ELIZABETHTON MUNICIPAL GOLF COURSE

A COMPONENT UNIT OF THE

CITY OF ELIZABETHTON, TENNESSEE

FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

AICPA® Governmental Audit Quality Center Member

ELIZABETHTON MUNICIPAL GOLF COURSE

A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE

FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
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SECTION I

FINANCIAL SECTION

Blackburn, Childers & Steagall, PLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Elizabethton Municipal Golf Course
Elizabethton, Tennessee 37643

Report on the Financial Statements

We have audited the accompanying financial statements of the Elizabethton Municipal Golf Course (the Golf Course), component unit of the City of Elizabethton, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Golf Course's basic financial statements as listed in the table of contents.

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 presentation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Johnson City	801B Sunset Drive, Johnson City, TN 37604	(423) 282-4511	Fax (423) 283-4532
Kingsport	1361 S. Wilcox Drive, Kingsport, TN 37660	(423) 246-1725	Fax (423) 247-6800
Greeneville	550 Tusculum Boulevard, Greeneville, TN 37745	(423) 638-8516	Fax (423) 638-3361

BCScpa.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Golf Course, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the financial statements, the Golf Course has continued to experience financial difficulties and has a deficit in unrestricted net position at year end. In addition, the City of Elizabethton, Tennessee made a $160,000 contribution to the Golf Course during the fiscal year. The Golf Course's plans regarding those matters also are described in Note 9.

Other Matters

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 8 be presented to supplement the basic financial statements. Such information, 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 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Golf Course's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2013, on our consideration of the Golf Course'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 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 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 Golf Course's internal control over financial reporting and compliance.

Blackburn, Childers + Steagall, PLC
BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

November 21, 2013

Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2013

The following is the Elizabethton Municipal Golf Course (the Golf Course) Board of Director's Discussion and Analysis (MD&A) of the financial statements and supporting documents for the Golf Course, a component unit of the City of Elizabethton, Tennessee for the fiscal year ended June 30, 2013.

This MD&A should be read in conjunction with the financial statements and all supporting documents that follow this analysis.

The Elizabethton Golf Course is a component unit of the City of Elizabethton governed by a separate Board of Directors at the will of Elizabethton City Council. The Board of Directors is responsible for the establishment of policies and procedures of the Golf Course. The Board also contracts with a Golf Professional/Manager to manage the operations of the Golf Course.

Overview of the Financial Statements

The annual report consists of two sections. Section I includes the independent auditors' report, the basic financial statements, including the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, and the notes to the basic financial statements. Section II includes the internal control and compliance.

The financial statements are prepared using the accrual basis of accounting. All short-term assets and long-term assets are recorded. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

Golf Course Highlights

The Golf Course experienced a decrease in membership and total rounds played for the 2013 year but because of increases in pricing, revenues are at an acceptable operating level for the year.

As the chart shows, total growth in our memberships has declined by 38 all attributed to health reasons or personal economic issues. After interviewing many of our previous members, the Board fully expects to see an increase in membership in spring of 2014.

	2013	2012
Full	67	71
Second Family	-	3
Senior	19	30
Junior	28	33
Limited	18	28
Over 80	6	11
Total	138	176

Rounds played in 2013 compared to 2012 are as follows:

	2013	2012
Members	8,959	10,975
Guests	16,106	16,912
Total	25,065	27,887

As the chart above shows total rounds played decreased from 2012 to 2013. This is attributed to the extremely rainy weather in our spring months. Our records indicate an average of $12,000 per month; March through April, loss of revenue for three months.

Financial Position Summary	2013	2012
Current Assets	$ 98,327	60,170
Property, Plant, and Equipment (Net)	645,251	612,146
Total Assets	743,578	672,316
Current Liabilities	196,859	268,414
Long-Term Liabilities	204,760	141,997
Total Liabilities	401,619	410,411
Invested in Capital Assets, Net of Related Debt	375,715	364,071
Unrestricted (Deficit) Net Position	(33,756)	(102,166)
Total Net Position	341,959	261,905
Total Liabilities and Net Position	$ 743,578	672,316

Capital Assets

The following chart highlights the capital assets for fiscal year 2013 and 2012.

