also include a residual receipts reserve of \$217,008, which can only be used with the approval of HUD.

Restricted funds also include funds set aside for the payment of insurance premiums in the amount of \$16,079.

		Reserve for Replacements		Reserve for Residual Receipts
Balance, beginning of year	\$	52,434	\$	182,815
Total deposits		13,195		34,009
Interest income		59		184
Balance, end of year	\$	65,688	\$	217,008

**NOTE E – REFUNDABLE CAPITAL ADVANCE**

The refundable capital advance as of June 30, 2020 represents a building loan provided by the U.S. Department of Housing and Urban Development. The balance of \$3,215,700 is not required to be repaid contingent upon terms of the regulatory agreement being fulfilled. These terms require the project to remain available for no less than 40 years as housing for very low-income elderly individuals and families.

**NOTE F – MANAGEMENT FEE**

The corporation pays a management fee of \$36 per unit per month to the Lawton Support Services. This management fee totaled \$13,860 for the year ending June 30, 2020.

OLD TOWNE SQUARE, INC.  
HUD PROJECT #117EE040  
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

**NOTE G – AVAILABILITY AND LIQUIDTY**

The following represents Old Towne Square’s financial assets at June 30, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 25,247	\$ 29,481
Accounts receivable	3,945	16,264
Restricted deposits	306,241	258,791
	335,433	304,536
Less amounts not available to be used within one year:		
Restricted funds	(306,241)	(258,791)
Financial assets available to meet general expenditures over the next twelve months	\$ 29,192	\$ 45,745

Old Towne Squares goal is generally to maintain financial assets to meet 120 days of operating expenses, net of depreciation expense. As part of its liquidity plan, excess cash is invested in interest bearing accounts.

**NOTE H – CAPITAL ASSETS** The changes in capital assets are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable assets				
Land and buildings	\$ 170,000	\$ 0	\$ 0	\$ 170,000
Depreciable assets:				
Buildings	2,995,351	4,784	0	3,000,135
Furniture and equipment	12,119	0	0	12,119
Total capital assets	3,177,470	4,784	0	3,182,254
Less: accumulated depreciation				
Buildings	643,747	76,518	0	720,265
Furniture and equipment	12,119	0	0	12,119
Total accumulated depreciation	655,866	76,518	0	732,384
Total capital assets, net	\$ 2,521,604	\$ (71,734)	\$ 0	\$ 2,449,870

OLD TOWNE SQUARE, INC.  
HUD PROJECT #117EE040  
NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

**NOTE I – COMMITMENTS AND CONTINGENCIES**

**Litigation** Old Towne Square, Inc. is not presently involved in litigation.

**Risk Management** Old Towne Square, Inc. is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Housing Authority carries commercial insurance.

Old Towne Square, Inc. transfers risk of loss by participating in a public entity risk pool and contracting with a commercial insurance carrier for all major categories of exposed risk.

This includes coverage of property, general liability, public liability, auto, bond, and worker's compensation. The risk pool and insurance contracted are obligated to meet settlements up to the maximum coverage, after the PHA's premiums and deductions are met.

Legal counsel believes, based on case precedent and Oklahoma Attorney General opinions, that if the Housing Insurance Services Risk Pool is unable to meet its obligations, the risk to the Old Towne Square, Inc is only that its own claim would be unpaid.

Coverage has not significantly changed from the previous year and settlements for each of the past three years have not exceeded insurance coverage.

**COVID-19** The COVID-19 pandemic has impacted Old Towne Square, Inc's dealings with tenants and applicants.

**NOTE J – ECONOMIC DEPENDENCE** The Department of Housing and Urban Development provided \$87,151 to Old Towne Square, Inc, which represents approximately 58% of the Old Towne Square, Inc.'s total revenue and capital contributions for the year.

**NOTE K - SUBSEQUENT EVENTS** Management has evaluated events and transactions subsequent to the statement of net position date through, November 26, 2021, of the independent auditor's report for potential recognition or disclosure in the financial statements.





