Management's Discussion and Analysis
and Financial Statements
August 31, 2023 and 2022

Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village

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Independent Auditor's Report

The Board of Trustees
Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Yukon, Oklahoma

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village (the Authority), which comprise the statements of net position as of August 31, 2023 and 2022, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of August 31, 2023 and 2022, and the respective changes in financial position and its cash flows for the years 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*. 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 the Authority 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Authority'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 opinion. 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 GAAS 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 GAAS 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 Authority'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 Authority'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 management's discussion and analysis on pages 4 through 9 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2024, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
September 3, 2024

Introduction

This management's discussion and analysis of the financial performance of Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village (the Authority) provides an overview of the Authority's financial activities for the years ended August 31, 2023 and 2022. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole. Readers should also review the basic financial statements and the notes to enhance their understanding of the Authority's financial status.

Financial Highlights

- Assets increased in 2023 by $713,312 or 1.7% as compared to 2022, and decreased in 2022 by $904,241 or 2.1% as compared to 2021.
- The Authority's net position increased by $715,319 or 12.6% in 2023, and decreased by $1,310,513 or 18.8% in 2022.
- The Authority reported an operating loss of $187,118 for the year ended August 31, 2023 and operating loss of $539,695 for the year ended August 31, 2022.

Using This Annual Report

The Authority's financial statements consist of three statements—a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in them. You can think of the Authority's net position as the difference between assets and liabilities as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's resident base, changes in legislation and regulations, measures of the quantity and quality of services provided to its residents and local economic factors, should also be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the statement of net position. The Authority's net position increased by $715,319 or 12.6% in 2023 over 2022, and decreased by $1,310,513 or 18.8% in 2022 over 2021, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2023	2022	2021
Assets			
Current assets	$ 5,649,992	$ 3,974,555	$ 5,651,005
Capital assets, net	31,292,691	32,570,746	33,413,922
Other noncurrent assets	5,784,305	5,468,375	3,852,990
Total assets	$ 42,726,988	$ 42,013,676	$ 42,917,917
Liabilities			
Current liabilities	$ 3,375,029	$ 3,430,491	$ 3,771,933
Long-term debt, net of current portion	18,392,092	18,299,750	18,821,009
Other noncurrent liabilities	14,574,332	14,613,219	13,344,246
Total liabilities	36,341,453	36,343,460	35,937,188
Net Position			
Net investment in capital assets	12,355,059	13,111,720	13,383,549
Restricted - expendable	248,255	75,935	85,102
Unrestricted	(6,217,779)	(7,517,439)	(6,487,922)
Total net position	6,385,535	5,670,216	6,980,729
Total liabilities and net position	$ 42,726,988	$ 42,013,676	$ 42,917,917

Table 2: Operating Results and Changes in the Authority's Net Position

	2023	2022	2021
Operating Revenues			
Net resident and patient service revenue	$ 14,418,207	$ 12,235,154	$ 11,592,827
Amortization of entrance fees	2,391,359	1,958,653	2,063,229
Other revenue	598,622	542,593	598,811
Total operating revenue	17,408,188	14,736,400	14,254,867
Operating Expenses			
Salaries and wages	8,134,268	6,900,682	6,432,228
Employee benefits	1,410,491	1,273,092	1,291,195
Professional fees and purchased services	828,413	550,601	504,722
Supplies	319,189	218,160	181,556
Insurance	743,067	700,102	481,701
Dietary	1,085,332	868,828	757,423
Repairs and maintenance	412,111	322,817	310,212
Utilities	1,140,506	968,575	870,716
Depreciation	2,118,331	2,108,191	2,102,024
Other	1,403,598	1,365,047	1,238,317
Total operating expenses	17,595,306	15,276,095	14,170,094
Operating Income (Loss)	(187,118)	(539,695)	84,773
Nonoperating Revenues (Expenses)	902,437	(770,818)	205,002
Revenues in Excess of (Less Than) Expenses and Change in Net Position	715,319	(1,310,513)	289,775
Net Position, Beginning of Year	5,670,216	6,980,729	6,690,954
Net Position, End of Year	$ 6,385,535	$ 5,670,216	$ 6,980,729

Operating Income (Loss)

The first component of the overall change in the Authority's net position is its operating income (loss)—generally, the difference between net resident and patient revenues, amortization of entrance fees and other operating revenues and the expenses incurred to perform those services. The Authority had an operating loss of $187,118 in 2023 compared to the operating loss of $539,695 in 2022.

The primary components of the decrease in operating loss from 2022 to 2023 are:

- An increase in the net resident and patient service revenue of $2,183,053 or 17.8%, an increase in revenues from entrance fees of $432,706 or 22.1%, and an increase in other revenue of $56,029 or 10.3%. This resulted in an overall increase in operating revenues of $2,671,788 or 18.1%. The increase is due to rate increases of approximately 5.5% during the year, plus increased resident census. In addition, the Authority recognized approximately $340,000 more in entrance fees from terminations of entrance fee contracts.
- An increase in salaries and wages of $1,233,586 or 17.9%, due to additional employees and wage increases; an increase in professional fees and purchased services of $277,812 or 50.5%, partially due to services related to completing the employee retention credit program analysis; and an increase in dietary expense of $216,504 or 24.9%, primarily due to increases in census and food costs. This resulted in an overall increase in operating expenses of $2,319,211 or 15.2%.