Capital Assets	2013	2012
Building and Building Improvements	$ 9,794	12,438
Machinery and Equipment	167,764	103,877
Course Improvements	467,693	495,831
Total Capital Assets	$ 645,251	612,146

Assets are shown above net of accumulated depreciation.

Debt

The Golf Course maintains Capital Leases, Operational Leases and Notes Payable to help with financing equipment necessary for the operations and maintenance of the course.

Capital leases are for Turf equipment to maintain the course which consists of mowers, turf vehicle with sprayer attachment and a utility vehicle with dump bed. The cost of the asset is recorded in depreciation expense and the related schedule is located on page 17 of the Notes to the Financial Statements.

Operational leases are for the driving range and golf carts. The information for these two items can be found beginning on Page 19 of the Notes to the Financial Statements.

Notes payables consist of a Note Payable to the City and capital outlay note entered with a local bank. The information and related schedules can be found beginning on page 20 of the Notes to the Financial Statements.

Summary of Changes in Net Position

	2013	2012
Operating Revenue		
Cart Rentals	$ 45,456	46,433
Green Fees	234,301	284,647
Membership Dues	151,029	136,572
Trail Fees	3,138	11,138
Cart Storage Fees	450	2,250
Driving Range Income	19,094	21,794
Locker and Club Rental	738	861
Lesson Income	-	1,897
Tournaments	20,581	20,400
Other Income	3,648	4,392
Outing Income	43,825	44,323
USGA Handicap	708	740
Pro Shop Income	4,920	-
Vending	11,291	-
Contribution	160,000	-
Total Operating Revenues	699,179	575,447

Summary of Changes in Net Position (continued)

Operating Expenses	**2013**	**2012**
Wages and Employee Benefits	233,485	273,866
Repairs and Maintenance	130,133	96,128
Insurance-General	11,581	9,230
Utilities	37,078	31,517
Fuel Purchase	33,352	30,918
Administrative and General	13,959	3,767
Handicap Service	975	522
Penalties and Interest	250	6,373
Club House Expense	5,843	1,377
Rent and Rental Expense	13,500	13,500
Leases	27,437	26,756
Depreciation	65,908	64,275
Sales and Marketing	4,279	5,518
Professional Services	24,452	6,778
Bank Fees	10,874	13,850
Total Operating Expenses	613,106	584,375
Net Operating Income (Loss)	86,073	(8,928)
Other Income (Expense)		
Interest Income	50	32
Interest Expense	(6,069)	(6,508)
Total Other Income (Expense)	(6,019)	(6,476)
Net Income (Loss)	80,054	(15,404)
Net Position, Beginning	261,905	277,309
Net Position, Ending	$ 341,959	261,905

Total Net Position Sheet Summary

Total net position increased in 2013 largely, but not solely, due to a contribution by the City of Elizabethton of $160,000. Also, contributing to this increase are the Pro Shop sales and Golf Course vending. These proceeds, which in years past fell under the Pro Shop manager's compensation, exceeded $16,000 and have had a very positive impact on daily operations. Also, creating positive financial impacts are memberships and daily fees.

Now, moving into the off-season, staffing levels have been reduced to winter levels in order to conserve resources.

Detailed audit information about the Golf Course can be obtained by contacting the golf course at:

Elizabethton Municipal Golf Course
185 Buck Van Huss Drive
Elizabethton, TN 37643
Phone (423) 542-8051

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2013

ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 81,632	
Accounts Receivable	187	
Inventories	16,217	
Prepaid Expense	291	
Total Current Assets		98,327
Property, Plant and Equipment		
Cost	2,289,382	
Less: Accumulated Depreciation	(1,644,131)	
Total Property, Plant and Equipment		645,251
TOTAL ASSETS		$ 743,578

(Continued)

