



ELIZABETHTON MUNICIPAL GOLF COURSE

**A COMPONENT UNIT OF THE
CITY OF ELIZABETHTON, TENNESSEE**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

ELIZABETHTON MUNICIPAL GOLF COURSE

A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE

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For the Year Ended June 30, 2014

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A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
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SECTION I

FINANCIAL SECTION

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, 2014, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Golf Course, as of June 30, 2014, 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.

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 11, 2014, 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 11, 2014

**Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2014**

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, 2014.

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 memberships decreased slightly in fiscal year 2014, down by four. Because of changing demographics the number of rounds played during fiscal year 2014 decreased. These fees will increase again for fiscal year 2015 and a strict cost savings approach will be enforced during this fiscal year.

	<u>2014</u>	<u>2013</u>
Full	62	67
Second Family	4	-
Senior	20	19
Junior	18	28
Limited	29	18
Over 80	<u>1</u>	<u>6</u>
Total	<u>134</u>	<u>138</u>

**Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2014**

Rounds played in 2014 compared to 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Members	9,266	8,959
Guests	13,553	16,106
Total	<u>22,819</u>	<u>25,065</u>

As the chart above shows total rounds played decreased from 2013 to 2014. This is attributed to a change in demographic and the fact that players have less expendable income to use for a round of golf.

Financial Position Summary	<u>2014</u>	<u>2013</u>
Current Assets	\$ 96,258	98,327
Property, Plant, and Equipment (Net)	<u>578,340</u>	<u>645,251</u>
Total Assets	<u>674,598</u>	<u>743,578</u>
Current Liabilities	165,014	196,859
Long-Term Liabilities	<u>84,390</u>	<u>204,760</u>
Total Liabilities	<u>249,404</u>	<u>401,619</u>
Net Investment in Capital Assets	456,760	375,715
Restricted	725	
Unrestricted (Deficit) Net Position	<u>(32,291)</u>	<u>(33,756)</u>
Total Net Position	<u>425,194</u>	<u>341,959</u>
Total Liabilities and Net Position	<u>\$ 674,598</u>	<u>743,578</u>

Capital Assets

The following chart highlights the capital assets for fiscal year 2014 and 2013.

Capital Assets	<u>2014</u>	<u>2013</u>
Building and Building Improvements	\$ 7,957	9,794
Machinery and Equipment	130,231	167,764
Course Improvements	<u>440,152</u>	<u>467,693</u>
Total Capital Assets	<u>\$ 578,340</u>	<u>645,251</u>

Assets are shown above net of accumulated depreciation.

**Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2014**

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 consisted of a Note Payable to the City. 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

	<u>2014</u>	<u>2013</u>
Operating Revenue		
Cart Rentals	\$ 39,914	45,456
Green Fees	206,850	234,301
Membership Dues	161,108	151,029
Trail Fees	120	3,138
Cart Storage Fees	64	450
Driving Range Income	22,858	19,094
Locker and Club Rental	869	738
Tournaments	36,045	20,581
Other Income	21,506	3,648
Outing Income	57,490	43,825
USGA Handicap	850	708
Pro Shop Income	11,449	4,920
Vending	36,094	11,291
Contribution	-	160,000
	<u>595,217</u>	<u>699,179</u>
Total Operating Revenues	595,217	699,179

**Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2014**

Summary of Changes in Net Position (continued)

