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

Independent Auditor's Reports and Financial Statements

August 31, 2015 and 2014

BKD LLP
CPAs & Advisors

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
August 31, 2015 and 2014

Contents

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Independent Auditor's Report

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 balance sheets of Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village (the Authority), as of August 31, 2015 and 2014, 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 basic 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 audits. We conducted our audits 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 financial position of Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village as of August 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 4, 2015, 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 4, 2015

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Management's Discussion and Analysis
Years Ended August 31, 2015 and 2014

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, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- The Authority's buildings received hail damage in May 2015 primarily affecting the roofs. The Authority had insurance coverage in place for the buildings to cover the repairs necessary related to the hail damage. See *Note 4* for additional information.
- Cash and investments increased in 2015 by $225,987 or 5.3% and decreased in 2014 by $141,484 or 3.2%.
- The Authority's net position increased by $1,235,674 or 38.5% and $808,126 or 33.7% in 2015 and 2014, respectively.
- The Authority reported operating income of $588,003 and $633,870 in 2015 and 2014, respectively. The operating income in 2015 decreased by $45,867 or 7.2% over the operating income reported in 2014. The operating income in 2014 decreased by $219,043 or 25.7% over the operating income reported in 2013.
- Net nonoperating revenues increased by $494,172 or 354.8% in 2015 and decreased by $30,014 or 17.7% in 2014.

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 and all liabilities 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 and liabilities—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 $1,235,674 or 38.5% in 2015 over 2014, and by $808,126 or 33.7% in 2014 over 2013 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2015	2014	2013
Assets			
Cash and cash equivalents	$ 4,215,831	$ 2,333,928	$ 4,048,719
Short-term investments	96,578	191,337	100,512
Other current assets	825,786	296,911	204,465
Capital assets, net	14,786,287	14,271,609	13,669,050
Other noncurrent assets	147,155	1,707,712	225,080
Total assets	$ 20,071,637	$ 18,801,497	$ 18,247,826
Liabilities			
Long-term debt (including current portion)	$ 2,561,530	$ 2,956,418	$ 3,402,202
Other current and noncurrent liabilities	13,067,464	12,638,110	12,446,781
Total liabilities	15,628,994	15,594,528	15,848,983
Net Position			
Net investment in capital assets	12,224,757	11,231,950	10,266,848
Restricted – expendable	175,537	172,115	130,558
Unrestricted	(7,957,651)	(8,197,096)	(7,998,563)
Total net position	4,442,643	3,206,969	2,398,843
Total liabilities and net position	$ 20,071,637	$ 18,801,497	$ 18,247,826

Significant changes in the Authority's assets in 2015 are the increase in other current assets and capital assets, net. Other current assets increased primarily due to approximately $394,000 of entrance fees receivable at August 31, 2015, and an increase of approximately $132,000 in accounts receivable related to the Authority's Medicare residents. The Authority became certified for Medicare in March 2014, but did not see a significant volume of Medicare residents until fiscal year 2015. Capital assets, net increased by $514,678 or 3.6% as discussed in the *Capital Assets* section below. Significant changes in the Authority's 2015 liabilities are the increase in accounts payable of $261,185 or 69.3% and the reduction of long-term debt of $394,888 or 13.4%. The increase in accounts payable is due primarily to unpaid roof repairs related to the hail damage. The decrease in long-term debt is due to the scheduled principal payments on the Authority's long-term debt.

A significant change in the Authority's assets in 2014 is the increase in capital assets, net. Capital assets, net increased by $602,559 or 4.4% as discussed in the *Capital Assets* section below. A significant change in the Authority's 2014 liabilities is the reduction of long-term debt of $445,784 or 13.1%. This decrease is due to the scheduled principal payments on the Authority's long-term debt.

Operating Results and Changes in the Authority's Net Position

In 2015, the Authority's net position increased by $1,235,674 or 38.5% as shown in Table 2. This increase is made up of several different components and represents an increase of 52.9% compared with the increase in net position for 2014 of $808,126. The Authority's change in net position decreased from $1,028,319 in 2013 to $808,126 in 2014, a decrease of 21.4%.