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2013

LIABILITIES AND NET POSITION			
Current Liabilities			
Accounts Payable		$ 16,246	
Accrued Payroll Taxes		4,806	
Sales Tax Payable		1,246	
Accrued Penalty and Interest		6,374	
Unearned Revenue		103,411	
Notes Payable		30,000	
Capital Leases		34,776	
Total Current Liabilities			196,859
Long-Term Liabilities			
Capital Leases	147,947		
Less: Current Portion	(34,776)	113,171	
Notes Payable	121,589		
Less: Current Portion	(30,000)	91,589	
Total Long-Term Liabilities			204,760
TOTAL LIABILITIES			401,619
NET POSITION			
Invested in Capital Assets, Net of Related Debt		375,715	
Unrestricted (Deficit)		(33,756)	
TOTAL NET POSITION			341,959
TOTAL LIABILITIES AND NET POSITION			$ 743,578

The notes to the financial statements are an integral part of this statement.

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2013

OPERATING REVENUE		
Cart Rentals	$ 45,456	
Green Fees	234,301	
Membership Dues	151,029	
Trail Fees	3,138	
Cart Storage Fees	450	
Driving Range Income	19,094	
Locker and Club Rental	738	
USGA Handicap	708	
Tournaments	20,581	
Outing Income	43,825	
Pro Shop Income	4,920	
Vending	11,291	
Contribution	160,000	
Other Income	3,648	
TOTAL OPERATING REVENUE		699,179
OPERATING EXPENSES		
Wages and Employee Benefits	233,485	
Repairs and Maintenance	130,133	
Insurance-General	11,581	
Utilities	37,078	
Fuel Purchases	33,352	
Administrative and General	13,959	
Penalties and Interest	250	
Handicap Service	975	
Club House Expense	5,843	
Rent and Rental Expenses	13,500	
Leases	27,437	
Depreciation	65,908	
Sales and Marketing	4,279	
Professional Services	24,452	
Bank and Credit Card Fees	10,874	
TOTAL OPERATING EXPENSES		613,106

(Continued)

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2013

NET OPERATING INCOME (LOSS)		86,073	
OTHER INCOME (EXPENSES)			
Interest Income	50		
Interest Expense	(6,069)		
TOTAL OTHER INCOME (EXPENSES)		(6,019)	
NET INCOME (LOSS)			80,054
Net Position, July 1, 2012			261,905
Net Position, June 30, 2013			$ 341,959

The notes to the financial statements are an integral part of this statement.

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Users	$ 708,362	
Cash Payments to Suppliers for Goods and Services	(337,066)	
Cash Payments for Employee Services and Benefits	(248,235)	
NET CASH PROVIDED BY OPERATING ACTIVITIES		123,061
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on Leases Payable	(19,233)	
Payments on Notes Payable	(18,735)	
Payment on Line of Credit	(40,000)	
Interest Paid	(6,177)	
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES		(84,145)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	50	
NET CASH PROVIDED BY INVESTING ACTIVITIES		50
Net Increase in Cash and Cash Equivalents		38,966
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		42,666
CASH AND CASH EQUIVALENTS AT END OF YEAR		$ 81,632

(Continued)

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Operating Income (Loss)	$ 86,073	
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation Expense	65,908	
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	3,313	
(Increase) Decrease in Inventories	(2,504)	
Increase (Decrease) in Accounts Payable	(19,654)	
Increase (Decrease) in Accrued Payroll Taxes	(14,750)	
Increase (Decrease) in Sales Tax Payable	(1,195)	
Increase (Decrease) in Deferred Revenue	5,870	
NET CASH PROVIDED BY OPERATING ACTIVITIES		$ 123,061
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Borrowing Under Capital Leases		$ 99,428

The notes to the financial statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information

On April 4, 1988, a nonprofit corporation was chartered with the State of Tennessee to operate the golf course as a public benefit corporation. The Elizabethton Municipal Golf Course (the Golf Course) is managed and maintained by the Board of Directors at the will of the Elizabethton City Council and operates as a component unit of the City of Elizabethton, Tennessee (the City). As a component unit of a municipality, the Golf Course is accounted for as an enterprise fund and does not follow the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC).

