Management's Discussion and Analysis
and Financial Statements
August 31, 2024 and 2023

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

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## Independent Auditor's Report

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

### Report on the Audit of the Financial Statements

***Opinion***

We have audited the financial statements of Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village (the Authority), as of and for the years then ended August 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of August 31, 2024 and 2023, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2025, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
February 7, 2025

## 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, 2024 and 2023. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole. Readers should also review the basic financial statements and the notes to enhance their understanding of the Authority's financial status.

## Financial Highlights

- Assets increased in 2024 by $238,522 or 0.6% as compared to 2023, and increased in 2023 by $713,312 or 1.7% as compared to 2022.
- The Authority's net position decreased by $576,331 or 9.0% in 2024, and increased by $715,319 or 12.6% in 2023.
- The Authority reported an operating loss of $891,298 for the year ended August 31, 2024 and an operating loss of $187,118 for the year ended August 31, 2023.

## Using This Annual Report

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

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

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

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

**The Statement of Cash Flows**

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

**The Authority's Net Position**

The Authority's net position is the difference between its assets and liabilities reported in the statement of net position. The Authority's net position decreased by $576,331 or 9.0% in 2024 over 2023, and increased by $715,319 or 12.6% in 2023 over 2022, as shown in Table 1.

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

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| Assets | | | |
| Current assets | $ 5,849,620 | $ 5,649,992 | $ 3,974,555 |
| Capital assets, net of accumulated depreciation | 30,566,292 | 31,292,691 | 32,570,746 |
| Other noncurrent assets | 6,549,598 | 5,784,305 | 5,468,375 |
| Total assets | $ 42,965,510 | $ 42,726,988 | $ 42,013,676 |
| Liabilities | | | |
| Current liabilities | $ 3,727,824 | $ 3,375,029 | $ 3,430,491 |
| Long-term debt, less current maturities | 17,829,293 | 18,392,092 | 18,299,750 |
| Other noncurrent liabilities | 15,599,189 | 14,574,332 | 14,613,219 |
| Total liabilities | 37,156,306 | 36,341,453 | 36,343,460 |
| Net Position | | | |
| Net investment in capital assets | 12,169,290 | 12,355,059 | 13,111,720 |
| Restricted - expendable | 264,479 | 248,255 | 75,935 |
| Unrestricted | (6,624,565) | (6,217,779) | (7,517,439) |
| Total net position | 5,809,204 | 6,385,535 | 5,670,216 |
| Total liabilities and net position | $ 42,965,510 | $ 42,726,988 | $ 42,013,676 |

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

| | 2024 | 2023 | 2022 |
|---|---|---|---|
| Operating Revenues | | | |
| Net resident and patient service revenue | $ 15,542,116 | $ 14,418,207 | $ 12,235,154 |
| Amortization of entrance fees | 2,091,670 | 2,391,359 | 1,958,653 |
| Other revenue | 745,871 | 598,622 | 542,593 |
| Total operating revenue | 18,379,657 | 17,408,188 | 14,736,400 |
| Operating Expenses | | | |
| Salaries and wages | 8,879,013 | 8,134,268 | 6,900,682 |
| Employee benefits | 1,705,325 | 1,410,491 | 1,273,092 |
| Professional fees and purchased services | 866,257 | 828,413 | 550,601 |
| Supplies | 318,453 | 319,189 | 218,160 |
| Insurance | 701,236 | 743,067 | 700,102 |
| Dietary | 1,191,141 | 1,085,332 | 868,828 |
| Repairs and maintenance | 445,599 | 412,111 | 322,817 |
| Utilities | 1,204,818 | 1,140,506 | 968,575 |
| Depreciation | 2,116,141 | 2,118,331 | 2,108,191 |
| Other | 1,842,972 | 1,403,598 | 1,365,047 |
| Total operating expenses | 19,270,955 | 17,595,306 | 15,276,095 |
| Operating Loss | (891,298) | (187,118) | (539,695) |
| Nonoperating Revenues (Expenses) | 314,967 | 902,437 | (770,818) |
| Revenues in Excess of (Less Than) Expenses and Change in Net Position | (576,331) | 715,319 | (1,310,513) |
| Net Position, Beginning of Year | 6,385,535 | 5,670,216 | 6,980,729 |
| Net Position, End of Year | $ 5,809,204 | $ 6,385,535 | $ 5,670,216 |

