



# **ELIZABETHTON MUNICIPAL GOLF COURSE**

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

**AUDITED FINANCIAL STATEMENTS**

**For the Fiscal Year Ending June 30, 2011**



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

FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITORS' REPORT

For the Fiscal Year Ended June 30, 2011

ELIZABETHTON MUNICIPAL GOLF COURSE  
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE  
TABLE OF CONTENTS  
June 30, 2011

---

	<u>Page Number</u>
SECTION I - FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Net Assets	10
Statement of Cash Flows	12
Notes to the Financial Statements	14
Supplemental Information Schedule of Membership Rates in Force	23
SECTION II - INTERNAL CONTROL AND COMPLIANCE SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	24
Schedule of Findings and Responses	26

**SECTION I**  
**FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Elizabethton Municipal Golf Course, (EMGC) a component unit of the City of Elizabethton, Tennessee, as of and for the fiscal year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the EMGC's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the EMGC as of June 30, 2011, and the respective changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 17, 2011, on our consideration of the EMGC'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 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 inquires of

To the Board of Directors of  
Elizabethton Municipal Golf Course  
Page 2

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.

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

As discussed in Note 10 to the financial statements, the EMGC has suffered a significant decline in net assets and revenues, an increase in liabilities and expenses as well as cash flow. The EMGC's plans regarding those matters also are described in Note 10.

*Blackburn, Childers + Steagall, PLC*  
BLACKBURN, CHILDERS & STEAGALL, PLC

November 17, 2011

# Elizabethton Municipal Golf Course Management's Discussion and Analysis June 30, 2011

The following is the Management's Discussion and Analysis (MD&A) of the financial statements and supporting documents for the Elizabethton Municipal Golf Course, a component unit of the City of Elizabethton, Tennessee for the fiscal year ended June 30, 2011.

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 Assets, Statement of Revenues, Expenses and Changes in Net Assets, 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 Elizabethton Municipal Golf Course experienced a 2% decrease in membership dues while our total number of members decreased by 2 during the 2011 fiscal year. The following chart shows the number of members for the past two years.

	<b>2011</b>	<b>2010</b>
Single	86	85
Additional Member	3	3
Senior	21	24
Junior	29	27
Limited	22	24
Total	161	163

As the chart shows, total growth in our membership remained steady.

Rounds played in 2011 compared to 2010 are as follows:

	<b>2011</b>	<b>2010</b>
Members	11,327	10,341
Guests	12,400	10,382
Total	23,727	20,723



# Elizabethton Municipal Golf Course Management's Discussion and Analysis June 30, 2011

As the chart shows total rounds played increased 14% from 2010 to 2011. Guest rounds increased by 19%, however, income from non-members only increased 2%. Management feels this is a result of having to offer substantial discounts to attract play. In addition, member rounds increased by 9.5%, but income actually decreased by 2%. So while we had slightly fewer members, the members we did have seemed to play more. As mentioned the number of rounds did increase, income seemed to remain the same. This lack of growth in income is a great concern to management. While the downturn in the economy continues to have a negative impact on our industry, a significant increase in the bad weather days was once again a big problem. Our summer peak months seemed to be effected by much hotter temperatures than normal, and a very cold winter severely limited play for those months. Management is currently reviewing ways to increase play in these current economic conditions. We will continue to try to attract new patrons through an increase in marketing, making concerted efforts to fill the slow times on our tee sheet.

Financial Position Summary	<b>2011</b>	<b>2010</b>
Current Assets	\$ 47,683	59,370
Property, Plant, and Equipment (Net)	630,601	663,599
Total Assets	678,284	722,969
Current Liabilities	238,489	191,554
Long-Term Liabilities	162,486	192,179
Total Liabilities	400,975	383,733
Net Assets Invested in Capital Assets, Net of Related Debt	387,365	422,744
Unrestricted Net Assets	(110,056)	(83,508)
Total Net Assets	277,309	339,236
Total Liabilities and Net Assets	\$ 678,284	722,969

## Capital Assets

The following chart highlights the capital assets for fiscal year 2011.



# Elizabethton Municipal Golf Course Management's Discussion and Analysis June 30, 2011

Capital Assets	<u>2011</u>	<u>2010</u>
Building and Building Improvements	\$ 15,137	17,856
Machinery and Equipment	91,495	93,635
Office Equipment	-	-
Course Improvements	<u>523,969</u>	<u>552,108</u>
 Total Capital Assets	 <u>\$ 630,601</u>	 <u>663,599</u>

Assets are shown above net of accumulated depreciation.