The primary components of the change from operating income in 2021 to operating loss in 2022 are:

- An increase in the net resident and patient service revenue of $642,327 or 5.5%, a decrease in revenues from entrance fees of $104,576 or 5.1%, and a decrease in other revenue of $56,218 or 9.4%. This resulted in an overall increase in operating revenues of $481,533 or 3.4%.
- An increase in salaries and wages of $468,454 or 7.3%, due to additional employees and wage increases; and an increase in insurance expense of $218,401 or 45.3%, primarily due to increases in policy premiums. This resulted in an overall increase in operating expenses of $1,106,001 or 7.8%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, noncapital grants and gifts including the Employee Retention Credit (ERC) program, Provider Relief Fund program, gain or loss on sale of capital assets and interest expense. The Authority recognized revenue from the ERC program of $959,453 and $0 in 2023 and 2022. The Authority recognized revenue from the Provider Relief Fund program of $0 and $176,640 in 2023 and 2022 to offset costs incurred to prevent, treat and prepare for COVID-19. The Authority recognized a decrease in interest expense of $3,522 in 2023 compared to 2022 and a decrease of $35,148 in 2022 compared to 2021. The Authority also recognized investment income of $392,712 in 2023 compared to an investment loss of $372,737 in 2022 due to fluctuations in market returns.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating results and nonoperating revenues and expenses, discussed earlier. The principal changes in the Authority's cash flows for the year ended August 31, 2023 were as follows:

- An increase in cash received from residents of $1,862,809 or 15.5% in 2023 compared to an increase of $458,897 or 4.0% in 2022. This increase is due primarily to increases in monthly service fees and increased occupancy.

- A decrease in receipts from entrance fees in 2023 over 2022 of $695,214 or 24.7% compared to an increase in 2022 over 2021 of $1,289,240 or 84.3%.
- Cash used for capital and capital related financing activities decreased $986,192 in 2023 over 2022 and increased $314,097 in 2022 over 2021. These changes are due primarily to varying amounts invested in capital assets each year.
- Cash received from noncapital financing activities totaled $326,320 in 2023, compared to $521,736 in 2022 and cash from investing activities totaled $90,778 in 2023, compared to cash used for investing activities of $1,988,122 in 2022. The significant change between years is primarily related to the Authority investing approximately $2,000,000 from cash and cash equivalents during 2022.

Capital Assets

At August 31, 2023 and 2022, the Authority had $31,292,691 and $32,570,746, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2023, the Authority made capital improvements and purchased new equipment costing $840,276. In 2022, the Authority made capital improvements and purchased new equipment costing $1,362,129.

Debt

At August 31, 2023 and 2022, the Authority had $19,308,733 and $19,459,026, respectively, in long-term debt, as detailed in Note 7. The Authority incurred additional debt totaling $541,309 during 2023, specifically related to the fiscal year's insurance premiums that were financed. There was no new debt incurred during 2022. Principal payments on debt totaled $691,602 and $571,347 during 2023 and 2022.

Economic Outlook

In the post-pandemic world, the Authority is positioned for a vibrant economic future. The ongoing demand for quality retirement living, fueled by the aging Baby Boomer generation, ensures a steady stream of new residents. The Authority's strong reputation for comprehensive healthcare services and secure living conditions makes it an attractive choice for those seeking peace of mind in their golden years.

Economic recovery at both national and local levels is enhancing consumer confidence, allowing many retirees to regain financial stability. The robust housing market, characterized by rising property values, enables potential residents to sell their homes at favorable prices, easing their transition to retirement living at the Authority.

The Authority is further poised for growth through its active engagement in new start-ups focused on Medicare home health and hospice services. These ventures not only diversify revenue streams but also align with the growing preference for aging in place, allowing individuals to receive high-quality care within the comfort of their homes. This strategic expansion into home health and hospice services will attract a broader demographic, offering them comprehensive care options and enhancing the village's appeal.

In conclusion, the Authority is set to thrive economically in the post-pandemic era. By leveraging demographic trends, investing in innovative healthcare services, and maintaining a strong reputation for excellence, the Authority is well-prepared for sustained growth and financial stability, ensuring a bright future for its residents and the broader community.

Requests for Information

This financial report is designed to provide the Authority's residents, patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village, 11 Palm Avenue, Yukon, Oklahoma 73099.