**Operating Income (Loss)**

The first component of the overall change in the Authority's net position is its operating income (loss)—generally, the difference between net resident and patient revenues, amortization of entrance fees and other operating revenues and the expenses incurred to perform those services. The Authority had an operating loss of $891,298 in 2024 compared to an operating loss of $187,118 in 2023.

The primary components of the increase in operating loss from 2023 to 2024 are:

- An increase in the net resident and patient service revenue of $1,123,909 or 7.8%, a decrease in revenues from entrance fees of $299,689 or 12.5%, and an increase in other revenue of $147,249 or 24.6%. This resulted in an overall increase in operating revenues of $971,469 or 5.6%. The increase is due to rate increases of approximately 6.5% during the year, plus increased resident census.
- An increase in salaries and wages of $744,745 or 9.2%, due to additional employees and wage increases; an increase in employee benefits of $294,834 or 20.9%, due to additional employees; and an increase in other expense of $439,374 or 31.3%, primarily due to increases in advertising and contract labor costs. This resulted in an overall increase in operating expenses of $1,675,649 or 9.5%.

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

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

**Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of investment income, noncapital grants and gifts including the Employee Retention Credit (ERC) program, gain or loss on sale of capital assets and interest expense. The Authority recognized revenue from the ERC program of $124,007 and $959,453 in 2024 and 2023. The Authority recognized an impairment loss related to abandoned construction projects of $178,564 and $0 in 2024 and 2023. The Authority recognized a decrease in interest expense of $12,276 in 2024 compared to 2023 and a decrease of $3,522 in 2023 compared to 2022. The Authority also recognized investment income of $789,403 in 2024 compared to investment income of $392,712 in 2023 due to fluctuations in market returns.

**The Authority's Cash Flows**

Changes in the Authority's cash flows are consistent with changes in operating results and nonoperating revenues and expenses, discussed earlier. The principal changes in the Authority's cash flows for the year ended August 31, 2024 were as follows:

- An increase in cash received from residents of $2,270,765 or 16.3% in 2024 compared to an increase of $1,862,809 or 15.5% in 2023. This increase is due primarily to increases in monthly service fees and increased occupancy.

- An increase in receipts from entrance fees in 2024 over 2023 of $1,150,948 or 54.2% compared to a decrease in 2023 over 2022 of $695,214 or 24.7%.
- Cash used for capital and capital related financing activities increased $954,105 in 2024 over 2023 and decreased $986,192 in 2023 over 2022. These changes are due primarily to varying amounts invested in capital assets each year.
- Cash received from noncapital financing activities totaled $248,366 in 2024, compared to $326,320 in 2023 and cash received from investing activities totaled $124,323 in 2024, compared to $90,778 in 2023.

**Capital Assets**

At August 31, 2024 and 2023, the Authority had $30,566,292 and $31,292,691, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2024, the Authority made capital improvements and purchased new equipment costing $1,568,306. In 2023, the Authority made capital improvements and purchased new equipment costing $840,276.

**Debt**

At August 31, 2024 and 2023, the Authority had $18,881,546 and $19,308,733, respectively, in long-term debt, as detailed in Note 6. The Authority incurred additional debt totaling $605,680 and $541,309 during 2024 and 2023, specifically related to the fiscal year's insurance premiums that were financed. Principal payments on debt totaled $1,032,867 and $691,602 during 2024 and 2023.

**Economic Outlook**

The Spanish Cove Housing Authority continues to be well positioned for a vibrant economic future. External factors including the booming growth of the older adult population coupled with increasing life expectancy ensure continued opportunities for quality aging-support services for decades to come. The Authority's strong reputation for healthcare services and active aging also makes it an attractive choice for many older adults.

