

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

Independent Auditor's Reports and Financial Statements

August 31, 2016 and 2015



**Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
August 31, 2016 and 2015**

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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, 2016 and 2015, 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 the Authority as of August 31, 2016 and 2015, 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 November 21, 2016, 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
November 21, 2016

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

Management's Discussion and Analysis Years Ended August 31, 2016 and 2015

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, 2016 and 2015. 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 2016 by \$531,529 or 11.9% and in 2015 by \$225,987 or 5.3%.
- The Authority's net position increased by \$491,353 or 11.1% and \$1,235,674 or 38.5% in 2016 and 2015, respectively.
- The Authority reported operating income of \$265,822 and \$588,003 in 2016 and 2015, respectively. The operating income in 2016 decreased by \$322,181 or 54.8% over the operating income reported in 2015. The operating income in 2015 decreased by \$45,867 or 7.2% over the operating income reported in 2014.
- Net nonoperating revenues decreased by \$407,920 or 64.4% in 2016 and increased by \$494,172 or 354.8% in 2015.

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 \$491,353 or 11.1% in 2016 over 2015 and by \$1,235,674 or 38.5% in 2015 over 2014 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2016	2015	2014
Assets			
Cash and cash equivalents	\$ 2,445,325	\$ 4,215,831	\$ 2,333,928
Short-term investments	853,761	96,578	191,337
Other current assets	692,095	825,786	296,911
Capital assets, net	15,248,223	14,786,287	14,271,609
Other noncurrent assets	1,692,007	147,155	1,707,712
	<u>\$ 20,931,411</u>	<u>\$ 20,071,637</u>	<u>\$ 18,801,497</u>
Liabilities			
Long-term debt (including current portion)	\$ 2,670,875	\$ 2,561,530	\$ 2,956,418
Other current and noncurrent liabilities	13,326,540	13,067,464	12,638,110
	<u>15,997,415</u>	<u>15,628,994</u>	<u>15,594,528</u>
Net Position			
Net investment in capital assets	12,577,348	12,224,757	11,231,950
Restricted – expendable	178,228	175,537	172,115
Unrestricted	<u>(7,821,580)</u>	<u>(7,957,651)</u>	<u>(8,197,096)</u>
	<u>4,933,996</u>	<u>4,442,643</u>	<u>3,206,969</u>
	<u>\$ 20,931,411</u>	<u>\$ 20,071,637</u>	<u>\$ 18,801,497</u>

A significant change in the Authority’s assets in 2016 are the increase in cash and investments of \$531,529 or 11.9% due to expanding Medicare services during 2016. A significant change in the Authority’s 2016 liabilities is the decrease in accounts payable of \$188,542 or 29.6% due to unpaid roof repairs included in the 2015 accounts payable balance that did not recur.

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.

Operating Results and Changes in the Authority's Net Position

In 2015, the Authority's net position increased by \$491,353 or 11.1% as shown in Table 2. This increase is made up of several different components and represents a decrease of 60.2% compared with the increase in net position for 2015 of \$1,235,674. The Authority's change in net position increased from \$808,126 in 2014 to \$1,235,674 in 2015, an increase of 52.9%.

Table 2: Operating Results and Changes in Net Position

	2016	2015	2014
Operating Revenues			
Monthly service fees and patient revenue	\$ 9,535,981	\$ 9,520,532	\$ 8,964,947
Amortization of entrance fees	1,578,126	1,776,098	1,762,880
Other operating revenues	<u>837,652</u>	<u>493,588</u>	<u>474,338</u>
Total operating revenues	<u>11,951,759</u>	<u>11,790,218</u>	<u>11,202,165</u>
Operating Expenses			
Medical and resident care	4,099,260	3,806,295	3,489,222
Dietary	1,917,363	1,931,222	1,844,741
General and administrative	3,707,065	3,553,456	3,442,424
Depreciation	1,206,578	1,137,648	1,047,069
Other resident services	<u>755,671</u>	<u>773,594</u>	<u>744,839</u>
Total operating expenses	<u>11,685,937</u>	<u>11,202,215</u>	<u>10,568,295</u>
Operating Income	<u>265,822</u>	<u>588,003</u>	<u>633,870</u>
Nonoperating Revenues (Expenses)			
Investment income (loss)	36,385	(54,472)	115,938
Noncapital grants and gifts	294,666	155,890	152,590
Interest expense	(105,520)	(100,676)	(129,249)
Gain from insurance proceeds, net of asset impairment	<u>-</u>	<u>632,709</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>225,531</u>	<u>633,451</u>	<u>139,279</u>
Excess of Revenues over Expenses	491,353	1,221,454	773,149
Capital Grants and Gifts	<u>-</u>	<u>14,220</u>	<u>34,977</u>
Increase in Net Position	<u>\$ 491,353</u>	<u>\$ 1,235,674</u>	<u>\$ 808,126</u>