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	$ 1,899,861	$ 2,408,215
Restricted cash and investments		
Under workers' compensation plan	70,000	70,000
Receivables		
Resident and patient, net	1,335,247	817,530
Entrance fees	619,912	455,899
ERC program	959,453	-
Supplies	52,535	51,075
Prepaid expenses and other	712,984	171,836
Total current assets	5,649,992	3,974,555
Noncurrent Investments	5,617,176	5,315,242
Capital Assets		
Capital assets not being depreciated	3,689,916	3,446,088
Capital assets being depreciated, net	27,602,775	29,124,658
Total capital assets	31,292,691	32,570,746
Other Assets	167,129	153,133
Total assets	$ 42,726,988	$ 42,013,676

	2023	2022
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 916,641	$ 1,159,276
Accounts payable	636,113	505,412
Accrued expenses	902,343	749,228
Refundable entrance fees - current	415,485	335,516
Entrance fee deposits	504,447	681,059
Total current liabilities	3,375,029	3,430,491
Long-Term Debt, Net of Current Portion	18,392,092	18,299,750
Refundable Entrance Fees	5,583,426	5,267,676
Unearned Revenue from Entrance Fees	8,990,906	9,345,543
Total liabilities	36,341,453	36,343,460
Net Position		
Net investment in capital assets	12,355,059	13,111,720
Restricted:		
Expendable for specific operating activities	85,850	75,935
Expendable for donor restricted purposes	162,405	-
Unrestricted	(6,217,779)	(7,517,439)
Total net position	6,385,535	5,670,216
Total liabilities and net position	$ 42,726,988	$ 42,013,676

	2023	2022
Operating Revenues		
Net resident and patient service revenue	$ 14,418,207	$ 12,235,154
Amortization of entrance fees	2,391,359	1,958,653
Other revenue	598,622	542,593
Total operating revenues	17,408,188	14,736,400
Operating Expenses		
Salaries and wages	8,134,268	6,900,682
Employee benefits	1,410,491	1,273,092
Professional fees and purchased services	828,413	550,601
Supplies	319,189	218,160
Insurance	743,067	700,102
Dietary	1,085,332	868,828
Repairs and maintenance	412,111	322,817
Utilities	1,140,506	968,575
Depreciation	2,118,331	2,108,191
Other	1,403,598	1,365,047
Total operating expenses	17,595,306	15,276,095
Operating Loss	(187,118)	(539,695)
Nonoperating Revenues (Expenses)		
Investment income (loss)	392,712	(372,737)
Interest expense	(790,044)	(793,566)
Loss on sale and disposal of capital assets	-	(78,774)
Noncapital grants and gifts		
ERC program	959,453	-
Provider Relief Fund program	-	176,640
Other	340,316	297,619
Net nonoperating revenues (expenses)	902,437	(770,818)
Revenues in Excess of (Less Than) Expenses and Change in Net Position	715,319	(1,310,513)
Net Position, Beginning of Year	5,670,216	6,980,729
Net Position, End of Year	$ 6,385,535	$ 5,670,216

	2023	2022
Operating Activities		
Receipts from and on behalf of residents and patients	$ 13,900,490	$ 12,037,681
Receipts from entrance fees	2,122,755	2,817,969
Payments to and on behalf of employees	(9,391,644)	(8,061,344)
Payments to suppliers and contractors	(6,393,816)	(4,926,761)
Other receipts	598,622	542,593
Net Cash from Operating Activities	836,407	2,410,138
Noncapital Financing Activities		
Other noncapital grants and gifts	326,320	345,096
Provider Relief Fund program	-	176,640
Net Cash from Noncapital Financing Activities	326,320	521,736
Capital and Capital Related Financing Activities		
Principal payments on long-term debt	(691,602)	(571,347)
Interest paid	(790,044)	(793,566)
Proceeds from the issuance of long-term debt	541,309	-
Purchase of capital assets	(821,522)	(1,401,478)
Proceeds from sale of capital assets	-	18,340
Net Cash used for Capital and Capital Related Financing Activities	(1,761,859)	(2,748,051)
Investing Activities		
Interest and dividends on investments, net of fees	137,089	31,330
Purchase of investments	(2,806,529)	(5,769,141)
Proceeds from sale of investments	2,760,218	3,749,689
Net Cash from (used for) Investing Activities	90,778	(1,988,122)
Net Change in Cash and Cash Equivalents	(508,354)	(1,804,299)
Cash and Cash Equivalents, Beginning of Year	2,408,215	4,212,514
Cash and Cash Equivalents, End of Year	$ 1,899,861	$ 2,408,215

	2023	2022
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	$ (187,118)	$ (539,695)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	2,118,331	2,108,191
Provision for bad debt	308,012	109,344
Amortization of entrance fees	(2,391,359)	(1,958,653)
Changes in operating assets and liabilities		
Patient and resident receivables	(825,729)	(306,817)
Entrance fees receivables	(164,013)	3,498
Supplies, prepaid expenses and other current assets	(542,608)	18,649
Accounts payable and accrued expenses	234,123	161,150
Refundable entrance fees	426,658	351,742
Entrance fee deposits	(176,612)	(401,158)
Unearned revenue from entrance fees	2,036,722	2,863,887
Net Cash from Operating Activities	$ 836,407	$ 2,410,138
Supplemental Cash Flows Information		
Entrance fee refunds included in accounts payable	$ 244,799	$ 213,860
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Capital asset acquisitions included in accounts payable	$ 44,730	$ 25,976

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village (the Authority) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Authority are described below.

