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

Auditor's Reports and Financial Statements

August 31, 2014 and 2013

BKD LLP
CPAs & Advisors

# Spanish Cove Housing Authority
# d/b/a Spanish Cove Retirement Village
### August 31, 2014 and 2013

## 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 financial statements of Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village (the Authority), which comprise the balance sheets as of August 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### *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 audits 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, 2014 and 2013, 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 17, 2014, 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 17, 2014

# Spanish Cove Housing Authority
# d/b/a Spanish Cove Retirement Village
## Management's Discussion and Analysis
## Years Ended August 31, 2014 and 2013

### *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, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Authority.

### *Financial Highlights*

- Cash and investments decreased in 2014 by $141,484 or 3.2% and increased in 2013 by $731,387 or 20.1%.
- The Authority's net position increased by $808,126 or 33.7% and $1,028,319 or 75.0% in 2014 and 2013, respectively.
- The Authority reported operating income in both 2014 $633,870 and 2013 $852,913. The operating income in 2014 decreased by $219,043 or 25.7% over the operating income reported in 2013. The operating income in 2013 increased by $561,612 or 192.8% over the operating income reported in 2012.
- Net nonoperating revenues decreased by $30,014 or 17.7% in 2014 and increased by $127,778 or 307.8% in 2013.

### *Using This Annual Report*

The Authority's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

### *The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position*

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

These two statements report the Authority's net position and changes in it. The Authority's total net position—the difference between assets, liabilities and deferred inflows and outflows of resources—is one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority's resident base, changes in legislation and regulations, measures of the quantity and quality of services provided to its residents and local economic factors, should also be considered to assess the overall financial health of the Authority.

### *The Statement of Cash Flows*

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

### *The Authority's Net Position*

The Authority's net position is the difference between its assets and liabilities reported in the balance sheet. The Authority's net position increased by $808,126 or 33.7% in 2014 over 2013, and by $1,028,319 or 75.0% in 2013 over 2012 as shown in Table 1.

### *Table 1: Assets, Liabilities and Net Position*

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 2,333,928 | $ 4,048,719 | $ 1,564,903 |
| Short-term investments | 191,337 | 100,512 | 538,305 |
| Other current assets | 296,911 | 204,465 | 210,517 |
| Capital assets, net | 14,271,609 | 13,669,050 | 13,935,235 |
| Other noncurrent assets | 1,707,712 | 225,080 | 1,540,166 |
| Total assets | $ 18,801,497 | $ 18,247,826 | $ 17,789,126 |
| **Liabilities** | | | |
| Long-term debt (including current portion) | $ 2,956,418 | $ 3,402,202 | $ 3,759,189 |
| Other current and noncurrent liabilities | 12,638,110 | 12,446,781 | 12,659,413 |
| Total liabilities | 15,594,528 | 15,848,983 | 16,418,602 |
| **Net Position** | | | |
| Net investment in capital assets | 11,231,950 | 10,266,848 | 10,176,046 |
| Restricted – expendable | 172,115 | 130,558 | - |
| Unrestricted | (8,197,096) | (7,998,563) | (8,805,522) |
| Total net position | 3,206,969 | 2,398,843 | 1,370,524 |
| Total liabilities and net position | $ 18,801,497 | $ 18,247,826 | $ 17,789,126 |

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.

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

### *Operating Results and Changes in the Authority's Net Position*

In 2014, the Authority's net position increased by $808,126 or 33.7% as shown in Table 2. This increase is made up of several different components and represents a decrease of 17.7% compared with the increase in net position for 2013 of $1,028,319. The Authority's change in net position increased from $332,816 in 2012 to $1,028,319 in 2013, an increase of 209.0%.

