



ELIZABETHTON MUNICIPAL GOLF COURSE

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

FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

ELIZABETHTON MUNICIPAL GOLF COURSE

A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE

FINANCIAL STATEMENTS

WITH SUPPLEMENTAL INFORMATION

For the Year Ended June 30, 2017

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
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June 30, 2017

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SECTION I

INTRODUCTORY SECTION

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
LIST OF APPOINTED OFFICIALS
June 30, 2017**

Appointed Officials

Chair	Jeff Andrews
Board Member	Mike Mains
Board Member	Mike Matheson
Board Member	Scotty Bunton
Board Member	Cathy Ross
Board Member	Bob Lipford
Board Member	Tommy Tipton
Board Member	John Hughes
Board Member	Wes Frazier

SECTION II

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Elizabethton Municipal Golf Course

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Elizabethton Municipal Golf Course (the Golf Course), a component unit of the City of Elizabethton, Tennessee, as of and for the year ended June 30, 2017, 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 financial position of the business-type activities of the Golf Course, as of June 30, 2017, 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.

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 5 through 9 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 collectively comprise the Golf Course's basic financial statements. The introductory section and supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental 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 supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Golf Course's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Golf Course's internal control over financial reporting and compliance.

Blackburn, Childers + Steagall, PLC

BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

November 30, 2017

**Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2017**

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, 2017.

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 these sections. Section I includes the introductory section. Section II 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 III and IV includes the internal control and compliance and corrective action plan.

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 in fiscal year 2017 due to non-renewal to a regular membership from a new membership promotion. Membership income increased with one-year members paying normal rates rather than one year new member rates. Customer revenue collection for green fees decreased in fiscal year 2017 by \$15,936. Green fee prices were lowered to allow more diversity in play. Extensive work has also been done to the course. Sod was laid around bunker surrounds and more fertilization was applied to enhance playability.

As a total, operating expenses increased in fiscal year 2017. The extra expenses were incurred from upgrading the golf course with a new fertilization process, sodding bunker surrounds, and roof repair and main irrigation pump repairs. Also, increasing in fiscal years 2017 were the hours to maintain the golf course and staff the pro-shop. This resulted in an increase in wages and employee benefits during the year.

**Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2017**

Financial Position Summary	<u>2017</u>	<u>2016</u>
Current Assets	\$ 158,314	113,083
Property, Plant, and Equipment (Net)	<u>455,935</u>	<u>503,056</u>
Total Assets	<u><u>614,249</u></u>	<u><u>616,139</u></u>
Current Liabilities	129,739	144,006
Long-Term Liabilities	<u>23,302</u>	<u>44,192</u>
Total Liabilities	<u>153,041</u>	<u>188,198</u>
Net Investment in Capital Assets	411,750	440,624
Restricted	875	875
Unrestricted (Deficit) Net Position	<u>48,583</u>	<u>(13,558)</u>
Total Net Position	<u>461,208</u>	<u>427,941</u>
Total Liabilities and Net Position	<u><u>\$ 614,249</u></u>	<u><u>616,139</u></u>

Capital Assets

The following chart highlights the capital assets for fiscal year 2017 and 2016.

Capital Assets	<u>2017</u>	<u>2016</u>
Building and Building Improvements	\$ 2,869	4,565
Machinery and Equipment	36,574	68,783
Course Improvements	<u>416,492</u>	<u>429,708</u>
Total Capital Assets	<u><u>\$ 455,935</u></u>	<u><u>503,056</u></u>

Assets are shown above net of accumulated depreciation.

**Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2017**

Debt

The Golf Course maintains Capital Leases and Operational Leases 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, the depreciation expense and the related schedule is located on page 19 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 20 of the Notes to the Financial Statements.

