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

Auditor's Reports and Financial Statements

August 31, 2013 and 2012

BKD LLP
CPAs & Advisors

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
August 31, 2013 and 2012

Contents

BKD LLP
CPAs & Advisors

Two Warren Place // 6120 S. Yale Avenue, Suite 1400 // Tulsa, OK 74136-4223
918.584.2900 // fax 918.584.2931 // bkd.com

Independent Auditor's Report on Financial Statements and Supplementary Information

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

Report on the Financial Statements

We have audited the accompanying financial statements of Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village (the Authority), which comprise the balance sheet as of August 31, 2013, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village as of August 31, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2012 financial statements were audited by other auditors and their report thereon, dated June 19, 2013, expressed an unmodified opinion.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
December 26, 2013

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Management's Discussion and Analysis
Years Ended August 31, 2013 and 2012

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, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and investments increased in 2013 by $731,387 or 20.1%.
- The Authority's net position increased by $1,028,319 or 75.0% in 2013.
- The Authority reported operating income of $852,913 in 2013. The operating income in 2013 increased by $561,612 or 192.8% over the operating income reported in 2012.
- Net nonoperating revenues increased by $127,778 or 307.8% in 2013.

Using This Annual Report

The Authority's financial statements consist of three statements—a balance sheet; 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 Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet 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 balance sheet 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, all liabilities and all deferred inflows and outflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that 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 it. The Authority's total net position—the difference between assets, liabilities and deferred inflows and outflows of resources—is one measure of 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. Other nonfinancial factors, 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 statement of cash flows 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 balance sheet. The Authority's net position increased by $1,028,319 or 75.0% in 2013 over 2012 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012
Assets		
Cash and cash equivalents	$ 4,048,719	$ 1,564,903
Short-term investments	100,512	538,305
Other current assets	204,465	210,517
Capital assets, net	13,669,050	13,935,235
Other noncurrent assets	225,080	1,540,166
Total assets	$ 18,247,826	$ 17,789,126
Liabilities		
Long-term debt (including current portion)	$ 3,402,202	$ 3,759,189
Other current and noncurrent liabilities	12,446,781	12,659,413
Total liabilities	15,848,983	16,418,602
Net Position		
Net investment in capital assets	10,266,848	10,176,046
Restricted – expendable	130,558	-
Unrestricted	(7,998,563)	(8,805,522)
Total net position	2,398,843	1,370,524
Total liabilities and net position	$ 18,247,826	$ 17,789,126

A significant change in the Authority's assets in 2013 is the increase in cash, cash equivalents and investments. Cash, cash equivalents and investments increased $731,387 or 20.1% primarily due to decreased capital purchases in fiscal year 2013. A significant change in the Authority's 2013 liabilities is the reduction of long-term debt due to the scheduled principal payments on the Authority's long-term debt.

Significant changes in the Authority's balance sheet in 2012 compared to 2011 were the decrease in cash, cash equivalents and investments of $530,370 or 12.7% and the increase in capital assets, net of accumulated depreciation by $669,397 or 5.0%.

Operating Results and Changes in the Authority's Net Position

In 2013, the Authority's net position increased by $1,028,319 or 75.0% as shown in Table 2. This increase is made up of several different components and represents an increase of 207.1% compared with the increase in net position for 2012 of $332,816.

Table 2: Operating Results and Changes in Net Position

	2013	2012
Operating Revenues		
Monthly service fees and patient revenue	$ 8,635,343	$ 8,092,986
Amortization of entrance fees	1,953,754	1,727,526
Other operating revenues	428,249	440,525
Total operating revenues	11,017,346	10,261,037
Operating Expenses		
Medical and resident care	3,393,775	3,292,288
Dietary	1,778,240	1,747,608
General and administrative	3,246,781	3,196,876
Depreciation and amortization	998,987	1,003,046
Other resident services	746,650	729,918
Total operating expenses	10,164,433	9,969,736
Operating Income	852,913	291,301
Nonoperating Revenues (Expenses)		
Investment income	110,668	48,308
Noncapital grants and gifts	182,641	142,747
Interest expense	(124,016)	(149,540)
Total nonoperating revenues (expenses)	169,293	41,515
Excess of Revenues over Expenses	1,022,206	332,816
Capital Grants and Gifts	6,113	-
Increase in Net Position	$ 1,028,319	$ 332,816

Operating Income

The first component of the overall change in the Authority's net position is its operating income or loss—generally, the difference between monthly service fees and patient revenues, amortization of entrance fees and other operating revenues and the expenses incurred to perform those services. In each of the past two years, the Authority has reported operating income.

