

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

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL DATA**

TWELVE MONTHS ENDED JUNE 30, 2023 AND 2022

Mike Estes, P.C.
A Professional Accounting Corporation

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AUDIT QUALITY CENTER

Independent Auditor's Report

Board of Commissioners
Old Towne Square, Inc.
Lawton, Oklahoma

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Old Towne Square, Inc., HUD Project #117EE040, as of and for the year ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Old Towne Square, Inc.'s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position, and the aggregate remaining fund information of Old Towne Square, Inc. as of and for the year ended June 30, 2023 and 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Old Towne Square, Inc., Oklahoma and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Old Towne Square, Inc.'s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Old Towne Square, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Old Towne Square, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying supplemental information shown on pages 29 to 32 be presented to supplement the basic financial statements.

Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Old Towne Square, Inc.'s basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2023 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, and grant agreements and other matters. The purpose of that report is solely 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 Old Towne Square, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* in considering the Old Towne Square, Inc.'s internal control over financial reporting and compliance.



Mike Estes, P.C.
Fort Worth, Texas
November 2, 2023

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

JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 9,180	\$ 0
Accounts receivable	2,642	16,378
Prepaid expenses	2,134	1,973
Restricted deposits	287,892	310,976
Restricted investments	17,168	17,020
Property and equipment, net	2,232,072	2,296,197
	2,551,088	2,642,544
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 12,526	\$ 38,533
Mortgage payable	3,215,700	3,215,700
Accrued employee leave	1,027	0
	3,229,253	3,254,233
NET ASSETS		
Without donor restrictions	(678,165)	(611,689)
With donor restrictions	0	0
	\$ (678,165)	(611,689)
Total Liabilities and Net Assets	\$ 2,551,088	\$ 2,642,544

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, 2023 AND 2022

	Without Donor Restrictions 2023	With Donor Restrictions 2023	Without Donor Restrictions 2022	With Donor Restrictions 2022
OPERATING ACTIVITIES				
REVENUES AND OTHER SUPPORT				
Rent revenue	\$ 148,641	\$ 0	147,830	\$ 0
Financial income	545	0	396	0
Other income	1,720	0	1,938	0
	150,906	0	150,164	0
EXPENSES				
Operating expenses	217,382	0	285,938	0
Change in net assets from operations	(66,476)	0	(135,774)	0
Non Operating Expenses				
Change in net assets	(66,476)	0	(135,774)	0
Net assets, beginning of year	(611,689)	0	(475,915)	0
Net assets, end of year	\$ (678,165)	\$ 0	\$ (611,689)	\$ 0

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, 2023 AND 2022

	Program Services 2023	Program Services 2022
Salaries	\$ 25,780	\$ 26,351
Other administration	30,417	30,725
Utilities	18,255	18,806
Operating and maintenance	50,119	118,836
Taxes and insurance	15,537	14,384
Depreciation	77,274	76,836
Total Operating Expenses	<u>\$ 217,382</u>	<u>\$ 285,938</u>

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

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (66,476)	\$ (135,774)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	77,274	76,836
Decrease (increase) in tenants accounts receivable	(780)	(2)
Decrease (increase) in accounts receivable	14,516	(5,832)
(Increase) in prepaid expenses	(161)	(189)
Decrease (increase) in cash restricted for tenant security deposits	(1,458)	(102)
Increase in accounts payable	(1,388)	2,213
(Decrease) in accrued liabilities	(21,238)	9,772
Increase (decrease) in security deposits	1,458	102
Increase in deferred revenues	124	(36)
Other adj's to reconcile net profit (loss) to Net Cash provided by (used in) Operating Activities (Overdraft)	(3,936)	3,936
	(2,065)	(49,076)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchase of fixed assets	(13,149)	0
(Increase) Decrease in restricted deposits	24,394	(17,671)
	11,245	(17,671)
Net cash provided (used) by investing activities	11,245	(17,671)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,180	(66,747)
CASH AND CASH EQUIVALENTS		
Beginning of Fiscal Year	0	66,747
CASH AND CASH EQUIVALENTS		
End of Fiscal Year	\$ 9,180	\$ 0

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, 2023 AND 2022

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

JUNE 30, 2023 AND 2022

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.

- 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, 2023 AND 2022

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, 2023 and 2022.

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, 2023 AND 2022

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">• Quoted prices for similar assets/liabilities in active markets;• Quoted prices for identical or similar assets in non-active markets;• Inputs other than quoted prices that are observable for the asset/liability; and,• Inputs that are derived principally from or corroborated by other observable data. |
| 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, 2023 AND 2022

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.