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 2016 decreased by \$322,181 or 54.8% as compared to 2015. The primary components of the decrease in operating income are:

- A decrease in the amortization of entrance fees of \$197,972 or 11.2%. This decrease is due primarily to increases in life expectancies of residents and fewer new entrance fees
- An increase in other operating revenues of \$344,064 or 69.7%. This increase is due primarily to the rental of several new apartments and houses by the Authority to nonresidents
- An increase in medical and resident care expense of \$292,965 or 7.7%. This increase is due primarily to the increasing census for Medicare patients
- An increase in general and administrative expenses of \$153,609 or 4.3%. This increase is due primarily to regular wage increases and increased utilization of outside professional services during the year

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

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 an increase in its investment income of \$90,857 or 166.8% in 2016 compared to 2015 resulting primarily from a change in the types of investments held in 2016 as compared to 2015 and improving market returns. The Authority recognized an increase in its noncapital grants and gifts of \$138,776 or 89.0% in 2016 compared to 2015 primarily from a one-time estate contribution received during the year. The Authority also recognized a gain from insurance proceeds of \$632,709 related to a property damage claim in 2015 that did not recur in 2016. See *Note 4* for additional information.

The Authority's Cash Flows

Cash flows generated from operating income and nonoperating revenues and expenses for 2016 and 2015 were used to fund capital asset additions, and excess cash on hand was transferred to the Authority's investment portfolio.

Capital Assets and Debt Administration

Capital Assets

At the end of 2016 and 2015, the Authority had \$15,248,223 and \$14,786,287, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 4* to the financial statements. In 2016, the Authority made capital improvements and purchased new equipment costing \$1,680,183. In 2015, the Authority made capital improvements and purchased new equipment costing \$1,965,605.

Debt

At August 31, 2016 and 2015, the Authority had \$2,670,875 and \$2,561,530, respectively, in notes payable outstanding, as detailed in *Note 7*. The Authority issued a new note payable to bank during 2016 for \$600,000, as detailed in *Note 7*. The Authority issued no new debt in 2015.

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, 2016 and 2015

Assets

	2016	2015
Current Assets		
Cash and cash equivalents	\$ 2,445,325	\$ 4,215,831
Short-term investments	757,183	-
Restricted certificate of deposit – current	96,578	96,578
Accounts receivable	256,151	276,134
Entrance fees receivable	234,854	394,286
Supplies	33,709	30,686
Prepaid expenses and other	167,381	124,680
Total current assets	3,991,181	5,138,195
Noncurrent Investments	1,686,907	142,055
Capital Assets, Net	15,248,223	14,786,287
Other Assets	5,100	5,100
Total assets	\$ 20,931,411	\$ 20,071,637

Liabilities and Net Position

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Current maturities of long-term debt	\$ 456,678	\$ 444,660
Accounts payable	449,482	638,024
Accrued expenses	698,549	636,754
Refundable entrance fees – current	243,000	320,000
Entrance fee deposits	<u>116,684</u>	<u>122,102</u>
Total current liabilities	1,964,393	2,161,540
Long-Term Debt	2,214,197	2,116,870
Refundable Entrance Fees	1,675,582	1,438,151
Deferred Revenue from Entrance Fees	<u>10,143,243</u>	<u>9,912,433</u>
Total liabilities	<u>15,997,415</u>	<u>15,628,994</u>
Net Position		
Net investment in capital assets	12,577,348	12,224,757
Restricted – expendable for		
Specific operating activities	124,238	122,447
Capital acquisitions	53,990	53,090
Unrestricted	<u>(7,821,580)</u>	<u>(7,957,651)</u>
Total net position	<u>4,933,996</u>	<u>4,442,643</u>
Total liabilities and net position	<u>\$ 20,931,411</u>	<u>\$ 20,071,637</u>