Summary of Changes in Net Position

	<u>2017</u>	<u>2016</u>
Operating Revenue		
Cart Rentals	\$ 52,359	52,869
Green Fees	175,882	191,818
Membership Dues	133,078	150,076
Trail Fees	-	211
Cart Storage Fees	100	-
Driving Range Income	18,772	21,324
Locker and Club Rental	916	670
Tournaments	38,000	27,658
Other Income	5,542	5,342
Outing Income	56,805	52,134
USGA Handicap	438	26
Pro Shop Income	-	-
Vending	25,138	30,076
Contribution	<u>186,065</u>	<u>140,000</u>
 Total Operating Revenues	 693,095	 672,204

**Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2017**

Summary of Changes in Net Position (continued)

	2017	2016
Operating Expenses		
Wages and Employee Benefits	290,291	261,781
Repairs and Maintenance	123,313	123,830
Insurance-General	10,557	12,111
Utilities	37,261	34,452
Fuel Purchase	17,283	18,441
Administrative and General	15,526	17,986
Handicap Service	2,578	2,628
Tournaments	2,025	8,991
Club House Expense	582	-
Rent and Rental Expense	13,500	13,500
Leases	31,961	37,798
Depreciation	61,663	61,917
Sales and Marketing	141	95
Professional Services	29,455	33,552
Bank Fees	8,179	9,132
	<u>644,315</u>	<u>636,214</u>
Total Operating Expenses		
	<u>644,315</u>	<u>636,214</u>
Net Operating Income (Loss)	<u>48,780</u>	<u>35,990</u>
NONOPERATING REVENUES(EXPENSES)		
Interest Income	43	48
Loss on Inventory	(5,747)	-
Interest Expense	(9,809)	(6,259)
	<u>(9,809)</u>	<u>(6,259)</u>
TOTAL NONOPERATING REVENUES(EXPENSES)	<u>(15,513)</u>	<u>(6,211)</u>
Change in Net Position	<u>33,267</u>	<u>29,779</u>
Net Position, Beginning	427,941	412,532
Prior Period Adjustment	-	(14,370)
Net Position, Beginning (Restated)	<u>427,941</u>	<u>398,162</u>
Net Position, Ending	<u>\$ 461,208</u>	<u>427,941</u>

**Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2017**

Total Net Position Sheet Summary

Total net position increased in the amount of \$33,267 for fiscal year 2017. The increase is due to changes within revenues and expenses as discussed above.

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, 2017

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 148,734
Accounts Receivable	4,097
Inventories	5,192
Prepaid Expense	<u>291</u>

Total Current Assets		158,314
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Property, Plant and Equipment

Cost	2,374,148
Less: Accumulated Depreciation	<u>(1,918,213)</u>

Net Property, Plant and Equipment		<u>455,935</u>
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TOTAL ASSETS		<u><u>\$ 614,249</u></u>
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(Continued)

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2017

LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 18,453	
Accrued Payroll Taxes	16,590	
Sales Tax Payable	928	
Unearned Revenue	72,885	
Capital Leases	<u>20,883</u>	
Total Current Liabilities		129,739
Long-Term Liabilities		
Capital Leases		<u>23,302</u>
TOTAL LIABILITIES		153,041
NET POSITION		
Net Investment in Capital Assets	411,750	
Restricted	875	
Unrestricted	<u>48,583</u>	
TOTAL NET POSITION		<u>461,208</u>
TOTAL LIABILITIES AND NET POSITION		<u><u>\$ 614,249</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 REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2017

OPERATING REVENUE		
Cart Rentals	\$	52,359
Green Fees		175,882
Membership Dues		133,078
Cart Storage Fees		100
Driving Range Income		18,772
Locker and Club Rental		916
USGA Handicap		438
Tournaments		38,000
Outing Income		56,805
Vending		25,138
Contributions - City of Elizabethton		186,065
Other Income		<u>5,542</u>
TOTAL OPERATING REVENUE		693,095
OPERATING EXPENSES		
Wages and Employee Benefits		290,291
Repairs and Maintenance		123,313
Insurance-General		10,557
Utilities		37,261
Fuel Purchases		17,283
Administrative and General		15,526
Handicap Service		2,578
Club House		582
Tournaments		2,025
Rent and Rental Expenses		13,500
Leases		31,961
Depreciation		61,663
Sales and Marketing		141
Professional Services		29,455
Bank and Credit Card Fees		<u>8,179</u>
TOTAL OPERATING EXPENSES		<u>644,315</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, 2017