Reporting Entity

The Authority is a public trust that was created by the First Amended and Restated Trust Indenture dated April 28, 1998, and is the successor to the Retired Teachers Housing Authority (RTHA). The transfer of RTHA's assets, subject to remaining liabilities, was effective as of the close of business on August 31, 1998. The sole purpose of the Authority is to provide reasonably priced housing for retired persons and others so that they may live together in a community of common interest and background by owning and operating a continuing care retirement community (CCRC).

The trustees hold all properties in trust for the use and benefit of the City of Yukon, Oklahoma (the City), the beneficiary, and upon termination of the trust shall distribute any remainder to the beneficiary.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that the exclusion would cause the Authority's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. The Authority does not have a component unit which meets the GASB criteria.

Tax Exempt Status

As an essential government function of the City, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code (the Code) and a similar provision of Oklahoma state law. The Authority is also recognized as exempt from taxes under Section 501 of the Code. However, the Authority is subject to federal income tax on any unrelated business taxable income. The Authority believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Authority would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Authority's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

Restricted - expendable net position consists of restricted assets reduced by liabilities related to those assets and results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Authority.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Authority considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Restricted Cash and Investments

Cash and investments that have restrictions which change the nature or normal understanding of availability of the asset is reported separately on the statements of net position. Restricted cash available for obligations classified as current liabilities are reported as current assets. Restricted cash and investments include deposit accounts and certificates of deposit with an original maturity of three to twelve months, which are recorded at historical cost.

Resident and Patient Accounts Receivable

The Authority reports resident and patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and residents. Resident and patient accounts receivable are stated at their estimated collectible amount. Receivables are determined to be uncollectible when collection efforts have been exhausted and are written off to expense at that time. The Authority provides an allowance for uncollectible accounts related to its resident and patient accounts receivable based upon a review of outstanding receivables, historical collection information and existing economic conditions. Uncollectible receivables, if any, are estimated to be immaterial.

Contributions Receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received, and all eligibility requirements have been met. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at the discounted present value of expected future payments at the date of promise. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises.

Supplies

Supplies are stated at the lower of cost (first-in, first-out) or market and are expensed when used.

Noncurrent Investments

Noncurrent investments include certificates of deposit with an original maturity of more than twelve months, which are recorded at historical cost, and other investments measured at fair value.

Investment Income

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment acquisitions in excess of $1,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of capital assets are as follows:

Buildings and leasehold improvements	5-50 years
Furniture, fixtures and equipment	5-10 years
Vehicles	3-5 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are excluded from revenues in excess of (less than) expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

The Authority capitalizes interest costs as a component of construction in progress, based on the rate paid for long-term borrowing.

Compensated Absences

Authority policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date. The liability for compensated absences is included with accrued expenses in the accompanying financial statements.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Authority result from exchange transactions associated with providing housing and health care services - the Authority's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Resident and Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net resident and patient service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Friendship Discounts

The Authority provides continued care without charge or at amounts less than established rates to certain residents meeting certain criteria under its friendship discount policy when approved by the Board of Trustees. Since the Authority does not pursue collection of these amounts, they are not reported as resident and patient service revenue. The estimated cost of providing services was approximately $42,000 and $52,000 for the years ended August 31, 2023 and 2022, calculated by multiplying the ratio of costs to gross charges for the Authority by gross uncompensated charges associated with providing friendship discounts to its residents and patients.

Unearned Revenue from Entrance Fees

Fees paid by residents upon entering into a continuing care contract, net of the portion thereof that is refundable to the resident, are recorded as unearned revenue from entrance fees and are amortized into income using the straight-line method over the estimated remaining life expectancy of the resident or residents.

Grants and Contributions

The Authority may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after revenues less than expenses.

Implementation of GASB Statement No. 96

As of September 1, 2021, the Authority adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)* (GASB 96). The implementation of this standard establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. As of August 31, 2023 and 2022 the Authority did not have any SBITAs which were required to be recognized under GASB 96.

Note 2 - Net Resident and Patient Service Revenue

Monthly service fees represent monthly fees from residents under life care contracts with the Authority. Other patient revenue represents health care service revenue provided to residents who did not enter the facility under a life care contract. Patient service revenue is recognized as care is provided. Reimbursement for services provided to Medicare patients is based on the Medicare Prospective Payment System (PPS) for long-term care providers. Under PPS, routine, ancillary and capital costs are paid under a single-payment stream. Reimbursement is made prospectively according to resident care classifications with each class assigned a fixed reimbursement rate.

Revenues from patients and residents and from Medicare accounted for 91% and 9% of the Authority's net resident and patient service revenues for the year ended August 31, 2023 and 92% and 8% for the year ended August 31, 2022.