The Board of Directors is responsible for establishing procedures, and formulating and adopting all policies of the organization. The Board of Directors contracts with a Golf Professional/Manager to serve as chief administrative officer for operation of the Golf Course.

Operating revenue includes membership dues, rentals, tournaments and user fees. Non-operating revenue includes interest income.

Significant Accounting Policies

A. Basis of Accounting

The full accrual basis of accounting is utilized by the Golf Course. Revenue is recognized in the period in which it is earned and measurable. Likewise, expenses are recognized when incurred, if measurable. Accordingly, all of the Golf Course's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying statement of net position in accordance with the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which was implemented during fiscal year 2013. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits in a local financial institution. The Golf Course considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

C. Inventories

Inventories of fertilizer, chemicals, gas, and diesel and Pro-Shop and concession items are stated at the lower of cost or market determined by the first-in, first-out method.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Property, Plant and Equipment

Property, plant and equipment acquired prior to January 1, 1986 have been reported at the estimated cost because records of acquisition were not maintained. Property, plant and equipment purchased after January 1, 1986 are recorded at cost. The Golf Course capitalizes assets that have a life of five years or more and cost more than $5,000. The land occupied by the Golf Course is owned by the City. Expenses for maintenance and repairs which do not improve or extend the life of assets, are charged to expense as incurred.

Depreciation has been computed on the straight-line basis with one-half year convention in the year of acquisition. Fixed asset lives are as follows:

Major Course Renovation	40 Years
Course Improvements	15 Years
Building Improvements	7 to 15 Years
Machinery and Equipment	5 to 7 Years
Office Equipment	5 to 7 Years

E. Unearned Revenue

Unearned revenue includes unearned membership dues which represent resources received in advance of an exchange transaction.

F. Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted - net position and unrestricted - net position resources are available the Golf Course's policy is to apply restricted net position first.

G. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

As part of normal business operations, the Golf Course maintains deposit accounts with a financial institution. Deposits on the Statement of Net Position include demand deposits and savings accounts. Deposits at June 30, 2013 consisted of the following:

Per Bank	Per Books
$ 84,909	$ 80,232

NOTE 2 - CASH DEPOSITS WITH FINANCIAL INSTITUTIONS (CONTINUED)

The cash and cash equivalents on the Statement of Net Position include $1,400 of cash on hand. All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits. The bank deposits are insured up to the Federal Deposit Insurance Corporation limit. The excess is covered by the State of Tennessee Collateral Pool. The Golf Course does not have a policy for interest rate risk or for credit risk other than pledging securities for amounts in excess of the FDIC coverage.

NOTE 3 - FIXED ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated				
Building and Building Improvements	$ 72,334	-	-	72,334
Machinery and Equipment	668,377	99,013	-	767,390
Vehicles	4,500	-	-	4,500
Office Equipment	13,442	-	-	13,442
Course Improvements	1,424,926	-	-	1,424,926
Carts, Range and Other	6,790	-	-	6,790
Total Capital Assets, Being Depreciated	2,190,369	99,013	0	2,289,382
Less Accumulated Depreciation For				
Building and Building Improvements	(59,896)	(2,644)	-	(62,540)
Machinery and Equipment	(564,500)	(35,126)	-	(599,626)
Vehicles	(4,500)	-	-	(4,500)
Office Equipment	(13,442)	-	-	(13,442)
Course Improvements	(929,095)	(28,138)	-	(957,233)
Carts, Range and Other	(6,790)	-	-	(6,790)
Total Accumulated Depreciation	(1,578,223)	(65,908)	0	(1,644,131)
Total Capital Assets, Being Depreciated, Net	$ 612,146	33,105	0	645,251

NOTE 4 - LEASE OBLIGATIONS

Capital Leases

The Golf Course leases various mowing and turf equipment from several financing companies. The economic substance of the leases is that the Golf Course is financing the acquisition of the assets through the leases and, accordingly, the leases are recorded in the Golf Course's assets and liabilities. Capital leases reflect the transfer of risks and benefits associated with the asset to the lessee. During year 2013, the Golf Course obtained additional capital leases for mowing equipment.