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, 2023. Deposits are stated at cost, which approximates fair value.

Interest Rate Risk: The Old Towne Square, Inc’s policy does not address interest rate risk.

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, 2023, Old Towne Square, Inc’s carrying amount of deposits was \$314,240 and the bank balance was \$356,868. \$267,168 of the bank balance was covered by FDIC Insurance. The remaining bank balance of \$89,700 was covered by pledged securities. However, this \$89,700 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 Old Towne Square, Inc’s name.

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

JUNE 30, 2023 AND 2022

NOTE D – RESTRICTED DEPOSITS AND HELD IN TRUST

\$7,777 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 \$57,310 at June 30, 2023. Monthly deposits of \$1,015 are required. According to the Regulatory Agreement, Restricted funds also include a residual receipts reserve of \$222,805, 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 \$17,168.

		Reserve for Replacements		Reserve for Residual Receipts
Balance, beginning of year	\$	82,075	\$	222,582
Total deposits		22,330		0
Interest income		55		223
HUD Approved withdrawals		47,150		0
Balance, end of year	\$	57,310	\$	222,805

NOTE E – REFUNDABLE CAPITAL ADVANCE

The refundable capital advance as of June 30, 2023 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 \$11,916 for the year ending June 30, 2023.

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

JUNE 30, 2023 AND 2022

NOTE G – AVAILABILITY AND LIQUIDTY

The following represents Old Towne Square’s financial assets at June 30, 2023 and 2022

	2023	2022
Cash and cash equivalents	\$ 9,180	\$ 0
Accounts receivable	2,642	16,378
Restricted deposits	305,060	327,996
	316,882	344,374
Less amounts not available to be used within one year:		
Restricted funds	(305,060)	(327,996)
Financial assets available to meet general expenditures over the next twelve months	\$ 11,822	\$ 16,378

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	3,000,135	13,149	0	3,013,284
Furniture and equipment	12,119	0	0	12,119
	3,182,254	13,149	0	3,195,403
Less: accumulated depreciation				
Buildings	873,938	77,274	0	951,212
Furniture and equipment	12,119	0	0	12,119
	886,057	77,274	0	963,331
Total capital assets, net	\$ 2,296,197	\$ (64,125)	\$ 0	\$ 2,232,072

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

JUNE 30, 2023 AND 2022

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 Old Towne Square, Inc 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 Old Towne Square, Inc.'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.

NOTE J – ECONOMIC DEPENDENCE The Department of Housing and Urban Development provided \$58,262 to Old Towne Square, Inc, which represents approximately 39% 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 2, 2023, of the independent auditor's report for potential recognition or disclosure in the financial statements.



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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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Old Towne Square, Inc.'s basic financial statements, and have issued our report thereon dated November 2, 2023.

Report on Internal Control Over Financial Reporting

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

Report on 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*.

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.
Fort Worth, Texas
November 2, 2023



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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

Opinion on Each Major Federal Program

We have audited the Old Towne Square, Inc.'s compliance with the types of compliance requirements identified as subject to audit 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, 2023 and 2022. 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.

In our opinion, the Old Towne Square, Inc. complied, in all material respects, with the types of 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, 2023 and 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Old Towne Square, Inc. and to meet our ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Old Towne Square, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Old Towne Square, Inc.'s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Old Towne Square, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Old Towne Square, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Old Towne Square, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Old Towne Square, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Old Towne Square, Inc.'s internal control over compliance. Accordingly no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Old Towne Square, Inc., and the aggregate remaining fund information of the Old Towne Square, Inc., as of and for the year ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Old Towne Square, Inc.'s basic financial statements. We issued our report thereon dated November 2, 2023, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of 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 basic 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 basic financial statements or to the basic 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Mike Estes, P.C.
Fort Worth, Texas
November 2, 2023

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

YEAR ENDED JUNE 30, 2023 AND 2022

FEDERAL GRANTOR PROGRAM TITLE	FAL 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	14.195	58,262
Total United States Department of Housing and Urban Development		\$ 3,273,962
Total Expenditures of Federal Awards		\$ 3,273,962

Balance is a Refundable Capital Advance at June 30, 2023 to be forgiven after fulfillment of regulatory agreement.

The accompanying notes are an integral part of this schedule.

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

YEAR ENDED JUNE 30, 2023 AND 2022

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, 2023. 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	\$	58,262
Total	\$	58,262

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 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, 2023 AND 2022

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, 2023 AND 2022

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, 2023 AND 2022

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, 2023 AND 2022

There are no audit findings.