	<u>2014</u>	<u>2013</u>
Operating Expenses		
Wages and Employee Benefits	229,517	233,485
Repairs and Maintenance	115,286	130,133
Insurance-General	14,526	11,581
Utilities	32,430	37,078
Fuel Purchase	30,848	33,352
Administrative and General	53,489	13,959
Handicap Service	691	975
Penalties and Interest	919	250
Club House Expense	438	5,843
Rent and Rental Expense	13,500	13,500
Leases	27,750	27,437
Depreciation	76,907	65,908
Sales and Marketing	1,275	4,279
Professional Services	19,646	24,452
Bank Fees	10,294	10,874
	<u>627,516</u>	<u>613,106</u>
Total Operating Expenses		
	<u>(32,299)</u>	<u>86,073</u>
Net Operating Income (Loss)		
NONOPERATING REVENUES(EXPENSES)		
Interest Income	105	50
Interest Expense	(6,160)	(6,069)
	<u>(6,055)</u>	<u>(6,019)</u>
TOTAL NONOPERATING REVENUES(EXPENSES)		
	<u>(38,354)</u>	<u>80,054</u>
NET INCOME (LOSS) BEFORE SPECIAL ITEM		
SPECIAL ITEM		
Forgiveness of Debt	121,589	-
	<u>121,589</u>	<u>-</u>
TOTAL SPECIAL ITEM		
	<u>341,959</u>	<u>261,905</u>
Net Position, Beginning		
	<u>\$ 425,194</u>	<u>341,959</u>
Net Position, Ending		

**Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2014**

Total Net Position Sheet Summary

Total net position increased in fiscal year 2014 largely, but not solely, due to the forgiveness of debt by the City of Elizabethton of \$121,589. Also, contributing to this increase are the Pro Shop sales and Golf Course vending. These proceeds, which in years past fell under Pro Shop manager compensation, exceeded \$30,164 and have had very positive impact on daily operations. Also, creating positive financial impacts are increases in membership and daily fees.

Now, moving into the off-season, staffing levels have been reduced to winter levels in order to conserve resources. Moving into the new calendar year, the Board has the goal of further controlling costs of operations and increasing in membership and greens fee players.

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, 2014

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 69,905
Accounts Receivable	17
Inventories	26,045
Prepaid Expense	<u>291</u>

Total Current Assets 96,258

Property, Plant and Equipment

Cost	2,299,378
Less: Accumulated Depreciation	<u>(1,721,038)</u>

Total Property, Plant and Equipment 578,340

TOTAL ASSETS \$ 674,598

(Continued)

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2014

LIABILITIES AND NET POSITION

Current Liabilities

Accounts Payable	\$ 11,476
Accrued Payroll Taxes	10,553
Sales Tax Payable	824
Unearned Revenue	104,971
Capital Leases	<u>37,190</u>

Total Current Liabilities 165,014

Long-Term Liabilities

Capital Leases	<u>84,390</u>
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Total Long-Term Liabilities 84,390

TOTAL LIABILITIES 249,404

NET POSITION

Net Investment in Capital Assets	456,760
Restricted	725
Unrestricted (Deficit)	<u>(32,291)</u>

TOTAL NET POSITION 425,194

TOTAL LIABILITIES AND NET POSITION \$ 674,598

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, 2014

OPERATING REVENUE	
Cart Rentals	\$ 39,914
Green Fees	206,850
Membership Dues	161,108
Trail Fees	120
Cart Storage Fees	64
Driving Range Income	22,858
Locker and Club Rental	869
USGA Handicap	850
Tournaments	36,045
Outing Income	57,490
Pro Shop Income	11,449
Vending	36,094
Other Income	<u>21,506</u>
 TOTAL OPERATING REVENUE	 595,217
OPERATING EXPENSES	
Wages and Employee Benefits	229,517
Repairs and Maintenance	115,286
Insurance-General	14,526
Utilities	32,430
Fuel Purchases	30,848
Administrative and General	53,489
Penalties and Interest	919
Handicap Service	691
Club House Expense	438
Rent and Rental Expenses	13,500
Leases	27,750
Depreciation	76,907
Sales and Marketing	1,275
Professional Services	19,646
Bank and Credit Card Fees	<u>10,294</u>
 TOTAL OPERATING EXPENSES	 <u>627,516</u>