NOTE 4 - LEASE OBLIGATIONS (CONTINUED)

Capital Leases (Continued)

The following is an analysis of leased assets included in the equipment of the Golf Course.

Various Mowing and Turf Equipment	$182,388
Less: Accumulated Depreciation	(37,843)
	$144,545

Amortization of assets held under capital leases is included with depreciation expense.

During the year ended June 30, 2013, the following debt transactions occurred.

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year	Outstanding Balance
Capital Lease - Turf Equipment	$ 2,526	-	1,914	612	612	-
Capital Lease - John Deere	65,225	46,573	15,740	96,058	24,393	71,665
Capital Lease - Toro Groundmaster	-	52,856	1,579	51,277	9,771	41,506
	$ 67,751	99,429	19,233	147,947	34,776	113,171

Future payments required under the capital leases are as follows:

Year Ending June 30	Principal	Interest	Total
2014	$ 34,776	6,194	40,970
2015	35,385	4,970	40,355
2016	32,061	2,874	34,935
2017	26,597	1,308	27,905
2018	19,128	367	19,495
	$ 147,947	15,713	163,660

NOTE 4 - LEASE OBLIGATIONS (CONTINUED)

Operating Leases

The Golf Course leases property to be used as a driving range. In addition to the $1,125 monthly lease payment, the Golf Course is required to pay all utility bills, business taxes or fees and carry public liability insurance on the property. The Golf Course is also responsible for payment to the lessor 1/3 of all driving range annual income received in excess of $22,500 as a lump sum annually. The lease agreement was renewed in the fiscal year 2011 and matures March 1, 2014. Total lease expense for the year was $13,500.

The Golf Course also leases golf carts from Yamaha. Monthly payments of principal and interest are $2,230 and the final payment on the term of the lease will be during the 2015 fiscal year. Total lease expense, including interest, for the year was $26,756.

Future payments required under the operating leases are as follows:

Year Ending June 30	Amount
2014	$ 40,260
2015	26,760
	$ 67,020

NOTE 5 - NOTES PAYABLE

During the year ended June 30, 2013 the following debt transactions occurred.

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year	Outstanding Balance
Capital Outlay Note - CCB	$ 18,735	-	18,735	-	-	-
Note Payable - Primary Government	121,589	-	-	121,589	30,000	91,589
Line of Credit	40,000	-	40,000	-	-	-
	$ 180,324	-	58,735	121,589	30,000	91,589

The Golf Course and the City of Elizabethton agreed to a revised debt service schedule. Originally, a portion of the City's $1,755,000 General Obligation Refunding Bonds, Series 2001 were issued to refund in advance of maturity a portion of Golf Course's Series 1992 General Obligations Bonds. The City would be responsible for making the debt service payments for the bonds and the Golf Course would be repaying the City.

The Golf Course entered into a seven-year loan agreement with the City for a loan of $250,000 on August 1, 1998. The interest rate is 5.47%. Principal payments were constant ($35,714), with the first annual payment due on August 1, 1999. During 2001, the loan agreement was amended to require annual payments of interest only for fiscal years ending 2002-2005. The due date of the note was extended to August 1, 2009. During 2004, the Golf Course and the City agreed to another revision. Their revision postponed the first principal payment until fiscal year end 2008 and extended maturity until 2016.

During 2008, the Golf Course and the City agreed to another revision. The notes and bonds are now combined into one obligation, and the interest on both the bond and note has been forgiven. Maturity is extended to 2016. During the current fiscal year, the Golf Course did not make the principal payment to the City.

Subsequent to year end, the City of Elizabethton City Council approved a resolution at their November 2013 council meeting to forgive the $121,589 note payable agreement with the Golf Course.