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

YEAR ENDED JUNE 30, 2023 AND 2022

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:

2022-001-Waiting List Needs Improvement

Condition Found

We could not locate current year move-ins. Since we could not locate them on the list, we do not know if they reached the top of the list, when they were offered.

The entity uses a computerized waiting list. Once someone is admitted, they are deleted from the waiting list.

Recommendation

A screen shot should be made of the list before anyone is admitted. If there are others ahead of the admitted applicant on the list, a written explanation should be added, such as “unable to locate” or “no longer interested.” These screen shots should not only be kept in the tenant’s file, but in a separate file for third party review. In addition, at least monthly, a screen shot should be made of the entire waiting list, and transferred and kept in a PDF file.

Current Status

The finding is not repeated.

OLD TOWNE SQUARE, INC.
SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER ITEMS

YEAR ENDED JUNE 30, 2023 AND 2022

To Management and the Board of Commissioners:

During our audit, we became aware of matters that are opportunities for strengthening internal controls over compliance with requirements of laws, regulations, contracts and grants applicable to federal program.

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.

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. We have initiated the changes since the last audit was performed.

Current Status

This comment is not repeated.

SUPPLEMENTARY INFORMATION

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

JUNE 30, 2023 AND 2022

Detailed Statement of Activities Data
 Year Ended June 30, 2023

REVENUE

5120	Rent Revenue - Gross Potential	\$	120,034
5121	Tenant Assistance Payments		58,262
5100T	Total Rent Revenue		<u>178,296</u>
Vacancies			
5220	Apartments		29,655
5200T	Total Vacancies		<u>29,655</u>
5152N	Net Rental Revenue (Rent Revenue less Vacancies)		<u>148,641</u>
Financial Revenue			
5410	Financial Revenue - Project Operations		267
5430	Revenue from Investments - Residual Receipts		223
5440	Revenue from Investments - Replacement Reserve		<u>55</u>
5400T	Total Financial Revenue		<u>545</u>
Other Revenue			
5910	Laundry and Vending Revenue		1,530
5990	Miscellaneous Revenue		<u>190</u>
5900T	Total Other Revenue		<u>1,720</u>
5000T	TOTAL REVENUE	\$	<u><u>150,906</u></u>

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

JUNE 30, 2023 AND 2022

Detailed Statement of Activities Data
 Year Ended June 30, 2023

EXPENSES

Administrative Expenses

6210	Advertising	\$	305
6310	Office Salaries		25,780
6311	Office Expenses		0
6320	Management Fee		11,916
6350	Audit Expense		6,520
6351	Bookkeeping Fees/Accounting Services		2,594
6370	Bad Debts		138
6390	Miscellaneous Administrative Expenses		<u>8,944</u>
6263T	Total Administrative Expenses		<u>56,197</u>

Utilities Expenses

6450	Electricity		12,091
6451	Water		4,164
6453	Sewer		<u>2,000</u>
6400T	Total Utilities Expense		<u>18,255</u>

Operating & Maintenance Expenses

6515	Supplies		856
6520	Contracts		49,004
6525	Garbage and Trash Removal		<u>259</u>
6500T	Total Operating and Maintenance Expenses		<u>50,119</u>

Taxes & Insurance

6711	Payroll Taxes (Project's Share)		1,972
6720	Property & Liability Insurance (Hazard)		9,818
6721	Fidelity Bond Insurance		629
6722	Workmen's Compensation		736
6723	Health Insurance and Other Employee Benefits		1,173
6790	Miscellaneous Taxes, Licenses, Permits and Insurance		<u>1,209</u>
6700T	Total Taxes and Insurance	\$	<u><u>15,537</u></u>

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

JUNE 30, 2023 AND 2022

Detailed Statement of Activities Data
Year Ended June 30, 2023

Operating Results

6000T	Total Cost of Operations before Depreciation	<u>140,108</u>
5060T	Profit (Loss) before Depreciation	<u>10,798</u>
6600	Depreciation Expense	<u>77,274</u>
5060N	Operating Profit or (Loss)	66,476
CHANGE IN NET ASSETS FROM OPERATIONS		
3247	Change in Unrestricted Net Assets from Operations	<u>(66,476)</u>
3250	Change in Total Net Assets from Operations	<u><u>(66,476)</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, 2023 AND 2022

November 2, 2023

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, 2023 and 2022, 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, 2023 AND 2022

November 2, 2023

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, 2023 and 2022, 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