## Debt

The Elizabethton Municipal 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 two mowers and a bunker rake. A new lease was established for a turf vehicle with sprayer attachment. 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 16 of the Notes to the Financial Statements.

Notes payables consist of a Note Payable to the City and capital outlay note entered with a local bank. The information and related schedules can be found beginning on page 19 of the Notes to the Financial Statements.

<b>Summary of Changes in Net Assets</b>	<u>2011</u>	<u>2010</u>
Operating Revenue		
Cart Rentals	\$ 46,679	59,965
Green Fees	239,764	210,697
Membership Dues	167,144	171,035
Trail Fees	13,218	11,875
Cart Storage Fees	2,972	2,808
Driving Range Income	20,531	20,401
Locker and Club Rental	1,128	952
Restaurant Rent	4,856	2,670
Tournaments	12,600	11,800
Other Income	810	48,524
Outing Income	32,945	35,169
USGA Handicap	<u>940</u>	<u>900</u>
 Total Operating Revenues	 543,587	 576,796

# Elizabethton Municipal Golf Course Management's Discussion and Analysis June 30, 2011

## Summary of Changes in Net Assets (continued)

	<u>2011</u>	<u>2010</u>
Operating Expenses		
Wages and Employee Benefits	250,630	264,487
Repairs and Maintenance	120,216	104,485
Insurance-General	10,943	11,440
Utilities	34,523	31,154
Fuel Purchase	34,465	22,698
Administrative and General	678	3,887
Handicap Service	1,562	1,256
Driving Range Expense	212	2,520
Club House Expense	2,883	2,272
Rent and Rental Expense	15,395	16,036
Leases	26,756	24,156
Depreciation	63,653	58,853
Sales and Marketing	4,410	3,738
Professional Services	6,536	6,661
Bank Fees	12,792	11,461
Direct Tournament Expense	14,731	6,554
Taxes and Licenses	815	100
	<u>601,200</u>	<u>571,758</u>
Net Operating Income (Loss)	<u>(57,613)</u>	<u>5,038</u>
Other Income (Expense)		
Interest Income	62	90
Interest Expense	(4,376)	(4,917)
	<u>(4,314)</u>	<u>(4,827)</u>
Total Other Income (Expense)	<u>(4,314)</u>	<u>(4,827)</u>
Net Income (Loss)	<u>(61,927)</u>	<u>211</u>
Net Assets, July 1, 2010	<u>339,236</u>	<u>339,025</u>
Net Assets, June 30, 2011	<u>\$ 277,309</u>	<u>339,236</u>

# Elizabethton Municipal Golf Course Management's Discussion and Analysis June 30, 2011

## **Total Net Asset Sheet Summary**

Total net assets dropped by \$61,927 which is great concern to management. In the past fiscal year we made efforts to increase play which were only marginally effective and have not yet positively affected our operating income. We hope that this increase marketing will pay greater dividends in the future provided we can return to normal weather cycles to allow this to happen. Although we have tried to closely monitor expenses, we experienced several substantial and unexpected expenditures in breakdown of key elements of our maintenance equipment of which we had no choice but to repair. Looking ahead, we have laid off all employees except for the manager, course superintendent, and course mechanic for the winter months.

Detailed audit information about the Elizabethton Municipal 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 ASSETS  
June 30, 2011

---

ASSETS

Current Assets

Cash on Hand	\$ 1,400
Cash in Bank	30,966
Inventories	15,026
Prepaid Expense	<u>291</u>

Total Current Assets 47,683

Property, Plant and Equipment

Cost	2,144,550
Less: Accumulated Depreciation	<u>(1,513,949)</u>

Total Property, Plant and Equipment 630,601

TOTAL ASSETS \$ 678,284

(Continued)

ELIZABETHTON MUNICIPAL GOLF COURSE  
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF NET ASSETS  
June 30, 2011

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	\$	39,642
Line of Credit		25,000
Notes Payable		47,869
Capital Leases		7,881
Other Accrued Expenses		2,909
Deferred Revenue		<u>115,188</u>
Total Current Liabilities		238,489
Long-Term Liabilities		
Capital Leases	30,042	
Less: Current Portion	<u>(7,881)</u>	<u>22,161</u>
Notes Payable	188,194	
Less: Current Portion	<u>(47,869)</u>	<u>140,325</u>
Total Long-Term Liabilities		<u>162,486</u>
TOTAL LIABILITIES		400,975
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		387,365
Unrestricted (Deficit)		<u>(110,056)</u>
TOTAL NET ASSETS		<u>277,309</u>
TOTAL LIABILITIES AND NET ASSETS		<u><u>\$ 678,284</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 ASSETS  
For the Fiscal Year Ended June 30, 2011