The operating income for 2013 increased by $561,612 or 192.8% as compared to 2012. The primary components of the increase of operating income are:

- An increase in monthly service fees and patient revenue of $542,357 or 6.7%. This increase is due primarily to an increase in monthly service fee revenue of approximately $375,000.

- An increase in amortization of entrance fees of $226,228 or 13.1%. This increase is due primarily to additional entrance fees received in the current year.

- An increase in medical and resident care expenses of $101,487 or 3.1%. This increase is due primarily to the increased volume in the health center in 2013 compared to 2012.

The operating income in 2012 decreased by $422,396 or 59.2% compared to operating income of $713,697 in 2011. The primary components of the decreased operating income in 2011 were:

- An increase in total operating revenue of $222,582 or 2.2%. The increase is primarily due to an increase in monthly service fees of approximately $222,000.

- An increase in total operating expenses of $644,978 or 6.9%. This increase is primarily due to increases of approximately $155,000 in medical and resident care expenses and approximately $313,000 in other resident services and general and administrative expenses.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, noncapital grants and gifts and interest expense. The Authority recognized an increase in its investment income in 2013 compared to 2012 resulting primarily from gains on sales of investments during the year. The Authority also recognized an increase in its noncapital grants and gifts in 2013 compared to 2012 due to increased giving by donors.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2013 and 2012.

Capital Asset and Debt Administration

Capital Assets

At the end of 2013 and 2012, the Authority had $13,669,050 and $13,935,235, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 3* to the financial statements. In 2013, the Authority made capital improvements and purchased new equipment costing $733,511. In 2012, the Authority made capital improvements and purchased new equipment costing $1,683,024.

Debt

At August 31, 2013 and 2012, the Authority had $3,402,202 and $3,759,189, respectively, in notes payable outstanding, as detailed in *Note 6*. The Authority issued no new debt in 2013 or 2012.

Contacting the Authority's Financial Management

This financial report is designed to provide our 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. Questions about this report and requests for additional financial information should be directed to the Authority's Business Administration by telephoning 405.350.5108.

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Balance Sheets
August 31, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash and cash equivalents	$ 4,048,719	$ 1,564,903
Short-term investments	4,512	538,305
Restricted certificate of deposit – current	96,000	-
Accounts receivable	43,946	67,930
Supplies	40,165	27,043
Prepaid expenses and other	120,354	115,544
Total current assets	4,353,696	2,313,725
Noncurrent Investments	220,730	1,535,366
Capital Assets, Net	13,669,050	13,935,235
Other Assets	4,350	4,800
Total assets	$ 18,247,826	$ 17,789,126

See Note to the Financial Statements

Liabilities and Net Position

	2013	2012
Current Liabilities		
Current maturities of long-term debt	$ 411,174	$ 397,658
Accounts payable	280,214	399,365
Accrued expenses	508,636	353,064
Refundable entrance fees – current	252,000	203,000
Entrance fee deposits	150,392	123,000
Total current liabilities	1,602,416	1,476,087
Long-Term Debt	2,991,028	3,361,531
Refundable Entrance Fees	1,508,599	1,317,324
Deferred Revenue from Entrance Fees	9,746,940	10,263,660
Total liabilities	15,848,983	16,418,602
Net Position		
Net investment in capital assets	10,266,848	10,176,046
Restricted – expendable for		
Specific operating activities	124,445	-
Capital acquisitions	6,113	-
Unrestricted	(7,998,563)	(8,805,522)
Total net position	2,398,843	1,370,524
Total liabilities and net position	$ 18,247,826	$ 17,789,126

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Statements of Revenues, Expenses and Changes in Net Position
Years Ended August 31, 2013 and 2012