Table 2: Operating Results and Changes in Net Position

	2015	2014	2013
Operating Revenues			
Monthly service fees and patient revenue	$ 9,520,532	$ 8,964,947	$ 8,635,343
Amortization of entrance fees	1,776,098	1,762,880	1,953,754
Other operating revenues	493,588	474,338	428,249
Total operating revenues	11,790,218	11,202,165	11,017,346
Operating Expenses			
Medical and resident care	3,806,295	3,489,222	3,393,775
Dietary	1,931,222	1,844,741	1,778,240
General and administrative	3,553,456	3,442,424	3,246,781
Depreciation	1,137,648	1,047,069	998,987
Other resident services	773,594	744,839	746,650
Total operating expenses	11,202,215	10,568,295	10,164,433
Operating Income	588,003	633,870	852,913
Nonoperating Revenues (Expenses)			
Investment income (loss)	(54,472)	115,938	110,668
Noncapital grants and gifts	155,890	152,590	182,641
Interest expense	(100,676)	(129,249)	(124,016)
Gain from insurance proceeds, net of asset impairment	632,709	-	-
Total nonoperating revenues (expenses)	633,451	139,279	169,293
Excess of Revenues over Expenses	1,221,454	773,149	1,022,206
Capital Grants and Gifts	14,220	34,977	6,113
Increase in Net Position	$ 1,235,674	$ 808,126	$ 1,028,319

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, patient revenues, amortization of entrance fees and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Authority has reported operating income.

The operating income for 2015 decreased by $45,867 or 7.2% as compared to 2014. The primary components of the decrease in operating income are:

- An increase in monthly service fees and patient revenue of $555,585 or 6.2%. This increase is due primarily to a 4.7% rate increase in fiscal year 2015 for monthly service fees and additional revenues from Medicare certification received in March 2014

- An increase in medical and resident care expense of $317,073 or 9.1%. This increase is due primarily to additional costs related to Medicare patient services

- An increase in general and administrative expenses of $111,032 or 3.2%. This increase is due primarily to regular wage increases and increased utilization of outside professional services during the year

The operating income for 2014 decreased by $219,043 or 25.7% as compared to 2013. The primary components of the decrease in operating income are:

- An increase in monthly service fees and patient revenue of $329,604 or 3.8%. This increase is due primarily to a 5% rate increase in fiscal year 2014 for monthly service fees and additional revenues from Medicare certification received in March 2014

- A decrease in amortization of entrance fees of $190,874 or 9.8%. This decrease is due primarily to reduced termination revenue on entrance fees in fiscal year 2014

- An increase in general and administrative expenses of $195,643 or 6.0%. This increase is due primarily to regular wage increases and increased utilization of outside professional services during the year

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, noncapital grants and gifts, interest expense and gain from insurance proceeds, net of asset impairment. The Authority recognized a decrease in its investment income of $170,410 or 147.0% in 2015 compared to 2014 resulting primarily from a change in the types of investments held in 2015 as compared to 2014 and declining market returns. The Authority also recognized a gain from insurance proceeds of $632,709 related to a property damage claim. See *Note 4* for additional information.

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 2015 and 2014, except for cash in capital and related financing activities in 2015 due to the increase in capital asset purchases and the insurance proceeds for property damage.

Capital Assets and Debt Administration

Capital Assets

At the end of 2015 and 2014, the Authority had $14,786,287 and $14,271,609, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 4* to the financial statements. In 2015, the Authority made capital improvements and purchased new equipment costing $1,965,605. In 2014, the Authority made capital improvements and purchased new equipment costing $1,660,619.

Debt

At August 31, 2015 and 2014, the Authority had $2,561,530 and $2,956,418, respectively, in notes payable outstanding, as detailed in *Note 8*. The Authority issued no new debt in 2015. The Authority issued a new revolving line of credit during 2014 with an outstanding balance of $83,241 at August 31, 2014, as detailed in *Note 7*.

Contacting the Authority's Financial Management

This financial report is designed to provide 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, 2015 and 2014

Assets

	2015	2014
Current Assets		
Cash and cash equivalents	$ 4,215,831	$ 2,333,928
Short-term investments	-	95,000
Restricted certificate of deposit – current	96,578	96,337
Accounts receivable	276,134	155,884
Entrance fees receivable	394,286	-
Supplies	30,686	40,069
Prepaid expenses and other	124,680	100,958
Total current assets	5,138,195	2,822,176
Noncurrent Investments	142,055	1,703,212
Capital Assets, Net	14,786,287	14,271,609
Other Assets	5,100	4,500
Total assets	$ 20,071,637	$ 18,801,497