(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, 2014

NET OPERATING INCOME (LOSS)		(32,299)
NONOPERATING REVENUES(EXPENSES)		
Interest Income	105	
Interest Expense	<u>(6,160)</u>	
TOTAL NONOPERATING REVENUES(EXPENSES)		<u>(6,055)</u>
NET INCOME (LOSS) BEFORE SPECIAL ITEM		(38,354)
SPECIAL ITEM		
Forgiveness of Debt	<u>121,589</u>	
TOTAL SPECIAL ITEM		<u>121,589</u>
Change in Net Position		83,235
Net Position, July 1, 2013		<u>341,959</u>
Net Position, June 30, 2014		<u><u>\$ 425,194</u></u>

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Users	\$ 596,947	
Cash Payments to Suppliers for Goods and Services	(336,113)	
Cash Payments for Employee Services and Benefits	<u>(230,143)</u>	
NET CASH PROVIDED BY OPERATING ACTIVITIES		30,691
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on Leases Payable	(36,363)	
Interest Paid	<u>(6,160)</u>	
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES		(42,523)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	<u>105</u>	
NET CASH PROVIDED BY INVESTING ACTIVITIES		<u>105</u>
Net Decrease in Cash and Cash Equivalents		(11,727)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>81,632</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>\$ 69,905</u></u>

(Continued)

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Operating Income (Loss)	\$ (32,299)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation Expense	76,907
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	171
(Increase) Decrease in Inventories	(9,828)
Increase (Decrease) in Accounts Payable	(4,770)
Increase (Decrease) in Accrued Payroll Taxes	5,745
Increase (Decrease) in Sales Tax Payable	(422)
Increase (Decrease) in Accrued Penalty and Interest	(6,373)
Increase (Decrease) in Unearned Revenue	<u>1,560</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 30,691</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES	
Borrowing Under Capital Leases	<u>\$ 9,996</u>
Forgiveness of Debt	<u>\$ 121,589</u>

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
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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.

Operating revenue includes membership dues, rentals, tournaments, vending, pro shop sales 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*. 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.

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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. The carrying amount of the Golf Course's deposits with financial institution was \$68,505 and the financial institution balance was \$65,390. Carrying amounts differ from the financial institution balances primarily due to outstanding checks and deposits in transit.

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated				
Building and Building Improvements	\$ 72,334	-	-	72,334
Machinery and Equipment	767,390	9,996	-	777,386
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	<u>2,289,382</u>	<u>9,996</u>	<u>0</u>	<u>2,299,378</u>
Less Accumulated Depreciation For				
Building and Building Improvements	(62,540)	(1,837)	-	(64,377)
Machinery and Equipment	(599,626)	(47,529)	-	(647,155)
Vehicles	(4,500)	-	-	(4,500)
Office Equipment	(13,442)	-	-	(13,442)
Course Improvements	(957,233)	(27,541)	-	(984,774)
Carts, Range and Other	(6,790)	-	-	(6,790)
Total Accumulated Depreciation	<u>(1,644,131)</u>	<u>(76,907)</u>	<u>0</u>	<u>(1,721,038)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 645,251</u>	<u>(66,911)</u>	<u>0</u>	<u>578,340</u>

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 2014, the Golf Course obtained additional capital leases for mowing equipment.

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

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	\$192,383
Less: Accumulated Depreciation	<u>(73,830)</u>
	<u>\$118,553</u>

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

During the year ended June 30, 2014, 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	\$ 612	-	612	-	-	-
Capital Lease - Progator	-	9,996	1,331	8,665	1,805	6,860
Capital Lease - John Deere	96,058	-	24,641	71,417	25,217	46,200
Capital Lease - Toro Groundmaster	<u>51,277</u>	<u>-</u>	<u>9,779</u>	<u>41,498</u>	<u>10,168</u>	<u>31,330</u>
	<u>\$ 147,947</u>	<u>9,996</u>	<u>36,363</u>	<u>121,580</u>	<u>37,190</u>	<u>84,390</u>

Future payments required under the capital leases are as follows:

Year Ending June 30	Principal	Interest	Total
2015	\$ 37,190	5,543	42,733
2016	33,742	3,311	37,053
2017	28,683	1,598	30,281
2018	21,373	500	21,873
2019	592	7	599
	<u>\$ 121,580</u>	<u>10,959</u>	<u>132,539</u>

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

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 matured March 1, 2014. A new agreement has not been entered into as of the year ended June 30, 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 <u>Ending June 30</u>	<u>Amount</u>
2015	\$ 15,608
	<u>\$ 15,608</u>

ELIZABETHTON MUNICIPAL GOLF COURSE
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 5 - NOTES PAYABLE

During the year ended June 30, 2014 the following debt transactions occurred.