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Statements of Revenues, Expenses and Changes in Net Position
Years Ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Monthly service fees	\$ 9,013,604	\$ 8,763,278
Amortization of entrance fees	1,578,126	1,776,098
Patient revenue from nonresidents	522,377	757,254
Other revenue	837,652	493,588
	<u>11,951,759</u>	<u>11,790,218</u>
Operating Expenses		
Medical and resident care	4,099,260	3,806,295
Dietary	1,917,363	1,931,222
General and administrative	3,707,065	3,553,456
Other resident services	755,671	773,594
Depreciation	1,206,578	1,137,648
	<u>11,685,937</u>	<u>11,202,215</u>
	<u>265,822</u>	<u>588,003</u>
Operating Income		
Nonoperating Revenues (Expenses)		
Investment income (loss)	36,385	(54,472)
Interest expense	(105,520)	(100,676)
Gain from insurance proceeds, net of asset impairment	-	632,709
Noncapital grants and gifts	294,666	155,890
	<u>225,531</u>	<u>633,451</u>
	<u>491,353</u>	<u>1,221,454</u>
Excess of Revenues over Expenses		
	<u>-</u>	<u>14,220</u>
Capital Grants and Gifts		
	<u>491,353</u>	<u>1,235,674</u>
Increase in Net Position		
	<u>4,442,643</u>	<u>3,206,969</u>
Net Position, Beginning of Year		
	<u>\$ 4,933,996</u>	<u>\$ 4,442,643</u>
Net Position, End of Year		

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

**Statements of Cash Flows
Years Ended August 31, 2016 and 2015**

	2016	2015
Operating Activities		
Cash received from residents	\$ 9,028,169	\$ 8,603,854
Proceeds from entrance fees received	2,094,323	1,982,354
Cash received from and on behalf of nonresidents	522,377	757,254
Payments to suppliers and contractors	(3,528,825)	(3,483,232)
Payments to employees	(6,976,594)	(6,615,879)
Other receipts, net	837,652	492,988
	<u>1,977,102</u>	<u>1,737,339</u>
Noncapital Financing Activities		
Noncapital grants and gifts	294,666	155,890
Refunds of entrance fees	(27,022)	(197,887)
	<u>267,644</u>	<u>(41,997)</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(490,655)	(394,888)
Interest paid on long-term debt	(105,520)	(100,676)
Proceeds from issuance of long-term debt	600,000	-
Principal paid on line of credit	-	(83,241)
Purchase of capital assets	(1,771,340)	(1,796,289)
Insurance proceeds from hail damage	-	945,991
Capital grants and gifts	-	14,220
Proceeds from sale of capital assets	17,913	-
	<u>(1,749,602)</u>	<u>(1,414,883)</u>
Investing Activities		
Interest and dividends on investments, net of fees	(13,486)	7,873
Purchase of investments	(2,827,790)	(142,296)
Proceeds from sale of investments	575,626	1,735,867
	<u>(2,265,650)</u>	<u>1,601,444</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,770,506)	1,881,903
Cash and Cash Equivalents, Beginning of Year	4,215,831	2,333,928
Cash and Cash Equivalents, End of Year	\$ 2,445,325	\$ 4,215,831

See Notes to Financial Statements

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 265,822	\$ 588,003
Depreciation	1,206,578	1,137,648
Gain on disposal of capital assets	(6,242)	-
Entrance fees received	2,094,323	1,982,354
Amortization of entrance fees	(1,578,126)	(1,776,098)
Changes in operating assets and liabilities		
Accounts receivable	19,983	(120,253)
Accounts payable and accrued expenses	20,488	(59,376)
Other assets and liabilities	(45,724)	(14,939)
	<u>\$ 1,977,102</u>	<u>\$ 1,737,339</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 78,161	\$ 169,316
Entrance fee refunds included in accounts payable	\$ 72,626	\$ 134,124

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

Notes to Financial Statements

August 31, 2016 and 2015

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 City), the beneficiary, and upon termination of the trust shall distribute any remainder to the beneficiary.

Basis of Accounting and Presentation

The accompanying 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, 2016 and 2015, cash equivalents consisted primarily of money market accounts with brokers.

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

Notes to Financial Statements

August 31, 2016 and 2015

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 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.

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

Notes to Financial Statements

August 31, 2016 and 2015

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.