	2013	2012
Operating Revenues		
Monthly service fees	$ 7,760,710	$ 7,335,486
Amortization of entrance fees	1,953,754	1,727,526
Patient revenue from nonresidents	874,633	757,500
Other revenue	428,249	440,525
Total operating revenues	11,017,346	10,261,037
Operating Expenses		
Medical and resident care	3,393,775	3,292,288
Dietary	1,778,240	1,747,608
General and administrative	3,246,781	3,196,876
Other resident services	746,650	729,918
Depreciation and amortization	998,987	1,003,046
Total operating expenses	10,164,433	9,969,736
Operating Income	852,913	291,301
Nonoperating Revenues (Expenses)		
Investment income	110,668	48,308
Interest expense	(124,016)	(149,540)
Noncapital grants and gifts	182,641	142,747
Total nonoperating revenues (expenses)	169,293	41,515
Excess of Revenues over Expenses	1,022,206	332,816
Capital Gifts and Grants	6,113	-
Increase in Net Position	1,028,319	332,816
Net Position, Beginning of Year	1,370,524	1,037,708
Net Position, End of Year	$ 2,398,843	$ 1,370,524

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Statements of Cash Flows
Years Ended August 31, 2013 and 2012

	2013	2012
Operating Activities		
Cash received from residents	$ 8,003,361	$ 7,290,249
Proceeds from entrance fees received	1,788,289	1,852,560
Cash received from and on behalf of nonresidents	874,633	757,500
Payments to suppliers and contractors	(3,270,060)	(2,925,495)
Payments to employees	(5,876,897)	(5,853,630)
Other receipts (payments), net	477,699	643,041
Net cash provided by operating activities	1,997,025	1,764,225
Noncapital Financing Activities		
Noncapital grants and gifts	182,641	142,747
Refunds of entrance fees	(351,255)	(277,040)
Net cash used in noncapital financing activities	(168,614)	(134,293)
Capital and Related Financing Activities		
Principal paid on long-term debt	(356,987)	(386,111)
Interest paid on long-term debt	(124,016)	(149,540)
Purchase of capital assets	(733,511)	(1,683,024)
Capital grants and gifts	6,113	-
Proceeds from sale of capital assets	-	10,065
Net cash used in capital and related financing activities	(1,208,401)	(2,208,610)
Investing Activities		
Interest and dividends on investments	110,668	48,308
Net proceeds from sale of investments	1,753,138	1,370,197
Net cash provided by investing activities	1,863,806	1,418,505
Increase in Cash and Cash Equivalents	2,483,816	839,827
Cash and Cash Equivalents, Beginning of Year	1,564,903	725,076
Cash and Cash Equivalents, End of Year	$ 4,048,719	$ 1,564,903

	2013	2012
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	$ 852,913	$ 291,301
Depreciation and amortization	998,987	1,003,046
Loss on disposal of capital assets	-	516
Entrance fees received	1,788,289	1,852,560
Amortization of entrance fees	(1,953,754)	(1,727,526)
Changes in operating assets and liabilities		
Accounts receivable	23,984	262,343
Accounts payable and accrued expenses	112,813	148,707
Other assets and liabilities	173,793	(66,722)
Net cash provided by operating activities	$ 1,997,025	$ 1,764,225

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

Nature of Operations and Reporting Entity

Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village (the Authority) is a public trust which 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 beneficiary, and upon termination of the trust shall distribute any remainder to the beneficiary.

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At August 31, 2013 and 2012, cash equivalents consisted primarily of money market accounts with brokers.

Risk Management

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

Effective January 1, 2013, the Authority is self-insured for a portion of its exposure to risk of loss from workers' compensation claims. Annual estimated provisions are accrued for the self-insured portion of workers' compensation claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable

Accounts receivable are stated at their estimated collectible amount. Uncollectible receivables, if any, are estimated to be immaterial. Receivables are determined to be uncollectible when collection efforts have been exhausted and are written off to expense at that time.

Supplies

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

Capital Assets

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

The following estimated useful lives are being used by the Authority:

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

Compensated Absences

Authority policies permit most employees to accumulate vacation and sick leave 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 vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Workers' Compensation Claims

The Authority recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims. Workers' compensation claims are described more fully in *Note 5*.

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Authority, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Deferred 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 deferred revenue from entrance fees and are amortized into income using the straight-line method over the estimated remaining life expectancy of the resident.

Monthly Service Fees and Patient Revenue from Nonresidents

Monthly service fees represent monthly fees from residents. Patient revenue from nonresidents represents health care service revenue provided to nonresidents.

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 deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (estimated future service obligation) with a corresponding charge to income. As of August 31, 2013 and 2012, there was no estimated future service obligation related to any of the Authority's contracts.