In this past year, Spanish Cove celebrated its 50th anniversary as a continuing care retirement community. Looking back, we have seen how our community has helped set the standards by which other communities are measured. Looking forward, we know we cannot rest on our laurels. We must continue to be innovators and creators of experiences and opportunities so that older adults can thrive. We believe older adults represent one of the most abundant and underutilized natural resources this nation has and are committed to help them live with intention and purpose so they may continue to make lasting differences in the twilight of their lives.

As leaders in aging services, we also see the need to expand our services within the Spanish Cove community and outside of our walls. We are in the final stages of certification for two new home and community-based service lines: hospice and home health services. These new lines of service will ultimately help us assist thousands of older adults in the surrounding communities as well as provide additional revenue to help our bottom line. We also envision the launch of additional service lines to help older adults who choose to age-in-place.

Finally, we recognize our fifty-year-old campus must continue to be attractive and relevant. Our board and executive management team is committed to a long-range strategic plan which includes new construction and building renovations.

In conclusion, the Authority is positioning itself to thrive long into the future. By leveraging demographic trends, investing in innovative healthcare services, and maintaining a strong reputation of excellence, the Authority is well-prepared for sustained growth and financial stability, ensuring a bright future for its residents and the broader community.

**Requests for Information**

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

| | 2024 | 2023 |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | $ 2,740,910 | $ 1,899,861 |
| Restricted cash and investments | | |
| Under workers' compensation plan | 70,000 | 70,000 |
| Receivables | | |
| Resident and patient, net | 706,108 | 1,335,247 |
| Entrance fees | 251,347 | 619,912 |
| ERC program | 1,083,460 | 959,453 |
| Supplies | 48,422 | 52,535 |
| Prepaid expenses and other | 949,373 | 712,984 |
| Total current assets | 5,849,620 | 5,649,992 |
| Noncurrent Investments | 6,282,256 | 5,617,176 |
| Capital Assets | | |
| Capital assets not being depreciated | 2,606,553 | 3,689,916 |
| Capital assets being depreciated, net | 27,959,739 | 27,602,775 |
| Total capital assets | 30,566,292 | 31,292,691 |
| Other Assets | 267,342 | 167,129 |
| Total assets | $ 42,965,510 | $ 42,726,988 |

| | 2024 | 2023 |
|---|---|---|
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Current maturities of long-term debt | $ 1,052,253 | $ 916,641 |
| Accounts payable | 662,153 | 636,113 |
| Accrued expenses | 1,134,934 | 902,343 |
| Refundable entrance fees - current | 390,827 | 415,485 |
| Entrance fee deposits | 487,657 | 504,447 |
| Total current liabilities | 3,727,824 | 3,375,029 |
| Long-Term Debt, Less Current Maturities | 17,829,293 | 18,392,092 |
| Refundable Entrance Fees | 6,085,683 | 5,583,426 |
| Unearned Revenue from Entrance Fees | 9,513,506 | 8,990,906 |
| Total liabilities | 37,156,306 | 36,341,453 |
| Net Position | | |
| Net investment in capital assets | 12,169,290 | 12,355,059 |
| Restricted | | |
| Expendable for specific operating activities | 82,857 | 85,850 |
| Expendable for donor restricted purposes | 181,622 | 162,405 |
| Unrestricted | (6,624,565) | (6,217,779) |
| Total net position | 5,809,204 | 6,385,535 |
| Total liabilities and net position | $ 42,965,510 | $ 42,726,988 |