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year	Outstanding Balance
Note Payable - Primary Government	\$ 121,589	-	121,589	-	-	-
	<u>\$ 121,589</u>	<u>0</u>	<u>121,589</u>	<u>0</u>	<u>0</u>	<u>0</u>

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 were combined into one obligation, and the interest on both the bond and note was forgiven. Maturity was extended to 2016. During the current fiscal year, 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 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.

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 7 - RISK MANAGEMENT ACTIVITIES

The Golf Course carries insurance coverage and is insured with City of Elizabethton 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 four 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, 2014, 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, 2014. Generally, the tax years before 2011 are no longer subject to examination by federal taxing authorities.

NOTE 9 - EMPHASIS OF MATTER

As of June 30, 2014, the Golf Course reports a deficit in unrestricted net position of \$32,291. During the fiscal year, the Golf Course was relieved of the note payable to the City of Elizabethton in the amount of \$121,589. 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.

**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, 2014**

Dues for Membership Year April 1, 2014 to March 31, 2015:

Regular – Single Membership	\$ 987
Seniors	889
Additional Spouse Membership (Regular or Senior)	494
Super Seniors	262
Limited Membership (Monday-Thursday)	687
Additional Spouse Membership (Limited)	343
Juniors	295
Cart Club Membership	803
Limited Cart Club Membership	658

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
Locker Fee (Small)	20
Private Cart Unlimited Play with Storage (Gas)	803
Private Cart Unlimited Play with Storage (Electric)	855
Private Cart Unlimited Play without Storage	630
Handicap Service	25
Range Balls	7
Unlimited Range Membership	31

(Continued)

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, 2014

	<u>Weekends</u>	<u>Weekdays</u>
<u>Summer Rates (May 1st-October 31st)</u>		
Green Fees (includes cart)		
Eighteen Holes	\$ 32.00	\$ 25.00
Nine Holes	\$ 20.00	\$ 15.00
Early Bird (Sunday 8:00am - 10:30am with Cart)	\$ 25.00	\$ 25.00
Twilight Rate (Saturday, Sunday, and Holidays after 2:30pm)	\$ 25.00	\$ 25.00
<u>Winter Rates (November 1st-April30th)</u>		
Green Fees (includes cart)		
Eighteen Holes	\$ 28.00	\$ 25.00
Nine Holes	\$ 20.00	\$ 15.00
Early Bird (Sunday 8:00am - 10:30am with Cart)	\$ 25.00	\$ 25.00
Junior Green Fees (Under the age of 16)		
Unlimited Holes	\$ 20.00	\$ 15.00
Nine Holes	\$ 15.00	\$ 10.00
Cart Rentals (Per Rider)		
Eighteen Holes	\$ 14.00	\$ 14.00
Nine Holes	\$ 7.00	\$ 7.00
Private Owned Cart Rentals (Per Rider)		
Eighteen Holes	\$ 14.00	\$ 14.00
Nine Holes	\$ 7.00	\$ 7.00

See Independent Auditors' Report.

SECTION II

INTERNAL CONTROL AND COMPLIANCE SECTION

**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, 2014, 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 11, 2014.

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: 2012-002, 2011-002, 2008-002, and 2008-003.

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 2012-002, 2011-002, 2008-002, and 2008-003.