NOTE 5 - NOTES PAYABLE (CONTINUED)

The Golf Course entered a five-year capital outlay note for the purchase of equipment with Carter County Bank for $85,321 on June 4, 2008. The interest rate is 4.65%. The debt is secured by assets and equipment of the Golf Course. This debt was paid off during the current fiscal year.

Line of Credit

The Golf Course paid off and closed the line of credit during the current year. The line of credit had a balance of $40,000. The interest rate was 5.25%.

NOTE 6 - INCOME TAX STATUS

The Golf Course qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes.

NOTE 7 - RISK MANAGEMENT ACTIVITIES

The Golf Course carries insurance coverage and is insured with City policies through the Tennessee Municipal League (TML) Risk Management Pool for worker's compensation, general liability, automobile coverage, and errors and omission coverage. There was no reduction in insurance coverage from the prior year and the Golf Course has not had any settlements in the last three years which were not covered by insurance.

NOTE 8 - ACCOUNTING FOR UNCERTAIN TAX POSITIONS

Although the Golf Course does not follow FASB *ASC* guidance for their accounting, they do follow FASB *ASC* guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. As of June 30, 2013, the Golf Course had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Golf Course's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the financial statements. No interest or penalties were recorded during the year ended June 30, 2013. Generally, the tax years before 2010 are no longer subject to examination by federal taxing authorities.

NOTE 9 - EMPHASIS OF MATTER

As of June 30, 2013, the Golf Course reports a deficit in unrestricted net position of $33,756. During the fiscal year, the Golf Course received a $160,000 contribution from the City of Elizabethton, Tennessee. The Board closely monitors revenues and expenses. Management of the Golf Course will continue to seek additional cost saving options as well as increased marketing efforts.

NOTE 10 - SUBSEQUENT EVENT

On October 1, 2013, the Golf Course obtained a new capital lease in the amount of $11,888. The capital lease is a five year lease and matures October 1, 2018. The monthly principal and interest payments will be in the amount of $198.

The City of Elizabethton City Council approved a resolution at their November council meeting to forgive the $121,589 note payable agreement with the Golf Course.

SUPPLEMENTAL

INFORMATION

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF MEMBERSHIP RATES IN FORCE
For the Year Ended June 30, 2013

Dues for Membership Year April 1, 2013 to March 31, 2014:

Regular – Single Membership	$ 940.50
Additional Family Members	470.25
Seniors	847.00
Super Seniors	250.00
Limited Membership (Monday-Thursday)	654.50
Juniors	295.00
Cart Club Membership	764.50
Limited Cart Club Membership	627.00

Super seniors are members who are 80 years or older and have been a member of the Elizabethton Golf Course for the past 10 years in good standing. Also, members who are 75 years or older on April 1, 2013 and have been members in good standing for a minimum of 5 consecutive years, will be exempt from any additional rate increases that would go into effect in the future.

As approved by the Board of Directors, all cart fees, trail fees, club storage, and lockers are to be paid in full by April 1.

Locker Fee (Regular)	$30.00
Locker Fee (Small)	20.00
Unlimited Cart Trail Fee	764.50
Handicap Service	25.00
Range Balls	7.00
Unlimited Range Membership	315.00

	Weekends	Weekdays
Green Fees (includes cart)		
Eighteen Holes	$ 28.00	$ 25.00
Nine Holes	$ 25.00	$ 15.00
Junior Green Fees (Under the age of 16)		
Eighteen Holes	$ 20.00	$ 15.00
Nine Holes	$ 15.00	$ 10.00
Cart Rentals (Per Rider)		
Eighteen Holes	$ 13.25	$ 13.25
Nine Holes	$ 7.00	$ 7.00
Private Owned Cart Rentals (Per Rider)		
Eighteen Holes	$ 8.00	$ 8.00
Nine Holes	$ 4.00	$ 4.00

See Independent Auditors' Report.