| | 2024 | 2023 |
|---|---|---|
| Operating Revenues | | |
| Net resident and patient service revenue | $ 15,542,116 | $ 14,418,207 |
| Amortization of entrance fees | 2,091,670 | 2,391,359 |
| Other revenue | 745,871 | 598,622 |
| Total operating revenues | 18,379,657 | 17,408,188 |
| Operating Expenses | | |
| Salaries and wages | 8,879,013 | 8,134,268 |
| Employee benefits | 1,705,325 | 1,410,491 |
| Professional fees and purchased services | 866,257 | 828,413 |
| Supplies | 318,453 | 319,189 |
| Insurance | 701,236 | 743,067 |
| Dietary | 1,191,141 | 1,085,332 |
| Repairs and maintenance | 445,599 | 412,111 |
| Utilities | 1,204,818 | 1,140,506 |
| Depreciation | 2,116,141 | 2,118,331 |
| Other | 1,842,972 | 1,403,598 |
| Total operating expenses | 19,270,955 | 17,595,306 |
| Operating Loss | (891,298) | (187,118) |
| Nonoperating Revenues (Expenses) | | |
| Investment income | 789,403 | 392,712 |
| Interest expense | (777,768) | (790,044) |
| Impairment loss | (178,564) | - |
| Gain on sale and disposal of capital assets | 9,310 | - |
| Noncapital grants and gifts | | |
| ERC program | 124,007 | 959,453 |
| Other | 348,579 | 340,316 |
| Net nonoperating revenues | 314,967 | 902,437 |
| Revenues in Excess of (Less Than) Expenses and Change in Net Position | (576,331) | 715,319 |
| Net Position, Beginning of Year | 6,385,535 | 5,670,216 |
| Net Position, End of Year | $ 5,809,204 | $ 6,385,535 |

| | 2024 | 2023 |
|---|---|---|
| Operating Activities | | |
| Receipts from and on behalf of residents and patients | $ 16,171,255 | $ 13,900,490 |
| Receipts from entrance fees | 3,273,703 | 2,122,755 |
| Payments to and on behalf of employees | (10,351,747) | (9,391,644) |
| Payments to suppliers and contractors | (6,654,758) | (6,393,816) |
| Other receipts | 745,871 | 598,622 |
| Net Cash from Operating Activities | 3,184,324 | 836,407 |
| Noncapital Financing Activities | | |
| Other noncapital grants and gifts | 248,366 | 326,320 |
| Capital and Capital Related Financing Activities | | |
| Principal payments on long-term debt | (1,032,867) | (691,602) |
| Interest paid | (777,768) | (790,044) |
| Proceeds from the issuance of long-term debt | 605,680 | 541,309 |
| Purchase of capital assets | (1,520,319) | (821,522) |
| Proceeds from sale of capital assets | 9,310 | - |
| Net Cash used for Capital and Capital Related Financing Activities | (2,715,964) | (1,761,859) |
| Investing Activities | | |
| Interest and dividends on investments, net of fees | 238,314 | 137,089 |
| Purchase of investments | (2,145,022) | (2,806,529) |
| Proceeds from sale of investments | 2,031,031 | 2,760,218 |
| Net Cash from Investing Activities | 124,323 | 90,778 |
| Net Change in Cash and Cash Equivalents | 841,049 | (508,354) |
| Cash and Cash Equivalents, Beginning of Year | 1,899,861 | 2,408,215 |
| Cash and Cash Equivalents, End of Year | $ 2,740,910 | $ 1,899,861 |

| | 2024 | 2023 |
|---|---|---|
| Reconciliation of Operating Loss to Net Cash from Operating Activities | | |
| Operating loss | $ (891,298) | $ (187,118) |
| Adjustments to reconcile operating loss to net cash from operating activities | | |
| Depreciation | 2,116,141 | 2,118,331 |
| Provision for bad debt | 87,423 | 308,012 |
| Amortization of entrance fees | (2,091,670) | (2,391,359) |
| Changes in operating assets and liabilities | | |
| Patient and resident receivables | 541,716 | (825,729) |
| Entrance fees receivables | 368,565 | (164,013) |
| Supplies, prepaid expenses and other current assets | (232,276) | (542,608) |
| Accounts payable and accrued expenses | 380,585 | 234,123 |
| Refundable entrance fees | 307,658 | 426,658 |
| Entrance fee deposits | (16,790) | (176,612) |
| Unearned revenue from entrance fees | 2,614,270 | 2,036,722 |
| Net Cash from Operating Activities | $ 3,184,324 | $ 836,407 |
| Supplemental Cash Flows Information | | |
| Entrance fee refunds included in accounts payable | $ 74,858 | $ 244,799 |
| Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities | | |
| Capital asset acquisitions included in accounts payable | $ 92,717 | $ 44,730 |