### *Table 2: Operating Results and Changes in Net Position*

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Operating Revenues** | | | |
| Monthly service fees and patient revenue | $ 8,964,947 | $ 8,635,343 | $ 8,092,986 |
| Amortization of entrance fees | 1,762,880 | 1,953,754 | 1,727,526 |
| Other operating revenues | 474,338 | 428,249 | 440,525 |
| Total operating revenues | 11,202,165 | 11,017,346 | 10,261,037 |
| **Operating Expenses** | | | |
| Medical and resident care | 3,489,222 | 3,393,775 | 3,292,288 |
| Dietary | 1,844,741 | 1,778,240 | 1,747,608 |
| General and administrative | 3,442,424 | 3,246,781 | 3,196,876 |
| Depreciation | 1,047,069 | 998,987 | 1,003,046 |
| Other resident services | 744,839 | 746,650 | 729,918 |
| Total operating expenses | 10,568,295 | 10,164,433 | 9,969,736 |
| **Operating Income** | 633,870 | 852,913 | 291,301 |
| **Nonoperating Revenues (Expenses)** | | | |
| Investment income | 115,938 | 110,668 | 48,308 |
| Noncapital grants and gifts | 152,590 | 182,641 | 142,747 |
| Interest expense | (129,249) | (124,016) | (149,540) |
| Total nonoperating revenues (expenses) | 139,279 | 169,293 | 41,515 |
| **Excess of Revenues over Expenses** | 773,149 | 1,022,206 | 332,816 |
| **Capital Grants and Gifts** | 34,977 | 6,113 | - |
| **Increase in Net Position** | $ 808,126 | $ 1,028,319 | $ 332,816 |

### *Operating Income*

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

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 the current year 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 fewer refunds paid on entrance fees in the current year.

- 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.

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

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

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

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

### *Nonoperating Revenues and Expenses*

Nonoperating revenues and expenses consist primarily of investment income, noncapital grants and gifts and interest expense. The Authority recognized a small increase in its investment income in 2014 compared to 2013 resulting primarily from increases in the fair value of investments held. The Authority also recognized a decrease in its noncapital grants and gifts in 2014 compared to 2013.

### *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 2014 and 2013, except for cash in capital and related financing activities in 2014 due to the increase in capital asset purchases.

### *Capital Assets and Debt Administration*

#### Capital Assets

At the end of 2014 and 2013, the Authority had $14,271,609 and $13,669,050, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 3* to the financial statements. In 2014, the Authority made capital improvements and purchased new equipment costing $1,660,619. In 2013, the Authority made capital improvements and purchased new equipment costing $733,511.

#### Debt

At August 31, 2014 and 2013, the Authority had $2,956,418 and $3,402,202, respectively, in notes payable outstanding, as detailed in *Note 7*. 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 6*. The Authority issued no new debt in 2013.

### *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, 2014 and 2013

## Assets

| | 2014 | 2013 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ 2,333,928 | $ 4,048,719 |
| Short-term investments | 95,000 | 4,512 |
| Restricted certificate of deposit – current | 96,337 | 96,000 |
| Accounts receivable | 155,884 | 43,946 |
| Supplies | 40,069 | 40,165 |
| Prepaid expenses and other | 100,958 | 120,354 |
| Total current assets | 2,822,176 | 4,353,696 |
| **Noncurrent Investments** | 1,703,212 | 220,730 |
| **Capital Assets, Net** | 14,271,609 | 13,669,050 |
| **Other Assets** | 4,500 | 4,350 |
| Total assets | $ 18,801,497 | $ 18,247,826 |

## Liabilities and Net Position

| | 2014 | 2013 |
|---|---|---|
| **Current Liabilities** | | |
| Note payable to bank | $ 83,241 | $ - |
| Current maturities of long-term debt | 428,352 | 411,174 |
| Accounts payable | 376,839 | 280,214 |
| Accrued expenses | 614,701 | 508,636 |
| Refundable entrance fees – current | 355,000 | 252,000 |
| Entrance fee deposits | 161,276 | 150,392 |
| Total current liabilities | 2,019,409 | 1,602,416 |
| **Long-Term Debt** | 2,528,066 | 2,991,028 |
| **Refundable Entrance Fees** | 1,532,018 | 1,508,599 |
| **Deferred Revenue from Entrance Fees** | 9,515,035 | 9,746,940 |
| Total liabilities | 15,594,528 | 15,848,983 |
| **Net Position** | | |
| Net investment in capital assets | 11,231,950 | 10,266,848 |
| Restricted – expendable for | | |
| Specific operating activities | 131,025 | 124,445 |
| Capital acquisitions | 41,090 | 6,113 |
| Unrestricted | (8,197,096) | (7,998,563) |
| Total net position | 3,206,969 | 2,398,843 |
| Total liabilities and net position | $ 18,801,497 | $ 18,247,826 |