---

OPERATING REVENUE

Cart Rentals	\$ 46,679
Green Fees	239,764
Membership Dues	167,144
Trail Fees	13,218
Cart Storage Fees	2,972
Driving Range Income	20,531
Locker and Club Rental	1,128
Restaurant Rent	4,856
USGA Handicap	940
Tournaments	12,600
Outing Income	32,945
Other Income	<u>810</u>

TOTAL OPERATING REVENUE 543,587

OPERATING EXPENSES

Wages and Employee Benefits	250,630
Repairs and Maintenance	120,216
Insurance-General	10,943
Utilities	34,523
Fuel Purchases	34,465
Administrative and General	678
Handicap Service	1,562
Driving Range Expenses	212
Club House Expense	2,883
Rent and Rental Expenses	15,395
Leases	26,756
Depreciation	63,653
Sales and Marketing	4,410
Professional Services	6,536
Bank Fees	12,792
Direct Tournament Expenses	14,731
Taxes and Licenses	<u>815</u>

TOTAL OPERATING EXPENSES 601,200

(Continued)

ELIZABETHTON MUNICIPAL GOLF COURSE  
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the Fiscal Year Ended June 30, 2011

---

NET OPERATING INCOME (LOSS)	(57,613)	
OTHER INCOME (EXPENSES)		
Interest Income	62	
Interest Expense	<u>(4,376)</u>	
TOTAL OTHER INCOME (EXPENSES)	<u>(4,314)</u>	
NET INCOME (LOSS)		(61,927)
Net Assets, July 1, 2010		<u>339,236</u>
Net Assets, June 30, 2011		<u>\$ 277,309</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 Fiscal Year Ended June 30, 2011

---

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Customers and Users	\$ 539,706
Cash Payments to Suppliers for Goods and Services	(259,327)
Cash Payments for Employee Services and Benefits	<u>(262,085)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	18,294
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Payments on Leases Payable	(47,051)
Payments on Notes Payable	(6,223)
Draw on Line of Credit	25,000
Interest Paid	<u>(4,376)</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(32,650)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Income	<u>62</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>62</u>
Net (Decrease) in Cash and Cash Equivalents	(14,294)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>46,660</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 32,366</u></u>

(Continued)

ELIZABETHTON MUNICIPAL GOLF COURSE  
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE  
STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2011

---

RECONCILIATION OF OPERATING INCOME (LOSS) TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES

Net Operating Income (Loss)	\$ (57,613)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation Expense	63,653
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	924
(Increase) Decrease in Inventories	(3,531)
Increase (Decrease) in Accounts Payable	31,121
Increase (Decrease) in Other Accrued Expenses	(11,455)
Increase (Decrease) in Deferred Revenue	(4,805)
	<u>(4,805)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 18,294

Supplemental Schedule of Noncash Investing and Financing Activities

Borrowing Under Capital Leases \$ 30,655

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, 2011

---

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 (EMGC) 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 EMGC is accounted for as an enterprise fund and does not follow the Financial Accounting Standards Board *Accounting Standards Codification* (ASC).

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

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

Significant Accounting Policies

A. Basis of Accounting

The full accrual basis of accounting is utilized by the EMGC. Revenue is recognized in the period in which it is earned and measurable. Likewise, expenses are recognized when incurred, if measurable. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20 gives governments the option of applying Financial Accounting Standards Board *Accounting Standards Codification* (ASC) issued after November 30, 1989 to proprietary funds, unless they conflict with or contradict GASB pronouncements. The EMGC has elected not to implement Financial Accounting Standards Board ASC statements and interpretations issued thereafter, unless they are adopted by GASB.

B. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits in a local financial institution. The EMGC 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 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, 2011

---

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 EMGC capitalizes assets that have a life of five years or more and cost more than \$5,000. The land occupied by the EMGC 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. Deferred Revenue

Deferred revenue includes unearned membership dues and unearned revenue for the East Tennessee Amateur tournament held in July.

F. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available the EMGC's policy is to apply restricted net assets 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 EMGC maintains deposit accounts with a financial institution. Deposits on the Statement of Net Assets include demand deposits and savings accounts. Deposits at June 30, 2011 consisted of the following:

<u>Per Bank</u>	<u>Per Books</u>
\$ 30,806	\$ 30,966

ELIZABETHTON MUNICIPAL GOLF COURSE  
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

NOTE 2 - CASH DEPOSITS WITH FINANCIAL INSTITUTIONS (CONTINUED)

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 EMGC 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, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Capital Assets, Being Depreciated					
Building and Building Improvements	\$ 72,334	-	-	-	72,334
Machinery and Equipment	591,903	30,655	-	-	622,558
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>2,113,895</u>	<u>30,655</u>	<u>0</u>	<u>0</u>	<u>2,144,550</u>
Less Accumulated Depreciation For					
Building and Building Improvements	(54,478)	(2,719)	-	-	(57,197)
Machinery and Equipment	(498,268)	(32,795)	-	-	(531,063)
Vehicles	(4,500)	-	-	-	(4,500)
Office Equipment	(13,442)	-	-	-	(13,442)
Course Improvements	(872,818)	(28,139)	-	-	(900,957)
Carts, Range and Other	(6,790)	-	-	-	(6,790)
Total Accumulated Depreciation	<u>(1,450,296)</u>	<u>(63,653)</u>	<u>0</u>	<u>0</u>	<u>(1,513,949)</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 663,599</u>	<u>(32,998)</u>	<u>0</u>	<u>0</u>	<u>630,601</u>

NOTE 4 - LEASE OBLIGATIONS

Capital Leases

The EMGC leases various mowing and turf equipment from several financing companies. The economic substance of the leases is that the EMGC is financing the acquisition of the assets through the leases and, accordingly, the leases are recorded in the EMGC's assets and liabilities. Capital leases reflect the transfer of risks and benefits associated with the asset to the lessee.

ELIZABETHTON MUNICIPAL GOLF COURSE  
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

---

NOTE 4 - LEASE OBLIGATIONS (CONTINUED)

Capital Leases (continued)

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

Various Mowing and Turf Equipment	\$ 37,555
Less: Accumulated Depreciation	<u>(7,128)</u>
	<u>\$ 30,427</u>

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

During the year ended June 30, 2011, the following debt transactions occurred.

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital Lease - Turf Equipment	\$ 5,609	-	1,624	3,985	1,750
Capital Lease - John Deere	-	30,655	4,598	26,057	6,131
	<u>\$ 5,609</u>	<u>30,655</u>	<u>6,222</u>	<u>30,042</u>	<u>7,881</u>

Future payments required under the capital leases are as follows:

Fiscal Year Ending June 30	Amount
2012	\$ 7,881
2013	8,016
2014	6,481
2015	6,131
2016	1,533
	<u>\$ 30,042</u>

ELIZABETHTON MUNICIPAL GOLF COURSE  
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

---

NOTE 4 - LEASE OBLIGATIONS (CONTINUED)

Operating Leases

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

The EMGC 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:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Amount</u>
2012	\$ 40,260
2013	40,260
2014	40,260
2015	26,760
	<u>\$ 147,540</u>



ELIZABETHTON MUNICIPAL GOLF COURSE  
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

NOTE 5 - NOTES PAYABLE

The EMGC 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 EMGC's Series 1992 General Obligations Bonds. The City would be responsible for making the debt service payments for the bonds and the EMGC would be repaying the City.

The EMGC 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 EMGC 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 EMGC and the City agreed to another revision. The notes and bonds are now combined into one obligation, and the interest on both the bond and note has been forgiven. Maturity is extended to 2016.

During the year ended June 30, 2011 the following debt transactions occurred.

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital Outlay Note	\$ 53,655	-	17,051	36,604	17,869
Capital Lease	5,609	30,655	6,222	30,042	7,881
Note Payable - Primary Government	181,590	-	30,000	151,590	30,000
Line of Credit	-	25,000	-	25,000	25,000
	<u>\$ 240,854</u>	<u>55,655</u>	<u>53,273</u>	<u>243,236</u>	<u>80,750</u>

Debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 30,000	-	30,000
2013	30,000	-	30,000
2014	30,000	-	30,000
2015	30,000	-	30,000
2016	31,590	-	31,590
	<u>\$ 151,590</u>	<u>0</u>	<u>151,590</u>

ELIZABETHTON MUNICIPAL GOLF COURSE  
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

---

NOTE 5 - NOTES PAYABLE (CONTINUED)

The EMGC entered a five-year capital outlay note for the purchase of equipment with Carter County Bank for \$85,321 on June 4, 2008. The interest rate is 4.65%. The debt is secured by assets and equipment of the EMGC. Debt service requirements to maturity are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 17,869	1,347	19,216
2013	18,735	482	19,217
	<u>\$ 36,604</u>	<u>1,829</u>	<u>38,433</u>

Line of Credit

The EMGC renewed a line of credit during the current year. A draw of \$25,000 was outstanding on the line of credit at year-end. The interest rate is 5.25%. The total amount EMGC can draw is \$50,000. Debt service requirements are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 25,000	1,313	26,313
	<u>\$ 25,000</u>	<u>1,313</u>	<u>26,313</u>