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. Friendship discounts are included in monthly service fees on the accompanying statements of revenues, expenses and changes in net position.

Income Taxes

As an essential government function of the City of Yukon, 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 files tax returns under the U.S. federal jurisdiction. With a few exceptions, the Authority is no longer subject to U.S. federal examinations by tax authorities for years before 2009.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Deposits, Investments and Investment Income

Deposits

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

Pursuant to legislation enacted in 2010, the Federal Deposit Insurance Corporation (FDIC) fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the $250,000 limit on FDIC insurance per covered institution.

At August 31, 2013 and 2012, approximately $1,207,000 and $0 of the Authority's bank balances of approximately $1,802,000 and $1,678,000, respectively, were uninsured and uncollateralized.

Investments

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 in corporate bonds and equity securities.

At August 31, 2013 and 2012, the Authority had the following investments and maturities:

	August 31, 2013				
		Maturities in Years			
Type	Fair Value	Less than 1	1–5	6–10	More than 10
Money market mutual funds	$ 2,534,161	$ 2,534,161	$ -	$ -	$ -
	$ 2,534,161	$ 2,534,161	$ -	$ -	$ -

	August 31, 2012				
		Maturities in Years			
Type	Fair Value	Less than 1	1–5	6–10	More than 10
Money market mutual funds	$ 575,965	$ 575,965	$ -	$ -	$ -
Mutual funds	439,438				
Equities	874,380				
	$ 1,889,783				

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 to ten year maturities. The money market mutual funds are presented as an investment 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. The Authority's investments in money market mutual funds were not rated by Standard & Poor's or Moody's Investors Service.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one issuer. At August 31, 2013, no investments exceeded 5% of the total fair value of its total investments. At August 31, 2012, the following investments were in excess of 5% of the total fair value of the Authority's investments:

Investment	Fair Value	Percent of Total
Schwab U.S. Large-Cap Exchange-Traded Fund (ETF)	$ 171,804	9.09%
Schwab U.S. Large-Cap Growth ETF	$ 267,402	14.15%
Schwab U.S. Large-Cap Value ETF	$ 170,789	9.04%
Schwab U.S. Dividend Equity ETF	$ 264,385	13.99%

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the accompanying balance sheets as follows:

	2013	2012
Carrying value		
Deposits	$ 1,835,300	$ 1,748,291
Investments	2,534,161	1,889,783
Cash on hand	500	500
	$ 4,369,961	$ 3,638,574
Included in the following balance sheets captions		
Cash and cash equivalents	$ 4,048,719	$ 1,564,903
Short-term investments	4,512	538,305
Restricted certificate of deposit – current	96,000	-
Noncurrent investments	220,730	1,535,366
	$ 4,369,961	$ 3,638,574

Investment Income

Investment income for the years ended August 31 consisted of:

	2013	2012
Interest and dividend income	$ 53,567	$ 22,975
Net increase in fair value of investments	57,101	25,333
	$ 110,668	$ 48,308

Note 3: Capital Assets

Capital assets activity for the years ended August 31 was:

2013

	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 385,122	$ -	$ -	$ 385,122
Land improvements	825,024	15,475	-	840,499
Buildings and leasehold improvements	19,814,281	668,199	(25,179)	20,457,301
Furniture, fixtures and equipment	2,962,859	49,837	(2,140)	3,010,556
Vehicles	433,602	-	-	433,602
	24,420,888	733,511	(27,319)	25,127,080
Less accumulated depreciation	10,485,653	998,987	(26,610)	11,458,030
	$ 13,935,235	$ (265,476)	$ (709)	$ 13,669,050

2012

	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 385,122	$ -	$ -	$ 385,122
Land improvements	821,074	3,950	-	825,024
Buildings and leasehold improvements	18,538,172	1,396,607	(120,498)	19,814,281
Furniture, fixtures and equipment	2,735,444	248,001	(20,586)	2,962,859
Vehicles	429,919	34,466	(30,783)	433,602
	22,909,731	1,683,024	(171,867)	24,420,888
Less accumulated depreciation	9,643,893	1,003,046	(161,286)	10,485,653
	$ 13,265,838	$ 679,978	$ (10,581)	$ 13,935,235

Note 4: 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.