Note 3 - Entrance Fees

The Authority currently offers two basic types of residency agreements, nonrefundable plans and refundable plans. For the right to occupy a unit for life and to receive certain services from the Authority, residents are required to pay an upfront entrance fee. The entrance fee is based upon the type of unit rented and the monthly payment plan selected by the resident. In addition, residents are charged monthly service fees. Service fees are established at the inception of residency and may be increased by the Authority provided a 60-day advance notice is given to the resident. Service fees are reported within net resident and patient service revenue.

The resident may voluntarily withdraw from a facility upon rendering proper notification. Upon voluntary withdrawal, a repayment of part or all of the entrance fee may occur. The following is a summary of the withdrawal clauses:

- If the resident voluntarily withdraws within the first seven days, all amounts will be repaid.
- If the resident is unable to occupy the unit due to death, illness, injury or other incapacity, all amounts will be repaid less any costs of preparation of the unit.
- Under the nonrefundable plans, the entrance fee received is nonrefundable once the unit is occupied.
- Under the refundable plans, if voluntary withdrawal occurs subsequent to occupancy, the repayable percentage of the entrance fee will be repaid to the resident, estate, trust, heirs or other representative upon receipt of a new entrance fee for the unit. The refundable percentage decreases ratably each year from 90% in the first year to 50% in the fifth year and after.

At August 31, 2023 and 2022, $5,998,911 and $5,603,192, respectively, was contractually repayable under these agreements, which represent the amount due to residents if all residents were to cancel their contracts at that date based on the repayment policies above.

During 2023, the Authority established a third type of arrangement in which individuals may pay an upfront entrance fee for a guaranteed right to occupy a unit and service fees at a reduced rate, established at the inception of the residency. The individuals otherwise are not residents or patients until they exercise their option for the unit. These entrance fees are refundable within the first seven days of execution of the contract.

The Authority has amortized unearned revenues from nonrefundable entrance fees as revenue totaling $2,391,359 and $1,958,653 for the years ended August 31, 2023 and 2022, respectively. Of this amount, $829,230 and $490,199 for the years ended August 31, 2023 and 2022, respectively, relates to amounts recognized upon termination of contracts.

Estimated Future Service Obligation

Annually, the Authority calculates the present value of the net cost of future services and the use of facilities to be provided to current residents by contract type and compares those amounts with the balance of unearned revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the unearned revenue from entrance fees, a liability is recorded (estimated future service obligation) with a corresponding charge to income. As of August 31, 2023 and 2022, there was no estimated future service obligation related to the Authority's contracts.

Note 4 - Provider Relief Fund Program

The Authority received $760,391 of Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution program funds administered by the Department of Health and Human Services (HHS) since the inception of the program in 2020. The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has deadlines for incurring eligible expenses and lost revenues, varying based on the date the Authority received the funds. Unspent funds will be expected to be repaid.

These funds are considered subsidies and recorded as a liability when received and are recognized as revenues in the accompanying statements of revenues, expenses, and changes in net position as all terms and conditions are considered met. As these funds are considered subsidies, they are considered nonoperating activities. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date that the financial statements were available to be issued. In addition, this program may be subject to oversight, monitoring and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

During the years ended August 31, 2023 and 2022, the Authority recognized $0 and $176,640 as revenue, included as nonoperating activities on the statements of revenues, expenses, and changes in net position.

Note 5 - Deposits, Investments and Investment Income

The carrying amounts of deposits and investments as of August 31, 2023 and 2022 are as follows:

	2023	2022
Carrying value		
Cash and deposits	$ 593,633	$ 785,234
Investments	6,977,151	6,990,099
Accrued interest receivable	16,253	18,124
	$ 7,587,037	$ 7,793,457

Deposits and investments are reported in the following statement of net position captions:

	2023	2022
Cash and cash equivalents	$ 1,899,861	$ 2,408,215
Restricted under workers' compensation plan	70,000	70,000
Noncurrent investments	5,617,176	5,315,242
	$ 7,587,037	$ 7,793,457

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Oklahoma; bonds of any city, county, school district or special road district of the state of Oklahoma; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. The Authority's deposit policy does not further restrict bank deposits or limit investment deposits.

Of the Authority's deposits in banks of $802,183 at August 31, 2023, $728,306 were covered by FDIC insurance and $73,877 were in excess of FDIC limits. Of the Authority's deposits in banks of $1,030,299 at August 31, 2022, $700,119 were covered by FDIC insurance, $166,785 were invested in government-backed securities and $163,395 were in excess of FDIC limits.

Investments

The Authority's investments are reported at fair value. The Authority may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest, to a limited extent, in corporate bonds and equity securities.

The Authority has determined the fair value of certain investments in accordance with generally accepted accounting principles, which provides a framework for measuring fair value. A hierarchy of valuation classifications considers whether the inputs used in valuation techniques are observable or unobservable. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy prioritizes the valuation inputs into the following three broad levels:

> Level 1 – Unadjusted quoted prices for identical instruments in active markets that the reporting entity has the ability to access at the measurement date.
>
> Level 2 – Quoted prices for similar investments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are directly or indirectly observable.
>
> Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable and may rely on the reporting entity's own assumptions, but the market participant's assumptions may be used in pricing the asset.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy, in which case the Authority defaults to the lowest level input that is significant to the fair value measurement in its entirety. These levels are not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the Authority performed a detailed analysis of the assets that are subject to fair value measurement.