Liabilities and Net Position

	2015	2014
Current Liabilities		
Line of credit	$ -	$ 83,241
Current maturities of long-term debt	444,660	428,352
Accounts payable	638,024	376,839
Accrued expenses	636,754	614,701
Refundable entrance fees – current	320,000	355,000
Entrance fee deposits	122,102	161,276
Total current liabilities	2,161,540	2,019,409
Long-Term Debt	2,116,870	2,528,066
Refundable Entrance Fees	1,438,151	1,532,018
Deferred Revenue from Entrance Fees	9,912,433	9,515,035
Total liabilities	15,628,994	15,594,528
Net Position		
Net investment in capital assets	12,224,757	11,231,950
Restricted – expendable for		
Specific operating activities	122,447	131,025
Capital acquisitions	53,090	41,090
Unrestricted	(7,957,651)	(8,197,096)
Total net position	4,442,643	3,206,969
Total liabilities and net position	$ 20,071,637	$ 18,801,497

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Statements of Revenues, Expenses and Changes in Net Position
Years Ended August 31, 2015 and 2014

	2015	2014
Operating Revenues		
Monthly service fees	$ 8,763,278	$ 8,060,043
Amortization of entrance fees	1,776,098	1,762,880
Patient revenue from nonresidents	757,254	904,904
Other revenue	493,588	474,338
Total operating revenues	11,790,218	11,202,165
Operating Expenses		
Medical and resident care	3,806,295	3,489,222
Dietary	1,931,222	1,844,741
General and administrative	3,553,456	3,442,424
Other resident services	773,594	744,839
Depreciation	1,137,648	1,047,069
Total operating expenses	11,202,215	10,568,295
Operating Income	588,003	633,870
Nonoperating Revenues (Expenses)		
Investment income (loss)	(54,472)	115,938
Interest expense	(100,676)	(129,249)
Gain from insurance proceeds, net of asset impairment	632,709	-
Noncapital grants and gifts	155,890	152,590
Total nonoperating revenues (expenses)	633,451	139,279
Excess of Revenues over Expenses	1,221,454	773,149
Capital Grants and Gifts	14,220	34,977
Increase in Net Position	1,235,674	808,126
Net Position, Beginning of Year	3,206,969	2,398,843
Net Position, End of Year	$ 4,442,643	$ 3,206,969

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Statements of Cash Flows
Years Ended August 31, 2015 and 2014

	2015	2014
Operating Activities		
Cash received from residents	$ 8,603,854	$ 7,958,989
Proceeds from entrance fees received	1,982,354	1,966,374
Cash received from and on behalf of nonresidents	757,254	904,904
Payments to suppliers and contractors	(3,483,232)	(3,198,791)
Payments to employees	(6,615,879)	(6,089,262)
Other receipts, net	492,988	474,188
Net cash provided by operating activities	1,737,339	2,016,402
Noncapital Financing Activities		
Noncapital grants and gifts	155,890	152,590
Refunds of entrance fees	(197,887)	(308,980)
Net cash used in noncapital financing activities	(41,997)	(156,390)
Capital and Related Financing Activities		
Principal paid on long-term debt	(394,888)	(445,784)
Interest paid on long-term debt	(100,676)	(129,249)
Proceeds from issuance of line of credit	-	83,241
Principal paid on line of credit	(83,241)	-
Purchase of capital assets	(1,796,289)	(1,660,619)
Insurance proceeds from hail damage	945,991	-
Capital grants and gifts	14,220	34,977
Net cash used in capital and related financing activities	(1,414,883)	(2,117,434)
Investing Activities		
Interest and dividends on investments	7,873	6,157
Purchase of investments	(142,296)	(1,794,037)
Proceeds from sale of investments	1,735,867	330,511
Net cash provided by (used in) investing activities	1,601,444	(1,457,369)
Increase (Decrease) in Cash and Cash Equivalents	1,881,903	(1,714,791)
Cash and Cash Equivalents, Beginning of Year	2,333,928	4,048,719
Cash and Cash Equivalents, End of Year	$ 4,215,831	$ 2,333,928

	2015	2014
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities		
Operating income	$ 588,003	$ 633,870
Depreciation	1,137,648	1,047,069
Loss on disposal of capital assets	-	10,991
Entrance fees received	1,982,354	1,966,374
Amortization of entrance fees	(1,776,098)	(1,762,880)
Changes in operating assets and liabilities		
Accounts receivable	(120,253)	(111,938)
Accounts payable and accrued expenses	(59,376)	213,574
Other assets and liabilities	(14,939)	19,342
Net cash provided by operating activities	$ 1,737,339	$ 2,016,402
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	$ 169,316	$ -
Entrance fee refunds included in accounts payable	$ 134,124	$ -

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 and liabilities 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, 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 and liabilities 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, 2015 and 2014, 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 than those related to workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and residents. 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 Medicare 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.

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 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 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 6*.

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.

Net Patient Service Revenue

The Authority has agreements with third-party payers, such as Medicare, that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

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. 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.