SECTION II

INTERNAL CONTROL AND COMPLIANCE SECTION

Blackburn,
Childers &
Steagall, PLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH BY *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Elizabethton Municipal Golf Course
Elizabethton, Tennessee 37643

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Elizabethton Municipal Golf Course (the Golf Course), component unit of the City of Elizabethton, Tennessee, as of and for the year ended June 30, 2013, and related notes to the financial statements, which collectively comprise the Golf Course's basic financial statements and have issued our report thereon dated November 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Golf Course's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Golf Course's internal control. Accordingly, we do not express an opinion on the effectiveness of the Golf Course'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 weaknesses* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 2012-02, 2011-02, 2008-02, and 2008-03.

Johnson City	801B Sunset Drive, Johnson City, TN 37604	(423) 282-4511	Fax (423) 283-4532
Kingsport	1361 S. Wilcox Drive, Kingsport, TN 37660	(423) 246-1725	Fax (423) 247-6800
Greeneville	550 Tusculum Boulevard, Greeneville, TN 37745	(423) 638-8516	Fax (423) 638-3361

BCScpa.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Golf Course'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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2012-02, 2011-02, 2008-02, and 2008-03.

The Golf Course's Response to Findings

The Golf Course's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Golf Course's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Blackburn, Childers & Steagall, PLC

BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

November 21, 2013

PRIOR YEAR FINDINGS NOT IMPLEMENTED

2012-02: Significant Deficiency**:** Reconciling Accounts (Repeated from 6-30-12 Report with additional current year information)

Condition: During the course of the annual audit, it was noted that the following account balances had not been properly reconciled and required adjusting entries to be posted. The areas not reconciled at year end consist of net position, inventory, accounts payable, deferred revenues, fixed assets, debt, accounts receivable, and membership revenue. In addition, an accounts payable subsidiary ledger was not available and a detail report of deferred memberships was not prepared.

Criteria: General ledger accounts should be timely reviewed, reconciled to the appropriate supporting documentation or subsidiary ledger reports and adjusted. The Internal Control and Compliance Manual for Tennessee Municipalities (Manual) issued by the Tennessee Comptroller indicates in Title 6, Chapter 1 that officials should provide constant, close supervision to ensure that:

- Internal controls are working
- Personnel are following the prescribed routines
- Bank accounts and control accounts in the accounting records are being reconciled systematically and the reconciliation is documented and retained
- Current year activity is being reported accurately.

Effect: The effect of this deficiency creates the possibility that misstatements may not be timely noted or corrected.

Recommendation: We recommend procedures that are now in place continue in order to prepare routine, monthly and year end reconciliations for general ledger accounts to the supporting documentation and subsidiary ledgers and to make related adjustments. The procedures should require retention of supporting documentation for all entries and transfers including indication of appropriate review and approval. These routine reconciliations and adjustments will ensure meaningful and accurate financial statements. If reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed.

Management's Response: The Board accepts the recommendations of Blackburn, Childers & Steagall regarding deficiencies when reconciling accounts. These recommendations have been in place for one half the fiscal year and is serving the golf course well and satisfying the State Comptroller's office. We intend to keep these procedures in place and have adopted them as "standard operating procedures" for the Golf Course.

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

***2011-02: Significant Deficiency*:** Purchasing Procedures and Documentation (Repeated from 6-30-12 and 6-30-11 Reports with additional current year information)

Condition: During audit procedures regarding disbursements, we noted the following issues. Fourteen disbursements lacked supporting documentation, invoices, or receipts. Another disbursement tested was not supported with a purchase order. Due to the missing documentation, other internal control factors could not be verified as working properly. There was also no indication of price quotes or bids being obtained for fuel purchases.

Criteria: To enhance internal controls, all disbursements should be properly supported with original documentation such as invoices, receiving reports, sales receipts or other support. Purchase orders should be timely completed and approved before purchases are made. Price inquiries, price quotes and/or bids should be in place where applicable.

Effect: The effect of this deficiency does not provide an adequate audit trail.