## Note 1 - Reporting Entity and Summary of Significant Accounting Policies

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

### Reporting Entity

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

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

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

### Tax Exempt Status

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

**Measurement Focus and Basis of Accounting**

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

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

**Basis of Presentation**

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

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

*Restricted net position*:

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

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

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

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

**Use of Estimates**

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

**Cash and Cash Equivalents**

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

**Restricted Cash and Investments**

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

**Resident and Patient Receivables**

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

**Supplies**

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

**Noncurrent Investments**

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

**Investment Income**

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

**Capital Assets**

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

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

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

**Impairment of Long-Lived Assets**

The Authority considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. The Authority recognized an impairment loss of $178,564 for the year ended August 31, 2024, as a result of this analysis related to construction in progress. No impairment was identified for the year ended August 31, 2023.

**Compensated Absences**

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

**Operating Revenues and Expenses**

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

**Net Resident and Patient Service Revenue**

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

**Friendship Discounts**

The Authority provides continued care without charge or at amounts less than established rates to certain residents meeting certain criteria under its friendship discount policy when approved by the Board of Trustees. Since the Authority does not pursue collection of these amounts, they are not reported as resident and patient service revenue. The estimated cost of providing services was approximately $51,000 and $42,000 for the years ended August 31, 2024 and 2023, calculated by multiplying the ratio of costs to gross charges for the Authority by gross uncompensated charges associated with providing friendship discounts to its residents and patients.

**Unearned Revenue from Entrance Fees**

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

**Grants and Contributions**

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

## Note 2 - Net Resident and Patient Service Revenue

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

Revenues from patients and residents and from Medicare accounted for 89% and 11% of the Authority's net resident and patient service revenues for the year ended August 31, 2024, and 91% and 9% for the year ended August 31, 2023.

## Note 3 - Entrance Fees

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

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

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

At August 31, 2024 and 2023, $6,476,510 and $5,998,911, respectively, was contractually repayable under these agreements, which represent the amount due to residents if all residents were to cancel their contracts at that date based on the repayment policies above.

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

The Authority has amortized unearned revenues from nonrefundable entrance fees as revenue totaling $2,091,670 and $2,391,359 for the years ended August 31, 2024 and 2023, respectively. Of this amount, $243,068 and $829,230 for the years ended August 31, 2024 and 2023, respectively, relates to amounts recognized upon termination of contracts.

**Estimated Future Service Obligation**

Annually, the Authority calculates the present value of the net cost of future services and the use of facilities to be provided to current residents by contract type and compares those amounts with the balance of unearned revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the unearned revenue from entrance fees, a liability is recorded (estimated future service obligation) with a corresponding charge to income. As of August 31, 2024 and 2023, there was no estimated future service obligation related to the Authority's contracts.

## Note 4 - Deposits, Investments and Investment Income

The carrying amounts of deposits and investments as of August 31, 2024 and 2023 are as follows:

| | 2024 | 2023 |
|---|---|---|
| Carrying value | | |
| Cash and deposits | $ 390,052 | $ 593,633 |
| Investments | 8,676,479 | 6,977,151 |
| Accrued interest receivable | 26,635 | 16,253 |
| | $ 9,093,166 | $ 7,587,037 |

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

| | 2024 | 2023 |
|---|---|---|
| Cash and cash equivalents | $ 2,740,910 | $ 1,899,861 |
| Restricted under workers' compensation plan | 70,000 | 70,000 |
| Noncurrent investments | 6,282,256 | 5,617,176 |
| | $ 9,093,166 | $ 7,587,037 |

**Deposits – Custodial Credit Risk**

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

Of the Authority's deposits in banks of $612,288 at August 31, 2024, $612,288 were covered by FDIC insurance. Of the Authority's deposits in banks of $802,183 at August 31, 2023, $728,306 were covered by FDIC insurance, and $73,877 were in excess of FDIC limits.