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AUDIT QUALITY CENTER

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

To the Board of Directors of Old Towne Square, Inc.:

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 Old Towne Square, Inc., as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the of Old Towne Square, Inc.'s basic financial statements, and have issued our report thereon dated November 26, 2021.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Old Towne Square, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 Old Towne Square, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Old Towne Square, Inc.'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 Old Towne Square, Inc.'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 financial statements. 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*.

We noted certain matters that we reported to Management of the Old Towne Square Inc. in a separate letter dated November 26, 2021.

### ***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.

*Mike Estes, P.C.*

Mike Estes, P.C.  
Fort Worth, Texas  
November 26, 2021



MIKE ESTES, CPA

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MEMBER OF THE  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC  
ACCOUNTANTS  
*and the*  
AICPA GOVERNMENTAL  
AUDIT QUALITY CENTER

Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors of Old Towne Square, Inc.:

***Report on Compliance for Each Major Federal Program***

We have audited the Old Towne Square, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Old Towne Square, Inc.'s major federal programs for the year ended June 30, 2020. The Old Towne Square, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Old Towne Square, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Old Towne Square, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Old Towne Square, Inc.'s compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Old Towne Square, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

### ***Report on Internal Control Over Compliance***

Management of the Old Towne Square, Inc.'s is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Old Towne Square, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Old Towne Square, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charge with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

***Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance***

We have audited the financial statements of Old Towne Square, Inc. as of and for the year ended June 30, 2020 and 2019, and have issued our report thereon dated November 26, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Mike Estes, P.C.*

Mike Estes, P.C.  
Fort Worth, Texas  
November 26, 2021

OLD TOWNE SQUARE, INC.  
 HUD PROJECT #117EE040  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2020 AND 2019

FEDERAL GRANTOR PROGRAM TITLE	CDFA NO.	PROGRAM EXPENDITURES
U. S. Department of Housing and Urban Development Direct Programs:		
Supportive Housing for the Elderly	14.157	\$ 3,215,700
Project Rental Assistance		87,151
Total United States Department of Housing and Urban Development		\$ 3,302,851
Total Expenditures of Federal Awards		\$ 3,302,851

Balance is a Refundable Capital Advance at June 30, 2020 to be forgiven after fulfillment of regulatory agreement.

The accompanying notes are an integral part of this schedule.

OLD TOWNE SQUARE, INC.,  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2020

**NOTE 1 – BASIS OF PRESENTATION** The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity Old Towne Square, Inc., under programs of the federal government for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Old Towne Square, Inc. it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Old Towne Square, Inc.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS** Federal awards revenues are reported in the Old Towne Square, Inc.’s basic financial statements as follows:

	Federal Sources
Governmental operating grants	\$ 87,151
Total	\$ 87,151

**NOTE 4 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS** Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with generally accepted accounting principles.

**NOTE 5 – DE MINIMIS INDIRECT COST RATE** The Old Towne Square, Inc. did not elect to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

OLD TOWNE SQUARE, INC.  
 HUD PROJECT #117EE040  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

**Section I – Summary of the Auditor’s Results**

**Financial Statement Audit**

1. Type of Auditor’s Report Issued on Financial Statements – Unmodified.
2. Internal Control Over Financial Reporting:
  - a. Material weakness(es) identified?      \_\_\_\_\_ yes      ✓      no
  - b. Significant deficiency(ies) identified?      \_\_\_\_\_ yes      ✓      none reported
3. Noncompliance material to financial statements noted?      \_\_\_\_\_ yes      ✓      no

**Audit of Federal Awards**

1. Internal Control Over Major Programs:
  - a. Material weakness(es) identified?      \_\_\_\_\_ yes      ✓      no
  - b. Significant deficiency(ies) identified that are not considered to be material weaknesses?      \_\_\_\_\_ yes      ✓      none reported
2. Type of Auditor’s Report Issued on Compliance For Major Programs – Unmodified.
3. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance (2 CFR 200)??      \_\_\_\_\_ yes      ✓      no
4. The programs tested as major programs include:
 

CFDA# 14.157                      Supporting Housing for the Elderly
5. Dollar threshold used to distinguish between Type A and Type B Programs as described in the Uniform Guidance (2 CFR 200): \$ 750,000
6. Auditee qualified as low-risk auditee under Uniform Guidance (2 CFR 200)?      ✓      yes      \_\_\_\_\_      no
7. Nonstatistical sampling was used. To determine sample sizes, the AICPA Audit Guide *Audit Sampling* was used.