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, 2015 and 2014, there was no estimated future service obligation related to 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.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on the change in net 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.

At August 31, 2015 and 2014, none of the Authority's bank balances of approximately $325,000 and $353,000, 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, 2015 and 2014, the Authority had the following investments and maturities:

	August 31, 2015				
		Maturities in Years			
Type	Fair Value	Less than 1	1–5	6–10	More than 10
Money market mutual funds	$ 4,038,299	$ 4,038,299	$ -	$ -	$ -

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Notes to Financial Statements
August 31, 2015 and 2014

		August 31, 2014			
		Maturities in Years			
Type	Fair Value	Less than 1	1–5	6–10	More than 10
Money market mutual funds	$ 2,188,557	$ 2,188,557	$ -	$ -	$ -
Equities	1,562,051				
	$ 3,750,608				

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 10-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, 2015, no investments exceeded 5% of the total fair value of its total investments. At August 31, 2014, 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 Growth ETF (SCHG)	$ 213,152	5.28%
Guggenheim ETF – S&P 500 Equal Wt Index (RSP)	$ 210,711	5.22%
Schwab U.S. Mid-Cap ETF (SCHM)	$ 209,528	5.19%
Schwab U.S. Dividend Equity ETF (SCHD)	$ 208,737	5.17%
Guggenheim ETF – Russell Top 50 Index (XLG)	$ 208,332	5.16%

Summary of Carrying Values

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

	2015	2014
Carrying value		
Deposits	$ 415,665	$ 477,369
Investments	4,038,299	3,750,608
Cash on hand	500	500
	$ 4,454,464	$ 4,228,477
Included in the following balance sheet captions		
Cash and cash equivalents	$ 4,215,831	$ 2,333,928
Short-term investments	-	95,000
Restricted certificate of deposit – current	96,578	96,337
Noncurrent investments	142,055	1,703,212
	$ 4,454,464	$ 4,228,477

Investment Income

Investment income for the years ended August 31 consisted of:

	2015	2014
Interest and dividend income	$ 7,873	$ 6,157
Net increase (decrease) in fair value of investments	(62,345)	109,781
	$ (54,472)	$ 115,938

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Notes to Financial Statements
August 31, 2015 and 2014

Note 3: Accounts Receivable

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. The accounts receivable at August 31 consisted of:

	2015	2014
Medicare	$ 202,624	$ 70,129
Patients and other third-party payers	73,510	85,755
	$ 276,134	$ 155,884

Note 4: Capital Assets

Capital assets activity for the years ended August 31 was:

	2015			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 385,122	$ -	$ -	$ 385,122
Land improvements	851,403	53,467	-	904,870
Buildings and leasehold improvements	21,966,666	1,855,576	(556,092)	23,266,150
Furniture, fixtures and equipment	2,985,701	56,562	(41,020)	3,001,243
Vehicles	458,920	-	-	458,920
	26,647,812	1,965,605	(597,112)	28,016,305
Less accumulated depreciation	12,376,203	1,137,648	(283,833)	13,230,018
	$ 14,271,609	$ 827,957	$ (313,279)	$ 14,786,287

	2014			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 385,122	$ -	$ -	$ 385,122
Land improvements	840,499	17,464	(6,560)	851,403
Buildings and leasehold improvements	20,457,301	1,516,705	(7,340)	21,966,666
Furniture, fixtures and equipment	3,010,556	101,132	(125,987)	2,985,701
Vehicles	433,602	25,318	-	458,920
	25,127,080	1,660,619	(139,887)	26,647,812
Less accumulated depreciation	11,458,030	1,047,069	(128,896)	12,376,203
	$ 13,669,050	$ 613,550	$ (10,991)	$ 14,271,609

For the year ended August 31, 2015, the Authority recorded an impairment of assets related to hail damage sustained to its buildings in May 2015 of approximately $313,000 and received estimated insurance proceeds of approximately $946,000 related to those assets. The resulting $633,000 gain on insurance proceeds, net of asset impairment is reflected as a component of nonoperating income in the accompanying 2015 statement of revenues, expenses and changes in net position. The work to replace damaged components of the buildings related to this property damage claim was completed in August 2015.