NET OPERATING INCOME (LOSS)	48,780	
NONOPERATING REVENUES (EXPENSES)		
Interest Income	43	
Loss on Inventory	(5,747)	
Interest Expense	<u>(9,809)</u>	
TOTAL NONOPERATING REVENUES (EXPENSES)		<u>(15,513)</u>
Change in Net Position		<u>33,267</u>
Net Position, July 1, 2016		<u>427,941</u>
Net Position, June 30, 2017		<u><u>\$ 461,208</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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Users	\$ 667,324	
Cash Payments to Suppliers for Goods and Services	(277,328)	
Cash Payments for Employee Services and Benefits	<u>(289,070)</u>	
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		100,926
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property, Plant and Equipment Acquisitions	(14,542)	
Payments on Leases Payable	(18,247)	
Interest Paid	<u>(9,809)</u>	
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES		(42,598)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	<u>43</u>	
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES		<u>43</u>
Net Increase (Decrease) in Cash and Cash Equivalents		58,371
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>90,363</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>\$ 148,734</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, 2017

RECONCILIATION OF OPERATING INCOME (LOSS) TO	
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	
Net Operating Income (Loss)	\$ 48,780
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Depreciation Expense	61,663
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(3,839)
(Increase) Decrease in Inventories	11,232
Increase (Decrease) in Accounts Payable	4,026
Increase (Decrease) in Accrued Payroll Taxes	1,221
Increase (Decrease) in Sales Tax Payable	(225)
Increase (Decrease) in Unearned Revenue	<u>(21,932)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 100,926</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, 2017

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 and user fees. Non-operating revenue includes interest income.

Significant Accounting Policies

A. Basis of Accounting

The economic resources measurement focus and the 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 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, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and unearned tournament fees 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 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.

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 - CASH DEPOSITS WITH A FINANCIAL INSTITUTION (CONTINUED)

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 the financial institution was \$147,334 and the financial institution balance was \$157,503. Carrying amounts differ from the financial institution balances primarily due to outstanding checks and deposits in transit.

The cash and cash equivalents on the Statement of Net Position include \$1,400 of cash on hand. State statutes require 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 (FDIC) 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 - PROPERTY, PLANT AND EQUIPMENT

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated				
Building and Building Improvements	\$ 72,334	-	-	72,334
Machinery and Equipment	796,693	-	-	796,693
Vehicles	4,500	-	-	4,500
Office Equipment	13,442	-	-	13,442
Course Improvements	1,465,847	14,542	-	1,480,389
Carts, Range and Other	6,790	-	-	6,790
Total Capital Assets, Being Depreciated	<u>2,359,606</u>	<u>14,542</u>	<u>0</u>	<u>2,374,148</u>
Less Accumulated Depreciation For				
Building and Building Improvements	(67,769)	(1,696)	-	(69,465)
Machinery and Equipment	(727,910)	(32,209)	-	(760,119)
Vehicles	(4,500)	-	-	(4,500)
Office Equipment	(13,442)	-	-	(13,442)
Course Improvements	(1,036,139)	(27,758)	-	(1,063,897)
Carts, Range and Other	(6,790)	-	-	(6,790)
Total Accumulated Depreciation	<u>(1,856,550)</u>	<u>(61,663)</u>	<u>0</u>	<u>(1,918,213)</u>
Net Capital Assets, Being Depreciated	<u>\$ 503,056</u>	<u>(47,121)</u>	<u>0</u>	<u>455,935</u>

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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 fiscal year 2017, the Golf Course obtained no new capital leases.

Additionally, all capital leases held under one leasing company were consolidated into one lease in March of 2016. Under the agreement, there will be eight annual payments. The consolidated lease is set to mature in November 2019.

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

Various Mowing and Turf Equipment	\$147,373
Less: Accumulated Depreciation	<u>(122,173)</u>
	<u>\$ 25,200</u>

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

During the year ended June 30, 2017, the following debt transactions occurred.