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

Notes to Financial Statements

August 31, 2016 and 2015

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, 2016 and 2015, 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.

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

Notes to Financial Statements August 31, 2016 and 2015

Income Taxes

As an essential government function of the City, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code (the Code) and a similar provision of Oklahoma state law. The Authority is also recognized as exempt from taxes under Section 501 of the Code. However, the Authority is subject to federal income tax on any unrelated business taxable income.

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, 2016 and 2015, none of the Authority's bank balances of approximately \$571,000 and \$325,000, 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, 2016 and 2015, the Authority had the following investments and maturities:

August 31, 2016					
Type	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Money market mutual funds	\$ 2,196,456	\$ 2,196,456	\$ -	\$ -	\$ -
Exchange traded funds	246,317	246,317	-	-	-
	<u>\$ 2,442,773</u>	<u>\$ 2,442,773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
August 31, 2015					
Type	Fair Value	Maturities in Years			
		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, 2016 and 2015

- **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 and exchange traded 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, 2016 and 2015, no investments exceeded 5% of the total fair value of its total investments.

Summary of Carrying Values

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

	2016	2015
Carrying value		
Deposits	\$ 2,542,720	\$ 415,665
Investments	2,442,773	4,038,299
Cash on hand	500	500
	\$ 4,985,993	\$ 4,454,464
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 2,445,325	\$ 4,215,831
Short-term investments	757,183	-
Restricted certificate of deposit – current	96,578	96,578
Noncurrent investments	1,686,907	142,055
	\$ 4,985,993	\$ 4,454,464

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

Notes to Financial Statements August 31, 2016 and 2015

Investment Income

Investment income for the years ended August 31 consisted of:

	2016	2015
Interest and dividend income, net of fees	\$ (13,486)	\$ 7,873
Net increase (decrease) in fair value of investments	49,871	(62,345)
	\$ 36,385	\$ (54,472)

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:

	2016	2015
Medicare	\$ 164,976	\$ 202,624
Patients and other third-party payers	91,175	73,510
	\$ 256,151	\$ 276,134

Note 4: Capital Assets

Capital assets activity for the years ended August 31 was:

	2016			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 385,122	\$ 537,797	\$ -	\$ 922,919
Land improvements	904,870	9,811	-	914,681
Buildings and leasehold improvements	23,266,150	1,022,656	(76,425)	24,212,381
Furniture, fixtures and equipment	3,001,243	57,121	(78,921)	2,979,443
Vehicles	458,920	52,798	-	511,718
	28,016,305	1,680,183	(155,346)	29,541,142
Less accumulated depreciation	13,230,018	1,206,578	(143,677)	14,292,919
	\$ 14,786,287	\$ 473,605	\$ (11,669)	\$ 15,248,223

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

**Notes to Financial Statements
August 31, 2016 and 2015**

	2015			Ending Balance
	Beginning Balance	Additions	Disposals	
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
	<u>26,647,812</u>	<u>1,965,605</u>	<u>(597,112)</u>	<u>28,016,305</u>
Less accumulated depreciation	<u>12,376,203</u>	<u>1,137,648</u>	<u>(283,833)</u>	<u>13,230,018</u>
	<u>\$ 14,271,609</u>	<u>\$ 827,957</u>	<u>\$ (313,279)</u>	<u>\$ 14,786,287</u>

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.

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

Notes to Financial Statements August 31, 2016 and 2015

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 2016 and 2015 is summarized as follows:

	2016	2015
Balance, beginning of year	\$ 20,000	\$ 90,000
Current year claims incurred and changes in estimates for claims incurred in prior years	4,766	8,986
Claims and expenses paid	(3,849)	(78,986)
Balance, end of year	\$ 20,917	\$ 20,000

Note 7: Long-Term Obligations

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

	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable to bank (A)	\$ 2,388,093	\$ -	\$ (448,522)	\$ 1,939,571	\$ 395,773
Note payable to bank (B)	173,437	-	(32,661)	140,776	31,277
Note payable to bank (C)	-	600,000	(9,472)	590,528	29,628
Total long-term debt	2,561,530	600,000	(490,655)	2,670,875	456,678
Refundable entrance fees	1,758,151	529,897	(369,466)	1,918,582	243,000
Total long-term obligations	\$ 4,319,681	\$ 1,129,897	\$ (860,121)	\$ 4,589,457	\$ 699,678

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

Notes to Financial Statements August 31, 2016 and 2015

	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

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.
- (C) Note payable to bank due April 30, 2021, with principal and interest at 4.25% payable monthly at \$4,533, with a balloon payment at maturity. The note is secured by mortgage and rents and profits of certain real property.