**Investments**

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

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

Level 1 – Unadjusted quoted prices for identical instruments in active markets that the reporting entity has the ability to access at the measurement date.

Level 2 – Quoted prices for similar investments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are directly or indirectly observable.

Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable and may rely on the reporting entity's own assumptions, but the market participant's assumptions may be used in pricing the asset.

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

The Authority had the following investments and maturities at August 31, 2024:

| Investment Type | Carrying Amount | Rating | Investment Maturities (in Years) Less Than 1 | 1 - 5 |
|---|---|---|---|---|
| Money market mutual funds (Level 1) | $ 2,582,800 | US Government Insured | $ 2,582,800 | $ - |
| US Treasury notes (Level 1) | 2,468,362 | US Government Insured | 246,793 | 2,221,569 |
| Mutual funds (Level 1) | 1,763,704 | n/a | 1,763,704 | - |
| Equity securities (Level 1) | 985,647 | n/a | 985,647 | - |
| Government obligations (Level 1) | 230,894 | AAAm* | 230,894 | - |
| Marketable certificates of deposit (Level 2) | 645,072 | FDIC Insured | 297,277 | 347,795 |
| Total | $ 8,676,479 | | $ 6,107,115 | $ 2,569,364 |

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

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

** As rated by Standard & Poor's*

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

**Interest Rate Risk**

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

**Credit Risk**

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy does not address credit risk. Except for the government obligations, the Authority's investments at August 31, 2024 and 2023 were not rated by Standard & Poor's or Moody's Investors Service.

**Concentration of Credit Risk**

The Authority will limit credit risk, the risk of loss due to the failure of the security issuer or backer, by diversifying in the investment portfolio so that potential losses on individual securities will be minimized. The Authority does not have a formally adopted investment policy for managing concentration of credit risk. The Authority places no limit on the amount that may be invested in any one issuer. At August 31, 2024 and 2023, no concentrations existed that are required to be disclosed.

**Investment Income**

Investment income for the years ended August 31, 2024 and 2023 consisted of:

| | 2024 | 2023 |
|---|---|---|
| Interest and dividend income, net of fees | $ 238,314 | $ 135,218 |
| Realized gains and losses, net | 50,457 | 25,536 |
| Change in unrealized gains on investments | 500,632 | 231,958 |
| | $ 789,403 | $ 392,712 |

Noncurrent investments have certain designations by the Authority's Board of Trustees for the following purposes as of August 31, 2024 and 2023:

| | 2024 | 2023 |
|---|---|---|
| Debt service | $ 516,000 | $ 516,000 |
| Return of entrance fees | 600,000 | 600,000 |
| Friendship discounts | 100,000 | 100,000 |
| Capital acquisitions | 300,000 | 300,000 |
| Total designated investments | $ 1,516,000 | $ 1,516,000 |

## Note 5 - Capital Assets

Capital assets additions, retirements, transfers and balances for the years ended August 31, 2024 are as follows:

| | Balance August 31, 2023 | Additions | Transfers and Retirements | Balance August 31, 2024 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 1,339,939 | $ - | $ - | $ 1,339,939 |
| Construction in progress | 2,349,977 | 575,999 | (1,659,362) | 1,266,614 |
| Total capital assets not being depreciated | $ 3,689,916 | $ 575,999 | $ (1,659,362) | $ 2,606,553 |
| Capital assets being depreciated | | | | |
| Land improvements | $ 984,685 | $ 60,919 | $ - | $ 1,045,604 |
| Building and leasehold improvements | 47,690,450 | 788,118 | 1,480,798 | 49,959,366 |
| Furniture, fixtures and equipment | 3,402,572 | 143,270 | - | 3,545,842 |
| Vehicles | 1,052,278 | - | - | 1,052,278 |
| Total capital assets being depreciated | 53,129,985 | $ 992,307 | $ 1,480,798 | 55,603,090 |
| Less accumulated depreciation | (25,527,210) | $ (2,116,141) | $ - | (27,643,351) |
| Net capital assets being depreciated | $ 27,602,775 | | | $ 27,959,739 |
| Capital assets, net | $ 31,292,691 | | | $ 30,566,292 |

Construction in progress at August 31, 2024, represents costs incurred during the planning stage of an expansion project the Authority is considering. There are no commitments associated with the project under consideration.