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year	Outstanding Balance
Capital Lease - Various Equipment	\$ 41,691	-	7,228	34,463	11,161	23,302
Capital Lease - Toro Groundmaster	20,741	-	11,019	9,722	9,722	-
	\$ 62,432	0	18,247	44,185	20,883	23,302

The following presents future minimum lease payments as of June 30, 2017:

Fiscal Year Ending June 30	
2018	\$ 28,668
2019	18,763
2020	9,382
Less: Interest	<u>(12,628)</u>
Present Value of Minimum Lease Payments	<u>\$ 44,185</u>

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017**

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 one-third 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, 2017. Total lease expense for the fiscal year was \$13,500.

In January 2015, the Golf Course entered into a new operating lease for golf carts. Monthly payments of principal and interest are \$2,831 and the final payment on the term of the lease will be due in fiscal year 2020. Total lease expense, including interest, for the fiscal year was \$30,968.

Future payments required under the operating leases are as follows:

Year Ending June 30	Amount
2018	\$ 33,972
2019	33,972
2020	16,986
	<u>\$ 84,930</u>

NOTE 5 - 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 6 - RISK MANAGEMENT ACTIVITIES

The Golf Course carries insurance coverage and is insured by 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 five years which were not covered by insurance.

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - 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, 2017, 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, 2017.

**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, 2017**

Dues for Membership Year April 1, 2017 to March 31, 2018:

New Member Membership (1 Year Only)	\$ 600
Regular Membership (Under Age 65)	880
Senior Membership (Age 65-79)	740
Spouse Membership (Regular or Senior)	445
Super Senior Membership (Age 80 and above)	300
Spouse Membership (Super Senior)	200
Limited Membership (Monday-Thursday)	650
Junior Membership (Full-Time Students only)	250
Junior Membership (35 Years and Younger)	600

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)	\$ 32
Handicap Service	26
Club Owned Cart Unlimited Play	1,200
Private Cart Unlimited Play	1,200
Cart Storage	100
Range Balls	8
Unlimited Range Membership	480
Unlimited Range Membership @ \$5 a bucket	200
Junior Range Membership	330
Riding Fee (18 Holes)	12
Riding Fee (9 Holes)	6

(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, 2017

	<u>Weekends</u>	<u>Weekdays</u>
<u>Summer Rates (April 1st-October 31st)</u>		
Green Fees (includes cart)		
Eighteen Holes	\$ 33.00	\$ 28.00
Nine Holes	\$ 18.00	\$ 15.00
Early Bird (Sunday 8:00am - 11:00am with Cart)	\$ 25.00	\$ 25.00
Twilight Rate (Saturday, Sunday, and Holidays after 4:00pm)	\$ 25.00	\$ 25.00
Green Fees (Walking)		
Eighteen Holes	\$ 20.00	\$ 15.00
Nine Holes	\$ 15.00	\$ 12.00
Junior Green Fees (Under the age of 16 and Walking)		
Unlimited Holes	\$ 15.00	\$ 10.00
Cart Rentals (Per Rider)		
Eighteen Holes	\$ 10.00	\$ 10.00
Nine Holes	\$ 5.00	\$ 5.00
Range Balls	\$ 8.00	\$ 8.00
<u>Winter Rates (November 1st- March 31st)</u>		
Green Fees (includes cart)		
Eighteen Holes	\$ 30.00	\$ 25.00
Green Fees (Walking)		
Eighteen Holes	\$ 20.00	\$ 15.00

See Independent Auditors' Report.

SECTION III

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 GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Elizabethton Municipal Golf Course

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 business-type activities of the Elizabethton Municipal Golf Course (the Golf Course), a component unit of the City of Elizabethton, Tennessee, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Golf Course's basic financial statements and have issued our report thereon dated November 30, 2017.

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 opinion 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 2008-003, 2016-003 and 2017-001 through 2017-002.

Elizabethton Municipal Golf Course
Independent Auditors' Report On Internal
Control Over Financial Reporting and on
Compliance and Other Matters

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 2008-003, 2016-003 and 2017-001 through 2017-002.

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 responses and plans to address the findings are described in the accompanying corrective action plan. The Golf Course's responses and corrective action plan were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses or the corrective action plan.

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, P.C.

BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

November 30, 2017

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS
For the Year Ended June 30, 2017

Financial Statement Findings

Finding Number		Finding Title		Status
2008-002		Deficit		Corrected
2008-003		Segregation of Duties		Repeated
2016-001		Bids		Corrected
2016-002		Bank Reconciliations		Corrected
2016-003		Lack of Supporting Documentation		Repeated
2016-004		Pro-Shop Inventory		Corrected

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017

PRIOR YEAR FINDINGS NOT IMPLEMENTED

2008-003: Significant Deficiency: Segregation of Duties (Repeated from 6-30-16, 6-30-15, 6-30-14, 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. Additionally, it was noted that a signature stamp was being utilized by Golf Course management to indicate that a Board member has reviewed and approved the disbursement, payroll check, bank reconciliation, and other financial documents.

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.

Recommendation: We recommend the Golf Course update and evaluate the current accounting policies and procedures. These should be formally documented and approved by the Board. Once these have been documented and approved, each procedure or task should be assigned to a particular individual in order to establish proper segregation of duties. 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. We discourage the use of a signature stamp as this practice does not always provide for effective control or oversight. 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: With limited staff our process of duties is segregated as possible. Our policy is as follows: A staff member opens mail, makes PO's for purchases, the manager enters invoices in the computer and our paid accountants write checks and pay invoices. The manager signs checks in the presence of the accountant. Two signatures are required on every check, the manager and the President of the board (a signature stamp is used for the President as he is not readily available when invoices are paid). Bank reconciliation is administered by our paid accountant. Journal entries are reviewed by the accountant.

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017**

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

2016-003: Significant Deficiency: Lack of Supporting Documentation (Repeated from 6-30-16 report with additional current year information)

Condition: We noted payments made to an employee that were not properly supported (i.e. lacked purchase orders, proper approval, invoices/written support for the charges filed for reimbursement). It was noted that these payments were for reimbursements to the golf pro. Additionally, the Golf Course's Personnel Handbook that was created in April of 2017 has not been adopted and approved by the Board based on Board minutes. Additionally, it was noted that the Board of Directors only met twice during fiscal year 2017. Additionally, bonuses and pay raises were noted as being paid during fiscal year 2017. There is no indication that these were approved by the Board in the Board minutes. Also, it was noted most of the monthly bank reconciliations lacked someone from the Board reviewing and approving them on a monthly basis.

Criteria: To enhance internal controls, all disbursements should be properly supported with original documentation such as invoices, sales receipts or other support. The appropriate level of management needs to review the supporting documentation and approve the payment. Based on the by-laws, the Board of Directors are supposed to meet monthly. Per the by-laws, the Board has oversight for approving bonuses and pay during the budget process.

Effect: The effect of this deficiency creates the possibility that an employee could approve their own reimbursement that lacks the proper support. Additionally, this deficiency creates the possibility that events may occur that were not formally approved by the proper level of authority.

Recommendation: All disbursements should be supported by the appropriate documentation depending on the purpose of the disbursement. Reimbursement requests should be properly supported with receipts, statements, invoices, contracts, etc. Additionally, someone other than the individual filing the reimbursement should approve the disbursement for payment and sign the check. If the request is from the golf pro, a Board member should be approving and signing the check. The Board of Directors should meet more than twice a year. Additionally, all policies, pay raises, and bonuses need to be formally approved by the board and the approval should be documented within the board minutes.

Management's Response: All reimbursements are approved by the board either by meeting or phone. EMGC board members were not appointed by the city for a considerable time, therefore meetings were not held. All payments to the golf pro were contractual and approved. Raises were also approved by phone. In the future, any reimbursements and raises that are phone approved will also be in writing.

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017**

CURRENT YEAR FINDINGS

2017-001: Significant Deficiency: Purchasing

Condition: Documentation was not always adequate regarding purchasing procedures (i.e. cash disbursements and credit card purchases). Three instances were noted in which voided checks were not properly defaced. One instance was noted in which lunch charges from FY2015 were just being paid. A couple of instances were noted in which the disbursement lacked proper supporting documentation (i.e. properly completed purchase order, management's sign-off/approval that goods and services were received and to pay the expense, etc.). One instance was noted in which the amount paid was less than the amount due on the invoice and no explanation was given. Six instances were noted in which the amounts paid occurred after the due dates. Multiple purchases lacked proper documentation (i.e. purchase order, itemized store receipt, signatures on store receipt). Lastly, a general deviation was noted over purchasing due to multiple instances being noted in which someone other than management (Manager or Golf Pro) was approving the purchase orders. Additionally, the individual who approved the purchase order should write their initials on the purchase order and date the purchase order.