The Authority had the following investments and maturities at August 31, 2023:

			Investment Maturities (in Years)	
Investment Type	Carrying Amount	Rating	Less Than 1	1 - 5
Money market mutual funds (Level 1)	$ 1,532,576	US Government Insured	$ 1,532,576	$ -
US Treasury notes (Level 1)	1,901,597	US Government Insured	489,013	1,412,584
Mutual funds (Level 1)	1,478,152	n/a	1,478,152	-
Equity securities (Level 1)	794,168	n/a	794,168	-
Government obligations (Level 1)	890,104	AAAm*	890,104	-
Marketable certificates of deposit (Level 2)	380,554	FDIC Insured	-	380,554
Total	$ 6,977,151		$ 5,184,013	$ 1,793,138

The Authority had the following investments and maturities at August 31, 2022:

Investment Type	Carrying Amount	Rating	Investment Maturities (in Years) Less Than 1	1 - 5
Money market mutual funds (Level 1)	$ 1,849,329	US Government Insured	$ 1,849,329	$ -
US Treasury notes (Level 1)	2,119,125	US Government Insured	1,146,223	972,902
Mutual funds (Level 1)	1,191,967	n/a	1,191,967	-
Equity securities (Level 1)	698,192	n/a	698,192	-
Government obligations (Level 1)	454,384	AAAm*	454,384	-
Marketable certificates of deposit (Level 2)	677,102	FDIC Insured	289,811	387,291
Total	$ 6,990,099		$ 5,629,906	$ 1,360,193

** As rated by Standard & Poor's*

The Authority's investments in money market mutual funds, government obligations, mutual funds and equity securities are based on quoted market prices for identical investments in an active market. The Authority's investments in marketable certificates of deposit are based on quoted market prices for identical investments in an inactive market or similar investments in markets that are either active or inactive.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits investments in U.S. Treasury securities and marketable certificates of deposit to 10-year maturities. The money market mutual funds are presented as investments with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy does not address credit risk. Except for the government obligations, the Authority's investments at August 31, 2023 and 2022 were not rated by Standard & Poor's or Moody's Investors Service.

Concentration of Credit Risk

The Authority will limit credit risk, the risk of loss due to the failure of the security issuer or backer, by diversifying in the investment portfolio so that potential losses on individual securities will be minimized. The Authority does not have a formally adopted investment policy for managing concentration of credit risk. The Authority places no limit on the amount that may be invested in any one issuer. At August 31, 2023 and 2022, no investments exceeded 5% of the total fair value of its total investments.

Investment Income (Loss)

Investment income (loss) for the years ended August 31, 2023 and 2022 consisted of:

	2023	2022
Interest and dividend income, net of fees	$ 135,218	$ 42,655
Realized gains and losses, net	25,536	94,511
Change in unrealized gains and (losses) on investments	231,958	(509,903)
	$ 392,712	$ (372,737)

Noncurrent investments are designated by the Authority's Board of Trustees for the following purposes as of August 31, 2023 and 2022:

	2023	2022
Debt service	$ 516,000	$ 516,000
Return of entrance fees	600,000	600,000
Friendship discounts	100,000	100,000
Capital acquisitions	300,000	300,000
Total designated investments	$ 1,516,000	$ 1,516,000

Note 6 - Capital Assets

Capital assets additions, retirements, transfers and balances for the years ended August 31, 2023 are as follows:

	Balance August 31, 2022	Additions	Transfers and Retirements	Balance August 31, 2023
Capital assets not being depreciated				
Land	$ 1,339,939	$ -	$ -	$ 1,339,939
Construction in progress	2,106,149	243,828	-	2,349,977
Total capital assets not being depreciated	$ 3,446,088	$ 243,828	$ -	$ 3,689,916
Capital assets being depreciated				
Land improvements	$ 953,169	$ 31,516	$ -	$ 984,685
Building and leasehold improvements	47,294,627	395,823	-	47,690,450
Furniture, fixtures and equipment	3,323,126	79,446	-	3,402,572
Vehicles	962,615	89,663	-	1,052,278
Total capital assets being depreciated	52,533,537	$ 596,448	$ -	53,129,985
Less accumulated depreciation	(23,408,879)	$ (2,118,331)	$ -	(25,527,210)
Net capital assets being depreciated	$ 29,124,658			$ 27,602,775
Capital assets, net	$ 32,570,746			$ 31,292,691

Construction in progress at August 31, 2023, represents costs incurred during the planning stage of an expansion project the Authority is considering. There are no commitments associated with the project under consideration.