# Spanish Cove Housing Authority
# d/b/a Spanish Cove Retirement Village
## Statements of Revenues, Expenses and Changes in Net Position
## Years Ended August 31, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **Operating Revenues** | | |
| Monthly service fees | $ 8,060,043 | $ 7,760,710 |
| Amortization of entrance fees | 1,762,880 | 1,953,754 |
| Patient revenue from nonresidents | 904,904 | 874,633 |
| Other revenue | 474,338 | 428,249 |
| Total operating revenues | 11,202,165 | 11,017,346 |
| **Operating Expenses** | | |
| Medical and resident care | 3,489,222 | 3,393,775 |
| Dietary | 1,844,741 | 1,778,240 |
| General and administrative | 3,442,424 | 3,246,781 |
| Other resident services | 744,839 | 746,650 |
| Depreciation | 1,047,069 | 998,987 |
| Total operating expenses | 10,568,295 | 10,164,433 |
| **Operating Income** | 633,870 | 852,913 |
| **Nonoperating Revenues (Expenses)** | | |
| Investment income | 115,938 | 110,668 |
| Interest expense | (129,249) | (124,016) |
| Noncapital grants and gifts | 152,590 | 182,641 |
| Total nonoperating revenues (expenses) | 139,279 | 169,293 |
| **Excess of Revenues over Expenses** | 773,149 | 1,022,206 |
| **Capital Grants and Gifts** | 34,977 | 6,113 |
| **Increase in Net Position** | 808,126 | 1,028,319 |
| **Net Position, Beginning of Year** | 2,398,843 | 1,370,524 |
| **Net Position, End of Year** | $ 3,206,969 | $ 2,398,843 |

# Spanish Cove Housing Authority
# d/b/a Spanish Cove Retirement Village
## Statements of Cash Flows
## Years Ended August 31, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **Operating Activities** | | |
| Cash received from residents | $ 7,982,408 | $ 8,052,361 |
| Proceeds from entrance fees received | 1,966,374 | 1,788,289 |
| Cash received from and on behalf of nonresidents | 904,904 | 874,633 |
| Payments to suppliers and contractors | (3,198,791) | (3,270,060) |
| Payments to employees | (6,089,262) | (5,876,897) |
| Other receipts, net | 577,188 | 428,699 |
| Net cash provided by operating activities | 2,142,821 | 1,997,025 |
| **Noncapital Financing Activities** | | |
| Noncapital grants and gifts | 152,590 | 182,641 |
| Refunds of entrance fees | (435,399) | (351,255) |
| Net cash used in noncapital financing activities | (282,809) | (168,614) |
| **Capital and Related Financing Activities** | | |
| Principal paid on long-term debt | (445,784) | (356,987) |
| Interest paid on long-term debt | (129,249) | (124,016) |
| Proceeds from issuance of note payable to bank | 83,241 | - |
| Purchase of capital assets | (1,660,619) | (733,511) |
| Capital grants and gifts | 34,977 | 6,113 |
| Net cash used in capital and related financing activities | (2,117,434) | (1,208,401) |
| **Investing Activities** | | |
| Interest and dividends on investments | 115,938 | 110,668 |
| Proceeds from (purchase of) investments, net | (1,573,307) | 1,753,138 |
| Net cash provided by (used in) investing activities | (1,457,369) | 1,863,806 |
| **Increase (Decrease) in Cash and Cash Equivalents** | (1,714,791) | 2,483,816 |
| **Cash and Cash Equivalents, Beginning of Year** | 4,048,719 | 1,564,903 |
| **Cash and Cash Equivalents, End of Year** | $ 2,333,928 | $ 4,048,719 |

| | 2014 | 2013 |
|---|---|---|
| **Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities** | | |
| Operating income | $ 633,870 | $ 852,913 |
| Depreciation | 1,047,069 | 998,987 |
| Loss on disposal of capital assets | 10,991 | - |
| Entrance fees received | 1,966,374 | 1,788,289 |
| Amortization of entrance fees | (1,762,880) | (1,953,754) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (111,938) | 23,984 |
| Accounts payable and accrued expenses | 316,574 | 63,813 |
| Other assets and liabilities | 42,761 | 222,793 |
| Net cash provided by operating activities | $ 2,142,821 | $ 1,997,025 |

# Spanish Cove Housing Authority
# d/b/a Spanish Cove Retirement Village
## Notes to Financial Statements
## August 31, 2014 and 2013

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

### *Nature of Operations and Reporting Entity*

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

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

### *Basis of Accounting and Presentation*

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

### *Use of Estimates*

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

### *Cash Equivalents*

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At August 31, 2014 and 2013, cash equivalents consisted primarily of money market accounts with brokers.