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: The Golf Course needs to update their purchasing policies as well as credit/debit card policies. Additionally, all purchases should be properly supported with proper approval, purchase order, and receipts.

Management's Response: Purchasing documentation procedures are implemented. Issues have been noted. PO's are now required to be approved twice a week instead of every two weeks. Initials will be applied.

2017-002: Significant Deficiency: Internal Control Policy

Condition: The Golf Course does not have a documented system of internal controls as required by Tennessee Code Annotated, Section 9-18-102(a). The Tennessee Code indicates that a system of internal control is required for year ended June 30, 2016. The system of internal control must be documented in writing. Every system of internal control must include the five components of internal control: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, and (5) Monitoring. As of June 30, 2017, this has not been put into place.

Criteria: Section 9-18-102(a), Tennessee Code Annotated, was amended to expressly require each county, municipal, and metropolitan government to establish and maintain internal controls.

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017**

CURRENT YEAR FINDINGS (CONTINUED)

2017-002: Significant Deficiency: Internal Control Policy (Continued)

Effect: The effect of this deficiency creates the possibility that misstatements, fraud, waste or abuse could occur and not be caught and corrected timely.

Recommendation: We recommend the Golf Course document in writing an internal control policy as prescribed by state statute.

Management's Response: This was noted. We will be adhering to the legalities, and will observe City of Elizabethton internal control policies.

SECTION IV

MANAGEMENT'S CORRECTIVE ACTION PLAN SECTION

Elizabethton Municipal Golf Course
Management's Corrective Action Plan
For the Year Ended June 30, 2017.
Corrective Action -- Financial Statement Findings

2017-001: Significant Deficiency: Purchasing

Response and Corrective Action Plan Prepared by: Vicki McClurg, Manager

Person Responsible for Implementing the Corrective Action: Same

Anticipated Completion Date of Corrective Action: See below

Planned Corrective Action:

Purchasing documentation procedures are implemented. Issues have been noted. PO's are now required to be approved twice a week instead of every two weeks. Initials will be applied.

2017-002: Significant Deficiency: Internal Control Policy

Response and Corrective Action Plan Prepared by: Vicki McClurg, Manager

Person Responsible for Implementing the Corrective Action: Same

Anticipated Completion Date of Corrective Action: See below

Planned Corrective Action:

This was noted. We will be adhering to the legalities, and will observe City of Elizabethton internal control policies.

2016-003: Significant Deficiency: Lack of Supporting Documentation

Response and Corrective Action Plan Prepared by: Vicki McClurg, Manager

Person Responsible for Implementing the Corrective Action: Same

Anticipated Completion Date of Corrective Action: See below

Planned Corrective Action:

All reimbursements are approved by the board either by meeting or phone. EMGC board members were not appointed by the city for a considerable time, therefore meetings were not held. All payments to the golf pro were contractual and approved. Raises were also approved by phone. In the future, any reimbursements and raises that are phone approved will also be in writing.

2008-003: Significant Deficiency: Segregation of Duties

Response and Corrective Action Plan Prepared by: Vicki McClurg, Manager

Person Responsible for Implementing the Corrective Action: Same

Anticipated Completion Date of Corrective Action: See below

Planned Corrective Action:

With limited staff our process of duties is segregated as possible. Our policy is as follows: A staff member opens mail, makes PO's for purchases, the manager enters invoices in the computer and our paid accountants write checks and pay invoices. The manager signs checks in the presence of the accountant. Two signatures are required on every check, the manager and the President of the board (a signature stamp is used for the President as he is not readily available when invoices are paid). Bank reconciliation is administered by our paid accountant. Journal Entries are reviewed by the account.