Capital assets additions, retirements, transfers and balances for the years ended August 31, 2022 are as follows:

	Balance August 31, 2021	Additions	Transfers and Retirements	Balance August 31, 2022
Capital assets not being depreciated				
Land	$ 1,339,939	$ -	$ -	$ 1,339,939
Construction in progress	2,106,149	-	-	2,106,149
Total capital assets not being depreciated	$ 3,446,088	$ -	$ -	$ 3,446,088
Capital assets being depreciated				
Land improvements	$ 938,139	$ 15,030	$ -	$ 953,169
Building and leasehold improvements	46,901,616	708,200	(315,189)	47,294,627
Furniture, fixtures and equipment	3,044,546	279,725	(1,145)	3,323,126
Vehicles	620,035	359,174	(16,594)	962,615
Total capital assets being depreciated	$ 51,504,336	$ 1,362,129	$ (332,928)	52,533,537
Less accumulated depreciation	(21,536,502)	$ (2,108,191)	$ 235,814	(23,408,879)
Net capital assets being depreciated	$ 29,967,834			$ 29,124,658
Capital assets, net	$ 33,413,922			$ 32,570,746

Note 7 - Long-Term Debt

The following is a summary of long-term obligations for the years ended August 31, 2023 and 2022:

	Balance August 31, 2022	Additions	Payments	Balance August 31, 2023	Due Within One Year
Direct Borrowings					
Mortgage payable	$ 635,040	$ -	$ -	$ 635,040	$ -
Financed insurance premiums	-	541,309	(170,208)	371,101	371,101
Note payable to bank	18,823,986	-	(521,394)	18,302,592	545,540
Total long-term debt	$ 19,459,026	$ 541,309	$ (691,602)	$ 19,308,733	$ 916,641

	Balance August 31, 2021	Additions	Payments	Balance August 31, 2022	Due Within One Year
Direct Borrowings					
Mortgage payable	$ 705,600	$ -	$ (70,560)	$ 635,040	$ 635,040
Note payable to bank	19,324,773	-	(500,787)	18,823,986	524,236
Total long-term debt	$ 20,030,373	$ -	$ (571,347)	$ 19,459,026	$ 1,159,276

The terms of the Authority's long-term debt are as follows:

Mortgage payable - Due May 29, 2028, with interest at 4.125% payable in quarterly payments of interest only with a balloon payment of principal and unpaid interest at maturity. The note is secured by certain real property.

Financed insurance premiums - One note is due March 2024, with interest at 8.66% payable in quarterly payments of $141,643 and three notes are due June 2024, payable in monthly payments totaling $9,702.

Note payable to bank – Due March 28, 2045, with interest at 3.99% and principal payable monthly, and a balloon payment at maturity. Starting September 2024, interest is adjusted to the Wall Street Journal Prime Rate. The note is secured by a mortgage on the Authority's facility.

The debt service requirements as of August 31, 2023, are as follows:

	Notes Payable	
Years Ending August 31,	Principal	Interest
2024	$ 916,641	$ 746,198
2025	567,709	723,957
2026	590,780	700,886
2027	614,788	676,878
2028	1,274,811	645,364
2029-2033	3,610,625	2,716,726
2034-2038	4,406,365	1,920,987
2039-2043	5,377,476	949,876
2044-2045	1,949,538	65,098
Total	$ 19,308,733	$ 9,145,970

Note 8 - Restricted Net Position

Restricted, expendable net position was available for the following purposes as of August 31, 2023 and 2022:

	2023	2022
Expendable for specific operating activities		
Workers' compensation	$ 70,000	70,000
Employee fund	15,850	5,935
	85,850	75,935
Expendable for donor restricted purposes		
Garden and park funds	47,176	-
Employee benefit funds	97,118	-
Other funds	18,111	-
	162,405	-
Total restricted expendable net position	$ 248,255	$ 75,935

Note 9 - Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees who have completed 1,000 hours of service and are at least 21 years of age. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contributions made by the Authority totaled approximately $160,000, $133,000, and $127,000 during the years ended August 31, 2023, 2022 and 2021.

Note 10 - Concentration of Credit Risk

The Authority grants credit without collateral to its skilled nursing patients and residents, many of whom are area residents and are insured under third-party payer agreements. Accounts receivable at August 31, 2023 and 2022 consisted of:

	2023	2022
Medicare	92%	83%
Residents, patients and other third-party payors	8%	17%
	100%	100%

Note 11 - Employee Retention Credit (ERC) Program

The Coronavirus Aid, Relief, and Economic Security Act provided an employee retention credit (the credit) which is a refundable tax credit against certain employment taxes. The Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021 expanded the availability of the credit and extended the credit through September 30, 2021. For any applicable quarters in 2021, the credit is equal to 70% of qualified wages paid to employees, capped at $10,000 of qualified wages per quarter. During the year ended August 31, 2023, the Authority recorded a $909,470 benefit related to the credit, which is presented on the statements of revenues, expenses and changes in net position as nonoperating revenues, and a receivable on the statement of net position. During 2023, the Authority also recorded interest income associated with the credit, included as ERC program revenues and receivables, totaling $49,983.