Note 5: Workers' Compensation Claims

Effective January 1, 2013, the Authority began to self-insure a portion of its workers' compensation claims. The Authority is self-insured for workers' compensation claims of participating employees up to an annual aggregate amount of $160,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee 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. It is reasonably possible that the Authority's estimate will change by a material amount in the near term.

Activity in the Authority's accrued workers' compensation claims liability during 2013 is summarized as follows:

Balance, beginning of year	$ -
Current year claims incurred and changes in estimates for claims incurred in prior years	67,213
Claims and expenses paid	(22,213)
Balance, end of year	$ 45,000

Note 6: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the years ended August 31:

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable to bank (A)	$ 3,501,855	$ -	$ (330,064)	$ 3,171,791	$ 383,219
Note payable to bank (B)	257,334	-	(26,923)	230,411	27,955
Total long-term debt	3,759,189	-	(356,987)	3,402,202	411,174
Other long-term liabilities					
Refundable entrance fees	1,520,324	491,955	(251,680)	1,760,599	252,000
Total long-term obligations	$ 5,279,513	$ 491,955	$ (608,667)	$ 5,162,801	$ 663,174

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable to bank (A)	$ 3,862,041	$ -	$ (360,186)	$ 3,501,855	$ 370,735
Note payable to bank (B)	283,259	-	(25,925)	257,334	26,923
Total long-term debt	4,145,300	-	(386,111)	3,759,189	397,658
Other long-term liabilities					
Refundable entrance fees	1,347,864	543,808	(371,348)	1,520,324	203,000
Total long-term obligations	$ 5,493,164	$ 543,808	$ (757,459)	$ 5,279,513	$ 600,658

Notes Payable to Bank

(A) Note payable to bank due December 1, 2020, with principal and interest at 3.75% payable monthly. The note is secured by mortgage of the facility and assignment of leases, rents and profits.

The note payable to bank requires the Authority to comply with certain restrictive covenants including minimum insurance coverage, maintaining a historical debt-service coverage ratio of at least 1.25 to 1.00, current ratio of 1.15 to 1.00 and days cash on hand of not less than 90 days.

(B) Note payable to bank due December 15, 2020, with principal and interest at 3.75% payable monthly. The note is secured by mortgage of storage facility and assignment of leases, rents and profits related to the mortgaged facility.

The debt service requirements as of August 31, 2013, are as follows:

Year Ending August 31,	Total to be Paid	Principal	Interest
2014	$ 533,578	$ 411,174	$ 122,404
2015	533,578	427,067	106,511
2016	533,578	443,325	90,253
2017	533,578	460,710	72,868
2018	533,577	478,518	55,059
2019–2021	1,236,762	1,181,408	55,354
	$ 3,904,651	$ 3,402,202	$ 502,449

Note 7: Restricted and Designated Net Position

At August 31, 2013, restricted expendable net position was restricted as follows:

Workers' compensation	$ 96,000
Employee fund	23,977
Capital acquisitions	6,113
Memorial fund	2,636
Other funds	1,832
Total restricted expendable net position	$ 130,558

At August 31, 2013 and 2012, approximately $1,516,000 of unrestricted net position had been designated by the Authority's Board of Trustees for the following purposes:

	2013	2012
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 net position	$ 1,516,000	$ 1,516,000

Designated net position remains under the control of the Board of Trustees, which may at its discretion later use this net position for other purposes.

Note 8: 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 actually made by plan members and the Authority aggregated approximately $87,000 and $34,000 during 2013 and $96,000 and $37,000 during 2012, respectively.

Note 9: Contingencies

Litigation

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

Note 10: Entrance Fees

The Authority currently offers two basic types of residency agreements, no refund 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 up-front 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.

The resident may voluntarily withdraw from a facility upon rendering proper notification. Upon voluntary withdrawal, a repayment of part or all of the entrance fees 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 no refund plans, the entrance fees received are 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 decreased annually from 90% in the first year to 50% in the fifth year and after.

At August 31, 2013 and 2012, $1,760,599 and $1,520,324, respectively, are 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.

BKD LLP
CPAs & Advisors

Two Warren Place // 6120 S. Yale Avenue, Suite 1400 // Tulsa, OK 74136-4223
918.584.2900 // fax 918.584.2931 // bkd.com

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

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, the financial statements of Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village (the Authority), which comprise the balance sheet as of August 31, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 26, 2013.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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, there can be no assurance that all material weaknesses or significant deficiencies have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-1, 2013-2 and 2013-3 to be material weaknesses.