OLD TOWNE SQUARE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

**Section II – Findings related to the financial statements which are required to be reported in accordance with Governmental Auditing Standards generally accepted in the United States of America:**

There are no audit findings.

OLD TOWNE SQUARE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

**Section III – Findings and questioned costs for federal awards which are required to be reported under Uniform Guidance**

There are no audit findings.

OLD TOWNE SQUARE, INC.  
CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2020

There are no audit findings.

OLD TOWNE SQUARE, INC.  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2020

**The following prior audit findings were required to be reported under OMB Circular No. A-133, Section 510(a) (for the major program) for the prior year:**

There were no prior audit findings.

**SEE MANAGEMENT LETTER ON NEXT PAGE**

OLD TOWNE SQUARE, INC.  
SCHEDULE OF MANAGEMENT LETTER ITEMS

YEAR ENDED JUNE 30, 2020

To Management and the Board of Commissioners:

In planning and performing our audit of the financial statements of the Old Towne Square, Inc. for the year ended June 30, 2020, we considered the Authority's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum contained in this letter summarizes our comments and suggestions regarding those matters. (We have also reported on Old Towne Square's internal control in our report dated November 26, 2021.) This letter does not affect our report dated November 26, 2021 on the financial statements of the Old Towne Square, Inc.

The status of these comments will be reviewed during the next audit engagement. We have already discussed these comments and suggestions with various authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform additional study of these matters, or to assist you in implementing the recommendations.

Our recommendations are as follows:

M-1-Documentation of Internal control Over Waiting List and Tenant File Functions Need Improvement

Statement on Auditing Standard (SAS) #115 asserts that a lack of a documented, quality control function over a "significant event or account" is deemed to be a weakness in internal controls. Such deficiency is further defined by the standard as at least a "significant deficiency" or worse, a "material weakness." The auditor is required to disclose either condition as an audit finding that accompanies the financial statements and audit reports.

The Authority conducts quality control checks but the checks need better documentation. We suggest that a competent person check all matters that involve the maintenance of the waiting list. In addition, the documentation of who was housed, as being the top-of-the-list applicant and was correctly offered the unit, should also be checked.

In addition, a competent person should periodically select housed tenants on a random basis. The tenant rent should be re-calculated. In addition, the compliance functions, Privacy Act notices, EIVs, a properly signed lease, re-exams timely done, etc. should all be checked. For federal audits, another auditing standard requires the auditor to check compliance as noted above, and in addition, the entity's own checks with such compliance.

Documentation should be kept of who checked the above, the date of the check, issues noted, if any, and needed corrections, if any.

OLD TOWNE SQUARE, INC.  
SCHEDULE OF MANAGEMENT LETTER ITEMS

YEAR ENDED JUNE 30, 2020

An auditing standard in addition to SAS 115 noted above requires the auditor to be able to review the sample used for quality control, with the attributes noted above. It is not sufficient for the entity to assert that they do checks, and that checks are randomly noted in certain files. There must be a record of the entire sample of quality control checks.

M-1-Management's Response

I am Rita Love, Executive Director and Designated Person to answer this comment. Our documentation of quality control was hindered by the COVID situation. In the future, we will follow the above suggestions.