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

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

## Note 6 - Long-Term Debt

The following is a summary of long-term obligations for the years ended August 31, 2024 and 2023:

| | Balance August 31, 2023 | Additions | Payments | Balance August 31, 2024 | Due Within One Year |
|---|---|---|---|---|---|
| Direct Borrowings | | | | | |
| Mortgage payable | $ 635,040 | $ - | $ - | $ 635,040 | $ - |
| Financed insurance premiums | 371,101 | 605,680 | (492,237) | 484,544 | 484,544 |
| Note payable to bank | 18,302,592 | - | (540,630) | 17,761,962 | 567,709 |
| Total long-term debt | $ 19,308,733 | $ 605,680 | $ (1,032,867) | $ 18,881,546 | $ 1,052,253 |

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

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

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

Financed insurance premiums - Due May 1, 2025, with interest at 8.96% payable in monthly payments of $60,568.

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

The debt service requirements as of August 31, 2024 based on the interest rate in effect at August 31, 2024, for the note payable to bank, are as follows:

| | Notes Payable | |
|---|---|---|
| Years Ending August 31, | Principal | Interest |
| 2025 | $ 1,052,253 | $ 723,957 |
| 2026 | 590,780 | 700,886 |
| 2027 | 614,788 | 676,878 |
| 2028 | 1,274,811 | 645,364 |
| 2029 | 665,770 | 599,700 |
| 2030-2034 | 3,757,353 | 2,569,998 |
| 2035-2039 | 4,585,430 | 1,741,922 |
| 2040-2044 | 5,596,005 | 675,969 |
| 2045 | 744,356 | 65,098 |
| Total | $ 18,881,546 | $ 8,399,772 |

## Note 7 - Restricted Net Position

Restricted, expendable net position was available for the following purposes as of August 31, 2024 and 2023:

| | 2024 | 2023 |
|---|---|---|
| Expendable for specific operating activities | | |
| Workers' compensation | $ 70,000 | 70,000 |
| Employee fund | 12,857 | 15,850 |
| | 82,857 | 85,850 |
| Expendable for donor restricted purposes | | |
| Garden and park funds | 51,342 | 47,176 |
| Employee benefit funds | 43,322 | 97,118 |
| Other funds | 86,958 | 18,111 |
| | 181,622 | 162,405 |
| Total restricted expendable net position | $ 264,479 | $ 248,255 |

## Note 8 - Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees who have completed 1,000 hours of service and are at least 21 years of age. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contributions made by the Authority totaled approximately $195,000, $160,000, and $133,000 during the years ended August 31, 2024, 2023 and 2022.

## Note 9 - Concentration of Credit Risk

The Authority grants credit without collateral to its skilled nursing patients and residents, many of whom are area residents and are insured under third-party payer agreements. Accounts receivable at August 31, 2024 and 2023 consisted of:

| | 2024 | 2023 |
|---|---|---|
| Medicare | 82% | 92% |
| Residents, patients and other third-party payors | 18% | 8% |
| | 100% | 100% |

## Note 10 - Employee Retention Credit (ERC) Program

The Coronavirus Aid, Relief, and Economic Security Act provided an employee retention credit (the credit) which is a refundable tax credit against certain employment taxes. The Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021 expanded the availability of the credit and extended the credit through September 30, 2021. For any applicable quarters in 2021, the credit is equal to 70% of qualified wages paid to employees, capped at $10,000 of qualified wages per quarter. During the years ended August 31, 2024 and 2023, the Authority recorded a $0 and $909,470 benefit related to the credit, which is presented on the statements of revenues, expenses and changes in net position as nonoperating revenues. During 2024 and 2023, the Authority also recorded interest income associated with the credit, included as ERC program revenues, totaling $124,007 and $49,983. The Authority had a receivable associated with the credit of $1,083,460 and $959,453 as of August 31, 2024 and 2023, respectively.