Board of Trustees
Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village

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 2013-4 and 2013-5 to be significant deficiencies.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Responses to the Findings

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

Other Matters

We also noted certain matters that we reported to the Authority's management in a separate letter dated December 26, 2013.

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

BKD, LLP

Tulsa, Oklahoma
December 26, 2013

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Schedule of Findings and Responses
Year Ended August 31, 2013

Reference Number	Finding
2013-1	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.
	Condition – In the resident revenues, accounts receivable and cash receipts transactions cycle, one employee's duties are not adequately segregated to protect the Authority's assets.
	Context – Proper segregation of duties between access to assets, recording transactions and reconciling or monitoring is a key component of an effective system of internal control.
	Effect – Potential material misstatements in the financial statements or misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner.
	Cause – The accounts receivable clerk has access to resident payments and posting responsibility. Duties in the resident revenues, accounts receivable and cash receipts transactions cycle are not adequately segregated and monitoring or other compensating controls are insufficient.
	Recommendation – Management should evaluate the costs versus the benefits of reassigning duties or implementing compensating controls to mitigate this risk.
	Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation and will implement any necessary changes that are cost beneficial within the next year.

Reference Number	Finding
2013-2	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – In the payroll transactions cycle, one employee's duties are not adequately segregated to protect the Authority's assets. Context – Proper segregation of duties between access to assets, recording transactions and reconciling or monitoring is a key component of an effective system of internal control. Effect – Potential material misstatements in the financial statements or misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner. Cause – The accounting manager has the responsibility and access to perform nearly all functions in the payroll transactions cycle. Duties in the payroll transactions cycle are not adequately segregated and monitoring or other compensating controls are insufficient. Recommendation – Management should evaluate the costs versus the benefits of reassigning duties or implementing compensating controls to mitigate this risk. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation and will implement any necessary changes that are cost beneficial within the next year.

Reference Number	Finding
2013-3	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – One employee’s access in the financial reporting software is not adequately segregated to protect the Authority’s assets. Context – Proper segregation of duties between access to assets, recording transactions and reconciling or monitoring is a key component of an effective system of internal control. Effect – Potential material misstatements in the financial statements or misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner. Cause – The chief financial officer has the ability and access to perform nearly all functions in all the financial reporting transactions cycles. Duties in the financial reporting transactions cycles are not adequately segregated and monitoring or other compensating controls are insufficient. Recommendation – Management should evaluate the costs versus the benefits of reassigning duties or implementing compensating controls to mitigate this risk. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation and will implement any necessary changes that are cost beneficial within the next year.

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Schedule of Findings and Responses, continued
Year Ended August 31, 2013

Reference Number	Finding
2013-4	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.
	Condition – In the resident revenues, accounts receivable and cash receipts transactions cycle, one employee's duties are not adequately segregated to protect the Authority's assets.
	Context – Proper segregation of duties between access to assets, recording transactions and reconciling or monitoring is a key component of an effective system of internal control.
	Effect – Potential material misstatements in the financial statements or misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner.
	Cause – The payroll clerk has access to resident payments and posting responsibility. Duties in the resident revenues, accounts receivable and cash receipts transactions cycle are not adequately segregated and monitoring or other compensating controls are insufficient.
	Recommendation – Management should evaluate the costs versus the benefits of reassigning duties or implementing compensating controls to mitigate this risk.
	Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation and will implement any necessary changes that are cost beneficial within the next year.

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Schedule of Findings and Responses, continued
Year Ended August 31, 2013

Reference Number	Finding
2013-5	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – Several adjusting journal entries were required to correct material misstatements in the accompanying financial statements. Context – Errors existed in several balance sheet accounts related to errors in reconciliations, improper application of accounting principles and estimates being materially misstated. Effect – Potential material adjustments could be made to the financial statements previously presented to the Board of Trustees. Cause – The reconciliation and review processes in place were not sufficient to properly state balances, including capital assets, long-term debt and accrued liabilities. Recommendation – Management should revise the monthly procedures of evaluation and reconciliation of the general ledger accounts and underlying supporting documents and computing estimates. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and will perform the evaluation and implement corrections that are considered cost-effective within the next year.