**SUPPLEMENTARY INFORMATION**

OLD TOWNE SQUARE, INC.  
 HUD PROJECT #117EE040  
 SUPPLEMENTAL INFORMATION

JUNE 30, 2020 AND 2019

Detailed Statement of Activities Data  
 Year Ended June 30, 2020

REVENUE

5120	Rent Revenue - Gross Potential	\$	91,145
5121	Tenant Assistance Payments		87,151
5100T	Total Rent Revenue		<u>178,296</u>
Vacancies			
5220	Apartments		8,301
5200T	Total Vacancies		<u>8,301</u>
5152N	Net Rental Revenue (Rent Revenue less Vacancies)		<u>169,995</u>
Financial Revenue			
5410	Financial Revenue - Project Operations		376
5430	Revenue from Investments - Residual Receipts		184
5440	Revenue from Investments - Replacement Reserve		<u>58</u>
5400T	Total Financial Revenue		<u>618</u>
Other Revenue			
5910	Laundry and Vending Revenue		1,267
5920	Tenant Charges		296
5900T	Total Other Revenue		<u>167</u>
5000T	TOTAL REVENUE	\$	<u><u>172,343</u></u>



OLD TOWNE SQUARE, INC.  
 HUD PROJECT #117EE040  
 SUPPLEMENTAL INFORMATION

JUNE 30, 2020 AND 2019

Detailed Statement of Activities Data  
 Year Ended June 30, 2020

EXPENSES

Administrative Expenses

6310	Office Salaries	\$	24,975
6311	Office Expenses		1,232
6320	Management Fee		13,860
6350	Audit Expense		5,850
6351	Bookkeeping Fees/Accounting Services		3,205
6390	Miscellaneous Administrative Expenses		<u>5,582</u>
6263T	Total Administrative Expenses		<u>54,704</u>

Utilities Expenses

6450	Electricity		9,634
6451	Water		3,917
6453	Sewer		<u>1,789</u>
6400T	Total Utilities Expense		<u>15,340</u>

Operating & Maintenance Expenses

6520	Contracts		49,375
6525	Garbage and Trash Removal		<u>248</u>
6500T	Total Operating and Maintenance Expenses		<u>49,623</u>

Taxes & Insurance

6711	Payroll Taxes (Project's Share)		1,911
6720	Property & Liability Insurance (Hazard)		6,829
6721	Fidelity Bond Insurance		657
6722	Workmen's Compensation		1,699
6723	Health Insurance and Other Employee Benefits		9,225
6790	Miscellaneous Taxes, Licenses, Permits and Insurance		<u>917</u>
6700T	Total Taxes and Insurance	\$	<u><u>21,238</u></u>

OLD TOWNE SQUARE, INC.  
HUD PROJECT #117EE040  
SUPPLEMENTAL INFORMATION

JUNE 30, 2020 AND 2019

Detailed Statement of Activities Data  
Year Ended June 30, 2020

Operating Results

6000T	Total Cost of Operations before Depreciation	<u>140,905</u>
5060T	Profit (Loss) before Depreciation	<u>31,438</u>
6600	Depreciation Expense	<u>76,517</u>
5060N	Operating Profit or (Loss)	-45,079
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>		
3247	Change in Unrestricted Net Assets from Operations	<u>-45,079</u>
3250	Change in Total Net Assets from Operations	<u><u>-45,079</u></u>

Part II

S1000-020	Total of 12 monthly deposits in the audit year into the Replacement Reserve account, as required by the Regulatory Agreement even if payments may be temporarily suspended or reduced.	\$ 12,180
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OLD TOWNE SQUARE, INC.  
HUD PROJECT #117EE040  
CERTIFICATION OF OFFICERS

JUNE 30, 2020 AND 2019

November 26, 2021

We hereby certify that we have examined the accompanying financial statements and supplemental data of Old Towne Square, Inc., HUD project #117EE040, as of June 30, 2020 and 2019, and for the years ended then ended, and, to the best of our knowledge and belief, the same are accurate and complete.

Mark Ashton  
President

Rita Love  
Managing Agent  
Managing Agent Identification Number: #73-1427788

MANAGEMENT AGENTS' CERTIFICATION  
JUNE 30, 2020 AND 2019

November 26, 2021

We hereby certify that we have examined the accompanying financial statements and supplemental data of Old Towne Square, Inc., HUD project #117EE040, as of June 30, 2020 and 2019, and for the years ended then ended, and, to the best of our knowledge and belief, the same are accurate and complete.

Rita Love  
Lawton Support Services  
Taxpayer Identification #73-1427788

Cynthia Flemister, Property Manager