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 11, 2014

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS
For the Fiscal Year Ended June 30, 2014

Financial Statement Findings

Finding Number		Finding Title		Status
2012-002		Reconciling Accounts		Repeated
2011-002		Purchasing Procedures		Repeated
2008-002		Deficit		Repeated
2008-003		Segregation of Duties		Repeated

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014**

PRIOR YEAR FINDINGS NOT IMPLEMENTED

2012-002: Significant Deficiency: Reconciling Accounts (Repeated from 6-30-13 and 6-30-12 reports 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, certain payroll liabilities and membership revenue.

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: It has been noted in previous reports the errors in financial reporting under our former Manager / Pro at the Golf Course. The Board released the former manager and reassigned responsibilities of the Board in order to enact procedures to address material weaknesses and significant deficiencies. These procedures, most notably, the separation of financial duties have helped identify these problems. The Golf Course is dedicated to managing this business in accordance with State Law, Elizabethton City Council wishes and the recommendations of Blackburn, Childers & Steagall. Monthly bank reconciliations are audited and signed. Expenditures, outside daily operations, are reviewed and approved prior to taking place and the business costs are reviewed on a monthly basis. Also, purchase orders are written when necessary and mail is opened by someone other than the Pro-Shop Manager. Board meeting minutes, balance sheets and profit and loss statements are generated and sent to the City Manager on a monthly basis.

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014**

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

2012-002: Significant Deficiency: Reconciling Accounts (Repeated from 6-30-13 and 6-30-12 reports with additional current year information) (Continued)

Management's Response (Continued): We feel strongly and are working hard to constantly follow directions from Title 6 Chapter 1 of the internal control and Compliance Manual for Tennessee Municipalities.

2011-002: Significant Deficiency: Purchasing Procedures and Documentation (Repeated from 6-30-13, 6-30-12 and 6-30-11 reports with additional current year information)

Condition: During audit procedures regarding purchasing, the use of debit cards was noted. An instance was noted in which the purchase tested lacked an identified purpose for the purchase. Additionally, it was noted that another purchase was made with a debit card when another form of payment would have been preferred. It was also noted that bids/price quotes for gasoline were not always obtained. Two disbursements lacked the proper supporting documentation (i.e. purchase order, invoice, etc.).

Criteria: To enhance internal controls, all disbursements should be properly supported with original documentation such as invoices, receiving reports, sales receipts or other support. Additionally, the purchase should have a stated purpose. When applicable, price inquiries, price quotes and/or bids should be in place where applicable.

Effect: The effect of this deficiency is an increase in risk over the purchasing process.

Recommendation: When a debit card is used, we recommend the purchase order, receipt and supporting documentation be fully documented to indicate the purpose of the purchase. The documentation should be reviewed and signed off as proper approval.

Management's Response: In fiscal year 2015, the Board will actively monitor debit card use pressing the manager to always record the instance and purpose of its use and generate necessary purchase order documentation. Requiring bids/price quotes for gasoline will now become standard procedure.

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014**

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

2008-002: Significant Deficiency: Deficit (Repeated from 6-30-13, 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 change in net position of \$83,235. However, the City of Elizabethton forgave the note payable to the City in the amount of \$121,589.

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: In fiscal year 2015, the Board has already started scrutinizing monthly expenditures of the Golf Course staff, most notably summer help wages. Also, chemical costs and equipment repair costs during each month are being studied. During board meetings, we study financial reports, outstanding debt and income as it compares to previous months and the prior years. It is our goal to better manage income during the peak-season-months in order to cover costs during the slower months.

2008-003: Significant Deficiency: Segregation of Duties (Repeated from 6-30-13, 6-30-12, 6-30-11, 6-30-10, 6-30-09 and 6-30-08 reports with additional current year information)

Condition: It was noted that in a majority of cases the same individual completes most of the accounting functions.

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.

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014**

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

2008-003: Significant Deficiency: Segregation of Duties (Repeated from 6-30-13, 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 understands Segregation of Duties and the necessity of such segregation. We agree with the recommendations and will continue to work toward a satisfactory solution. Winter-time staffing levels hinder meeting these recommendations but we will continue to advance this issue.