The debt service requirements as of August 31, 2016, are as follows:

Year Ending August 31,	Total to be Paid	Principal	Interest
2017	\$ 546,518	\$ 456,678	\$ 89,840
2018	587,973	510,995	76,978
2019	587,973	530,692	57,281
2020	587,973	551,301	36,672
2021	642,850	621,209	21,641
	\$ 2,953,287	\$ 2,670,875	\$ 282,412

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

**Notes to Financial Statements
August 31, 2016 and 2015**

Note 8: Restricted and Designated Net Position

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

	<u>2016</u>	<u>2015</u>
Workers' compensation	\$ 97,000	\$ 97,000
Employee fund	27,238	25,447
Capital acquisitions	<u>53,990</u>	<u>53,090</u>
Total restricted expendable net position	<u>\$ 178,228</u>	<u>\$ 175,537</u>

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:

	<u>2016</u>	<u>2015</u>
Debt service	\$ 516,000	\$ 516,000
Return of entrance fees	600,000	600,000
Friendship discounts	100,000	100,000
Capital acquisitions	<u>300,000</u>	<u>300,000</u>
Total designated net position	<u>\$ 1,516,000</u>	<u>\$ 1,516,000</u>

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 9: Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees who have completed 1,000 hours of service and are at least 21 years of age. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contribution rates for plan members, expressed as a percentage of covered payroll, were 4% and 3% for 2016 and 2015, respectively. Contribution rates for the Authority, expressed as a percentage of covered payroll, were 1% for both 2016 and 2015. Contributions actually made by plan members and the Authority aggregated approximately \$207,000 and \$68,000 during 2016 and \$164,000 and \$56,000 during 2015, respectively.

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

Notes to Financial Statements

August 31, 2016 and 2015

Note 10: 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 11: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and significant to the fair value of the assets or liabilities

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

**Notes to Financial Statements
August 31, 2016 and 2015**

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarch in which the fair value measurements fall at August 31, 2016 and 2015:

Type	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016				
Investments by Fair Value Level				
Money market mutual funds	\$ 2,196,456	\$ 2,196,456	\$ -	\$ -
Exchange traded funds	<u>246,317</u>	<u>246,317</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>\$ 2,442,773</u>	<u>\$ 2,442,773</u>	<u>\$ -</u>	<u>\$ -</u>
2015				
Investments by Fair Value Level				
Money market mutual funds	<u>\$ 4,038,299</u>	<u>\$ 4,038,299</u>	<u>\$ -</u>	<u>\$ -</u>

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset-pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. The Authority had no Level 2 or Level 3 investments at August 31, 2016 and 2015.

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

Notes to Financial Statements

August 31, 2016 and 2015

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 upfront entrance fee. The entrance fee is based upon the type of unit rented and the monthly payment plan selected by the resident. In addition, residents are charged monthly service fees. Service fees are established at the inception of residency and may be increased by the Authority provided a 60-day advance notice is given to the resident.

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, 2016 and 2015, \$1,918,582 and \$1,758,151, 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.

**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, 2016, 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 November 21, 2016.

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 of the financial statements, 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, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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. 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 2016-1 and 2016-2 to be material weaknesses.

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

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 November 21, 2016.

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
November 21, 2016

Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Schedule of Findings and Responses
Year Ended August 31, 2016

Reference Number	Finding
2016-1	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Recommendation – Management should evaluate the costs versus the benefits of reassigning duties or implementing compensating controls to mitigate this risk.</p> <p>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.</p>

**Spanish Cove Housing Authority
d/b/a Spanish Cove Retirement Village
Schedule of Findings and Responses, continued
Year Ended August 31, 2016**

Reference Number	Finding
2016-2	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Cause – The accounting director has access to perform nearly all functions in the resident revenues, accounts receivable and cash receipts transactions cycle. Duties in this transactions cycle are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation – Management should evaluate the costs versus the benefits of reassigning duties or implementing compensating controls to mitigate this risk.</p> <p>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.</p>