### *Risk Management*

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

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

### *Investments and Investment Income*

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

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

### *Accounts Receivable*

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

### *Supplies*

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

### *Capital Assets*

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

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

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

### *Compensated Absences*

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

### *Workers' Compensation Claims*

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

### *Net Position*

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

### *Deferred Revenue from Entrance Fees*

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

### *Monthly Service Fees and Patient Revenue from Nonresidents*

Monthly service fees represent monthly fees from residents and patient service revenue. 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 pulled into a revised, 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, 2014 and 2013, there was no estimated future service obligation related to any of the Authority's contracts.

### *Friendship Discounts*

The Authority provides continued care without charge or at amounts less than established rates to certain residents meeting certain criteria under its friendship discount policy when approved by the Board of Trustees. Friendship discounts are included in monthly service fees on the accompanying statements of revenues, expenses and changes in net position.

### *Income Taxes*

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

The Authority files tax returns under the U.S. federal jurisdiction. With a few exceptions, the Authority is no longer subject to U.S. federal examinations by tax authorities for years before 2010.

## 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, 2014 and 2013, approximately $1,042,000 and $1,207,000 of the Authority's bank balances of approximately $1,644,000 and $1,802,000, 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, 2014 and 2013, the Authority had the following investments and maturities:

| | August 31, 2014 | | | | |
|---|---|---|---|---|---|
| | | Maturities in Years | | | |
| Type | Fair Value | Less than 1 | 1–5 | 6–10 | More than 10 |
| Money market mutual funds | $ 1,079,322 | $ 1,079,322 | $ - | $ - | $ - |
| | | $ 1,079,322 | $ - | $ - | $ - |
| Equities | 1,562,051 | | | | |
| | $ 2,641,373 | | | | |

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

**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, 2013, 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 | 8.07% |
| Guggenheim ETF – S&P 500 Equal Wt Index (RSP) | $ 210,711 | 7.98% |
| Schwab U.S. Mid-Cap ETF (SCHM) | $ 209,528 | 7.93% |
| Schwab U.S. Dividend Equity ETF (SCHD) | $ 208,737 | 7.90% |
| Guggenheim ETF – Russell Top 50 Index (XLG) | $ 208,332 | 7.89% |
| SPDR Gold Trust (GLD) | $ 196,937 | 7.46% |

### *Summary of Carrying Values*

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

| | 2014 | 2013 |
|---|---|---|
| Carrying value | | |
| Deposits | $ 1,586,604 | $ 1,835,300 |
| Investments | 2,641,373 | 2,534,161 |
| Cash on hand | 500 | 500 |
| | $ 4,228,477 | $ 4,369,961 |
| Included in the following balance sheet captions | | |
| Cash and cash equivalents | $ 2,333,928 | $ 4,048,719 |
| Short-term investments | 95,000 | 4,512 |
| Restricted certificate of deposit – current | 96,337 | 96,000 |
| Noncurrent investments | 1,703,212 | 220,730 |
| | $ 4,228,477 | $ 4,369,961 |

### *Investment Income*

Investment income for the years ended August 31 consisted of:

| | 2014 | 2013 |
|---|---|---|
| Interest and dividend income | $ 6,157 | $ 53,567 |
| Net increase in fair value of investments | 109,781 | 57,101 |
| | $ 115,938 | $ 110,668 |

## Note 3: Capital Assets

Capital assets activity for the years ended August 31 was:

| | 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 |

| | 2013 | | | |
|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals | Ending Balance |
| Land | $ 385,122 | $ - | $ - | $ 385,122 |
| Land improvements | 825,024 | 15,475 | - | 840,499 |
| Buildings and leasehold improvements | 19,814,281 | 668,199 | (25,179) | 20,457,301 |
| Furniture, fixtures and equipment | 2,962,859 | 49,837 | (2,140) | 3,010,556 |
| Vehicles | 433,602 | - | - | 433,602 |
| | 24,420,888 | 733,511 | (27,319) | 25,127,080 |
| Less accumulated depreciation | 10,485,653 | 998,987 | (26,610) | 11,458,030 |
| | $ 13,935,235 | $ (265,476) | $ (709) | $ 13,669,050 |

## Note 4: Professional Liability Claims

The Authority purchases professional liability insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of professional liability claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

## Note 5: Workers' Compensation Claims

Effective January 1, 2013, the Authority began to self-insure a portion of its workers' compensation claims. The Authority is self-insured for workers' compensation claims of participating employees up to an annual aggregate amount of $160,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee workers' compensation claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Authority's estimate will change by a material amount in the near term.