The Authority's credit filings remain open for potential examination by the Internal Revenue Service through the statute of limitation, which has an expiration date of June 2027. Any disallowed claims resulting from such examinations could be subject to repayment to the federal government.

Note 12 - Contingencies

Litigation

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

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Professional Liability Claims

The Authority purchases professional liability insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of professional liability claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Workers' Compensation Claims

The Authority is self-insured for workers' compensation claims of participating employees up to an annual aggregate amount of $100,000 in 2023 and 2022. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured workers' compensation claims, including both claims reported, and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors and is included in accrued expenses on the accompanying statements of net position. It is reasonably possible the Authority's estimate will change by a material amount in the near term. The Authority holds a certificate of deposit, classified as restricted under workers' compensation plan, totaling $70,000 at August 31, 2023 and 2022 as security for workers' compensation claims.

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

To the Board of Trustees
Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Yukon, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards)*, the financial statements of Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village (the Authority), which comprise the statement of net position as of August 31, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 3, 2024.

Report on Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2023-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2023-002 and 2023-003 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 is required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Oklahoma City, Oklahoma
September 3, 2024

Material Weakness in Internal Control Over Financial Reporting:

2023-001 Preparation of Financial Statements and Audit Adjustments

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. During the audit process, as part of the preparation of financial statements, material adjustments were required to the preliminary trial balance to correct misstatements identified. The adjustments included recognition of the Employee Retention Credit (ERC) program revenue, finance insurance premiums, and entrance fee balances. While management was aware of some of the adjustments, they were not considered to be identified on a timely basis.

Cause: The accounting and finance team responsible for accurate presentation of the financial statements has other responsibilities that required attention and effort. Management ultimately identified a need for assistance in the current year to catch up on accurate treatment of transactions and financial reporting.

Effect: The Authority's financial statements required adjustments that were considered to be material. Accordingly, internal, interim financial statements may not be accurate. Additionally, as a result of this and other deficiencies, the audit process was delayed in the current year.

Auditor's Recommendation: We recommend management review its processes and ensure that operation of effective control is consistent with established policies. This situation is not unusual for an organization of your size, but it's the responsibility of management and governance to identify the need for assistance or additional expertise timely to avoid delays and adjustments to the financial statements.

Views of Responsible Officials: Management agrees with the finding. As part of the corrective actions, an account reconciliation policy will be written and implemented. This will lead to routine, scheduled reconciliations. Elizabeth Ritter, CFO or Jimmie Wall, Director of Accounting, will provide training, oversight and monitoring to ensure compliance.

Significant Deficiencies in Internal Control Over Financial Reporting:

2023-002 Account Reconciliations

Criteria: A properly designed system of internal control over financial reporting includes the reconciliation of account balances to subledgers or supporting details, including the identification of reconciling differences and corrections, as appropriate. These reconciliations should occur on a timely basis. Additionally, timely reviews of these reconciliations should ensure that they are being completed accurately.

Condition: Reconciliations of several of the Authority's account balances were not being performed on a timely basis. These reconciliations included property and equipment, entrance fee balances, and accounts payable contra accounts.

Cause: The accounting and finance team responsible for accurate presentation of the financial statements has other responsibilities that required attention and effort. Management ultimately identified a need for assistance in the current year to catch up on account reconciliations.

Effect: Adjustments and reclassifications to the financial statements were required to properly state various balances, including those identified within the "Conditions" section above.

Auditor's Recommendation: We recommend that management ensure reconciliations are being performed timely. In addition, a review process should occur to ensure that they are being performed accurately.

Views of Responsible Officials: Management agrees with the finding. As part of the corrective actions, an account reconciliation policy will be written and implemented. This will lead to routine, scheduled reconciliations. Elizabeth Ritter, CFO or Jimmie Wall, Director of Accounting, will provide training, oversight and monitoring to ensure compliance.

2023-003 Lack of Management Review Over the Impact of GASB 96

Criteria: During May 2020, the Governmental Accounting Standards Board (GASB) issued guidance over the accounting for subscription-based information technology arrangements (SBITAs). Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with standards established by the U.S. generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), including the implementation of the new SBITA standard which became effective for the Authority as of September 1, 2022.

Condition: As auditors, we were requested to assist management with the implementation of GASB 96, including assessing the impact of the standard on the financial statements and related footnote disclosures.

Cause: This condition was caused by the lack of timely review over the Authority's SBITAs and the impact of the implementation of the standard on the financial statements and related footnote disclosures.

Effect: There is potential risk of misstatements in amounts reported in the financial statements and the footnote disclosures.

Auditor's Recommendation: We recommend management ensure new accounting guidance is implemented based upon actual or amended effective dates. While this circumstance is not unusual for an organization of your size, it's the responsibility of management and governance to understand the risks of waiting for assistance for these matters.

Views of Responsible Officials: Management agrees with the finding. Elizabeth Ritter, CFO and Jimmie Wall, Director of Accounting, will identify additional training opportunities related to GASB to include websites, webinars, trade publications, conferences, or auditor guidance.