Recommendation: We recommend the purchasing procedures be followed and that all documentation for all disbursements be maintained in an organized manner, as is being done subsequent to fiscal year end. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 19, indicates that all disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets, or other adequate supporting documentation. The documentation should be sufficient to determine that the expenditure was for a municipal purpose. The supporting documentation should be signed by the person receiving the goods or services to verify that the municipality received and accepted the goods/services for which it was charged. Supporting documents should be canceled by writing the check number, amount, payment date, and account to be charged on the first page of documentation and stamping “PAID” on all other pages.

Management’s Response: The Board accepts the recommendations of Blackburn, Childers & Steagall regarding deficiencies when dealing with purchasing procedures and documentation. It is our intent to continue to follow guidelines described in Title 5, Chapter 19 of the *Internal Control and Compliance Manual for Tennessee Municipalities* as we have done the last half of the previous fiscal year and moving forward into the current FY. The finance committee, which is appointed by the Board, as part of its duties, checks Purchasing Procedure and Documentation monthly to insure that all disbursements are supported by invoices, cash tickets, and/or other supporting documentation, is signed correctly, and is stamped “PAID” in all appropriate areas.

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

2008-02: Significant Deficiency: Deficit (Repeated from 6-30-12, 6-30-11, 6-30-10, 6-30-09 and 6-30-08 Reports with additional current year information)

Condition: The Golf Course has a deficit in unrestricted net position. During the fiscal year, the Golf Course reported a Net Income of $80,054. However, the City of Elizabethton made a $160,000 contribution to the Golf Course for operations.

Criteria: State statutes require enterprise funds to be self-supporting.

Effect: The Golf Course needs to closely monitor operations and budget in order to maintain the level of service.

Recommendation: Revenues and expenses should be reviewed to provide adequate income for this fund. Monthly budgets and financial reports should be prepared and reviewed.

Management's Response: The Board accepts the recommendations of Blackburn, Childers & Steagall regarding "Deficit" as well as revenue and expense monitoring. Presently four reports are discussed each month by the Board: Balance Sheet, Profit & Loss statement from QuickBooks, Monthly Worksheets (these describe all income for the previous month) and a forecast worksheet (this compares the previous month with that month from the previous year). These four forms of information allow the Board to monitor, judge and make recommendations for future spending and revenue generation.

2008-03: Significant Deficiency: Segregation of Duties (Repeated from 6-30-12, 6-30-11, 6-30-10, 6-30-09 and 6-30-08 Reports with additional current year information)

Condition: During parts of the fiscal year, the former manager performed most accounting, reconciling and general ledger functions. Also, for a period of months, these same functions were being performed by the current manager, as needed. In addition, journal entries were not always properly approved or fully supported with documentation.

Criteria: Internal controls are designed to safeguard assets. A fundamental concept in a good system of internal control is the segregation of duties, monitoring and oversight.

Effect: This deficiency results in an opportunity for errors to be made and not timely detected. This increases the risk exposure to the Golf Course.

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

2008-03: Significant Deficiency: Segregation of Duties (Repeated from 6-30-12, 6-30-11, 6-30-10, 6-30-09 and 6-30-08 Reports with additional current year information)(Continued)

Recommendation: The basic premise of segregation of duties is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. We recommend a board member, officer, or other employee continue to open the bank statement, review the cancelled checks for any unusual items and sign/initial the statement and then submit this to the manager. The monthly bank reconciliations should continue to be reviewed and signed by a board officer. Mail should be opened by an employee or board member not responsible for accounting. Signed checks should be mailed without allowing them to be returned to the employee responsible for accounts payable. A member of the board should periodically review supporting documentation for disbursements such as approved purchase orders, invoices and credit card statements. Journal entries should be reviewed and approved by an employee other than the one who prepared the entry.

Management's Response: The Board accepts the recommendations of Blackburn, Childers & Steagall regarding Segregation of Duties. We will work diligently to conform to the recommendations set forth in this audit. The Board will assign these specific duties to specific individuals at the November board meeting.

PRIOR YEAR FINDINGS IMPLEMENTED

2012-01 Material Weakness: Payroll and Sales Taxes

2012-03 Significant Deficiency: Outstanding Reconciling Items

2011-01 Significant Deficiency: Line of Credit