During January 2025, the Authority received payment on the credit totaling $1,129,962, which included the original benefit and accrued interest through the payment date. The Authority's credit filings remain open for potential examination by the Internal Revenue Service through the statute of limitation, which has an expiration date of June 2027. Any disallowed claims resulting from such examinations could be subject to repayment to the federal government.

## Note 11 - Contingencies

### Litigation

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

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

**Professional Liability Claims**

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

**Workers' Compensation Claims**

The Authority is self-insured for workers' compensation claims of participating employees up to an annual aggregate amount of $100,000 in 2024 and 2023. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured workers' compensation claims, including both claims reported, and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors and is included in accrued expenses on the accompanying statements of net position. It is reasonably possible the Authority's estimate will change by a material amount in the near term. The Authority holds a certificate of deposit, classified as restricted under workers' compensation plan, totaling $70,000 at August 31, 2024 and 2023 as security for workers' compensation claims.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards)*, the financial statements of Spanish Cove Housing Authority d/b/a Spanish Cove Retirement Village (the Authority), which comprise the statement of net position as of August 31, 2024, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 7, 2025.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2024-001 and 2024-002 that we consider to be significant deficiencies.

**Report on Compliance and Other Matters**

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

**Authority's Response to Findings**

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

**Purpose of this Report**

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

Eide Bailly LLP

Oklahoma City, Oklahoma
February 7, 2025

**Significant Deficiencies in Internal Control Over Financial Reporting:**

**2024-001 Preparation of Financial Statements**

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

*Condition*: As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The Authority does not have an internal control system designed to provide for the complete preparation of the financial statements, including footnotes, as required by GAAP. During the audit process, as part of the preparation of financial statements, we recommended certain adjustments and reclassifications, some of which were reflected in the financial statements and others that were considered uncorrected differences. The adjustments and reclassifications also included amounts identified by management during its close process.

*Cause*: The accounting and finance team responsible for accurate presentation of the financial statements has other responsibilities that required attention and effort. In addition, the fiscal year 2023 audit was completed just after the close of fiscal year 2024, resulting in less time available to respond to some of the items identified during that audit. Obtaining the resources and expertise necessary to prepare complete financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly.

*Effect*: The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Authority. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. In addition, certain adjustments and reclassifications subsequent to year-end were required to accurately present the financial statements.

*Auditor's Recommendation*: We recommend management review its processes and ensure that operation of effective control is consistent with established policies. This situation is not unusual for an organization of your size, but it is the responsibility of management and governance to monitor balances and activity to ensure the financial statements are accurate.

*Views of Responsible Officials:* Management agrees with the finding.

**2024-002 Lack of Processes and Policies Regarding Monitoring Access to the Network and Key Applications**

*Criteria*: A properly designed system of internal control over information technology includes monitoring access to the Authority's network and key applications by the entity. Management is responsible for establishing and maintaining internal control over information technology and procedures related to monitoring access to the Authority's network and key applications.

*Condition*: During the audit, we noted that the Authority does not have a formal process or controls in place to monitor changes in access to the Authority's network and key applications. Adequate and reliable access controls and monitoring are critically important to ensure that business operations can continue on an uninterrupted basis and to protect the Authority from vulnerabilities and other risks related to information security within the organization.

*Cause*: This condition was caused by a lack of formal processes and controls related to monitoring access to the Authority's network and key applications, including modifying access or terminating access due to changes in an employee's status.

*Effect*: There is potential risk of unauthorized access to the Authority's network and key applications and other risks related to information security within the organization.

*Auditor's Recommendation*: We recommend management implement a process for adding user access to the network and key applications that ensures that only authorized users are added and a process for revoking user access to ensure that users are removed in a timely manner. The Authority should also consider limiting the number of employees with administrative access to the network and key applications and periodically review access to the network and key applications to ensure access is limited to an employee's job function.

*Views of Responsible Officials:* Management agrees with the finding.