Activity in the Authority's accrued workers' compensation claims liability during 2014 and 2013 is summarized as follows:

| | 2014 | 2013 |
|---|---|---|
| Balance, beginning of year | $ 45,000 | $ - |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 106,380 | 67,213 |
| Claims and expenses paid | (61,380) | (22,213) |
| Balance, end of year | $ 90,000 | $ 45,000 |

## Note 6: Note Payable to Bank

The Authority has a $450,000 revolving line of credit expiring in August 2015. At August 31, 2014, there was $83,241 borrowed against the line. The line is collateralized by mortgage of rental property and assignment of all rents related to the mortgaged property. Interest is payable monthly at 4.25%.

## Note 7: Long-Term Obligations

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

| | 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 |

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

### *Notes Payable to Bank*

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

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

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

The debt service requirements as of August 31, 2014, are as follows:

| Year Ending August 31, | Total to be Paid | Principal | Interest |
|---|---|---|---|
| 2015 | $ 533,578 | $ 428,352 | $ 105,226 |
| 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 |
| 2020–2021 | 659,516 | 642,839 | 16,677 |
| | $ 3,327,406 | $ 2,956,418 | $ 370,988 |

## Note 8: Restricted and Designated Net Position

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

| | 2014 | 2013 |
|---|---|---|
| Workers' compensation | $ 96,000 | $ 96,000 |
| Employee fund | 35,025 | 23,977 |
| Capital acquisitions | 41,090 | 6,113 |
| Memorial fund | - | 2,636 |
| Other funds | - | 1,832 |
| Total restricted expendable net position | $ 172,115 | $ 130,558 |

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

| | 2014 | 2013 |
|---|---|---|
| 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 9: Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees who have completed 1,000 hours of service and are at least 21 years of age. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contributions actually made by plan members and the Authority aggregated approximately $96,000 and $35,000 during 2014 and $87,000 and $34,000 during 2013, respectively.

## 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: Entrance Fees

The Authority currently offers two basic types of residency agreements, no refund plans and refundable plans. For the right to occupy a unit for life and to receive certain services from the Authority, residents are required to pay an up-front entrance fee. The entrance fee is based upon the type of unit rented and the monthly payment plan selected by the resident. In addition, residents are charged monthly service fees. Service fees are established at the inception of residency and may be increased by the Authority, provided a 60-day advance notice is given to the resident.

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

- If the resident voluntarily withdraws within the first seven days, all amounts will be repaid.
- If the resident is unable to occupy the unit due to death, illness, injury or other incapacity, all amounts will be repaid less any costs of preparation of the unit.

- Under the no refund plans, the entrance fees received are nonrefundable once the unit is occupied.

- Under the refundable plans, if voluntary withdrawal occurs subsequent to occupancy, the repayable percentage of the entrance fee will be repaid to the resident, estate, trust, heirs or other representative upon receipt of a new entrance fee for the unit. The refundable percentage decreases annually from 90% in the first year to 50% in the fifth year and after.

At August 31, 2014 and 2013, $1,887,018 and $1,760,599, respectively, are contractually repayable under these agreements, which represent the amount due to residents if all residents were to cancel their contracts at that date based on the repayment policies above.

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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, 2014, 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 17, 2014.

## *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 2014-1, 2014-2 and 2014-3 to be material weaknesses.

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 2014-4 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 17, 2014.

### *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 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 17, 2014

# Spanish Cove Housing Authority
# d/b/a Spanish Cove Retirement Village
## Schedule of Findings and Responses
## Year Ended August 31, 2014

| Reference Number | Finding |
|---|---|
| 2014-1 | Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>Recommendation – Management should evaluate the costs versus the benefits of reassigning duties or implementing compensating controls to mitigate this risk.<br><br>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation and will implement any necessary changes that are cost beneficial within the next year. |

# Spanish Cove Housing Authority
# d/b/a Spanish Cove Retirement Village
## Schedule of Findings and Responses, continued
## Year Ended August 31, 2014

| Reference Number | Finding |
|---|---|
| 2014-2 | Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>Recommendation – Management should evaluate the costs versus the benefits of reassigning duties or implementing compensating controls to mitigate this risk.<br><br>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 |
|---|---|
| 2014-3 | 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 |
|---|---|
| 2014-4 | Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>Recommendation – Management should evaluate the costs versus the benefits of reassigning duties or implementing compensating controls to mitigate this risk.<br><br>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. |