Note 5: 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 6: 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 $125,000. 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 balance sheets. It is reasonably possible 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 2015 and 2014 is summarized as follows:

	2015	2014
Balance, beginning of year	$ 90,000	$ 45,000
Current year claims incurred and changes in estimates for claims incurred in prior years	8,986	106,380
Claims and expenses paid	(78,986)	(61,380)
Balance, end of year	$ 20,000	$ 90,000

Note 7: Line of Credit

In August 2014, the Authority obtained a $450,000 revolving line of credit expiring in August 2015. At August 31, 2014, there was $83,241 borrowed against the line which was paid in full at maturity with no additional draws during 2015. The line was collateralized by mortgage of rental property and assignment of all rents related to the mortgaged property. Interest was payable monthly at 4.25%.

Note 8: Long-Term Obligations

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

2015	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable to bank (A)	$ 2,753,960	$ -	$ (365,867)	$ 2,388,093	$ 414,548
Note payable to bank (B)	202,458	-	(29,021)	173,437	30,112
Total long-term debt	2,956,418	-	(394,888)	2,561,530	444,660
Refundable entrance fees	1,887,018	328,335	(457,202)	1,758,151	320,000
Total long-term obligations	$ 4,843,436	$ 328,335	$ (852,090)	$ 4,319,681	$ 764,660

2014	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable to bank (A)	$ 3,171,791	$ -	$ (417,831)	$ 2,753,960	$ 399,331
Note payable to bank (B)	230,411	-	(27,953)	202,458	29,021
Total long-term debt	3,402,202	-	(445,784)	2,956,418	428,352
Refundable entrance fees	1,760,599	556,359	(429,940)	1,887,018	355,000
Total long-term obligations	$ 5,162,801	$ 556,359	$ (875,724)	$ 4,843,436	$ 783,352

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 maintaining minimum insurance coverage, a historical debt service coverage ratio of at least 1.25 to 1.00, a 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 the storage facility and assignment of leases, rents and profits related to the mortgaged storage facility.

The debt service requirements as of August 31, 2015, are as follows:

Year Ending August 31,	Total to be Paid	Principal	Interest
2016	$ 533,578	$ 444,660	$ 88,918
2017	533,578	462,097	71,481
2018	533,578	479,959	53,619
2019	533,578	498,511	35,067
2020	533,578	517,764	15,814
2021	167,145	158,539	8,606
	$ 2,835,035	$ 2,561,530	$ 273,505

Note 9: Restricted and Designated Net Position

Restricted expendable net position was available for the following purposes as of August 31:

	2015	2014
Workers' compensation	$ 97,000	$ 96,000
Employee fund	25,447	35,025
Capital acquisitions	53,090	41,090
Total restricted expendable net position	$ 175,537	$ 172,115

Approximately $1,516,000 of unrestricted net position was designated by the Authority's Board of Trustees for the following purposes as of August 31:

	2015	2014
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 10: 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. Contribution rates for plan members and the Authority, expressed as a percentage of covered payroll, were 3% and 1% for 2015 and 2014, respectively. Contributions actually made by plan members and the Authority aggregated approximately $164,000 and $56,000 during 2015 and $96,000 and $35,000 during 2014, respectively.

Note 11: 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 12: 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 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 nonrefundable 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 decreases annually from 90% in the first year to 50% in the fifth year and after.

At August 31, 2015 and 2014, $1,758,151 and $1,887,018, 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.

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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 basic 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, 2015, 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 4, 2015.

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 a significant deficiency.

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 2015-1, 2015-2, 2015-3 and 2015-4 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 deficiency described in the accompanying schedule of findings and responses as item 2015-5 to be a significant deficiency.

Compliance and Other Matters

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.

We also noted certain matters that we reported to the Authority's management in a separate letter dated December 4, 2015.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
December 4, 2015

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Schedule of Findings and Responses
Year Ended August 31, 2015

Reference Number	Finding
2015-1	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
2015-2	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 accounting supervisor has access to perform all functions in the resident revenues, accounts receivable and cash receipts transactions cycle. 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
2015-3	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – One employee's access to 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.

Reference Number	Finding
2015-4	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – Management's procedures for recording and classifying transactions and preparing general ledger reconciliations did not prevent inaccurate recording of transactions. Context – Material journal entries were required to correct misstatements not identified or corrected by management. These journal entries were primarily due to a lack of regular reconciliation of the subledger for Medicare accounts receivable and related revenue. 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 – Reconciling procedures related to Medicare accounts receivable and related revenue were not being performed on a timely basis. Recommendation – Management should ensure controls are adequate to properly record accounting entries, including timely reconciliation of the subledgers to the general ledger and ensuring monthly general ledger reconciliations are completed timely and accurately. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation and will take steps to evaluate the current internal controls over the recording and classification of accounting transactions and prepare accurate reconciliations regularly, including resolving any variances.

Reference Number	Finding
2015-5	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.