Total Debt Service Requirements to maturity for Notes Payable are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 72,869	2,660	75,529
2013	48,735	482	49,217
2014	30,000	-	30,000
2015	30,000	-	30,000
2016	31,590	-	31,590
	<u>\$ 213,194</u>	<u>3,142</u>	<u>216,336</u>

ELIZABETHTON MUNICIPAL GOLF COURSE  
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

---

NOTE 6 - RESTAURANT LEASE

The EMGC contracts the operation of its restaurant facilities after publicly advertising requests for bids. The terms of the restaurant lease include monthly rental fees. The lease also includes a stipulation for a specified increase in rent when restaurant gross sales exceed a pre-determined threshold.

NOTE 7 - INCOME TAX STATUS

The EMGC 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 8 - RISK MANAGEMENT ACTIVITIES

The EMGC carries insurance coverage and is insured with City policies through the Tennessee Municipal League (TML) Risk Management Pool for worker's compensation, general liability, automobile coverage, and errors and omission coverage. There was no reduction in insurance coverage from the prior year.

NOTE 9 - ACCOUNTING FOR UNCERTAIN TAX POSITIONS

Although the EMGC does not follow FASB Accounting Standards Codification guidance for their accounting, they do follow FASB Accounting Standards Codification guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. As of June 30, 2011, the EMGC had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The EMGC'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 fiscal year ended June 30, 2011. Generally, the tax years before 2008 are no longer subject to examination by federal taxing authorities.

ELIZABETHTON MUNICIPAL GOLF COURSE  
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011

---

NOTE 10 - EMPHASIS OF A MATTER

As of June 30, 2011, the EMGC reports a negative change in net assets of \$61,927 as well as a deficit in unrestricted net assets of \$110,056. As of June 30 2011, the EMGC's accounts payable and capital lease obligations have increased. A decline in membership is also a concern. Operating expenses have increased \$29,442 from the prior year. The EMGC has cut expenses to the minimum and will be laying off some employees in the fall of 2011. Currently, there is no plan to increase fees. During the fiscal year, the EMGC made draws totaling \$25,000 on their Line of Credit, primarily for operating expenses. Subsequent to year-end, the EMGC made an additional draw of \$12,000. The Board closely monitors revenues and expenses and plans to continue the \$1 per hole promotion. Management of the EMGC will continue to seek additional cost saving options as well as increased marketing efforts.

NOTE 11 - SUBSEQUENT EVENTS

Subsequent to year end, the EMGC made an additional draw of \$12,000 on the line of credit.

**SUPPLEMENTAL  
INFORMATION**

ELIZABETHTON MUNICIPAL GOLF COURSE  
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF MEMBERSHIP RATES IN FORCE  
For the Fiscal Year Ended June 30, 2011

---

Dues for Membership Year April 1, 2011 to March 31, 2012:

Regular – Single Membership	\$ 855.00
Additional Family Members	590.00
Seniors	770.00
Limited Membership (Monday-Thursday)	595.00
Juniors	420.00
Cart Club Membership	695.00
Limited Cart Club Membership	570.00

Members who are 80 years or older, receive free membership if they have been a member of the Elizabethton Golf Course for the past 10 years. Also, members who are 75 years or older on April 1, 2011 and have been members in good standing for a minimum of 5 consecutive years, will be exempt from any additional rate increases 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.

Bag Storage	\$ 50.00
Locker Fee (Large)	25.00
Locker Fee (Small)	10.00
Cart Trail Fee	420.00
Cart Storage Fee (Gas Cart)	150.00
Cart Storage Fee (Electric Cart)	200.00
Handicap Service	20.00
Range Balls	6.00
Unlimited Range Membership	285.00

	<u>Weekends</u>	<u>Weekdays</u>		
		(Mon & Tues)	(Wed & Thurs)	(Fri)
Green Fees				
Eighteen Holes	\$ 32.50	23.00	26.50	28.50
Nine Holes	24.25	16.00	18.25	18.25
Junior Green Fees (Under the age of 16)				
Eighteen Holes	20.00	15.00	15.00	15.00
Nine Holes	15.00	10.00	10.00	10.00
Cart Rentals (Per Rider)				
Eighteen Holes	12.50	12.50	12.50	12.50
Nine Holes	6.25	6.25	6.25	6.25
Private Owned Cart Rentals (Per Rider)				
Eighteen Holes	8.00	8.00	8.00	8.00
Nine Holes	4.00	4.00	4.00	4.00

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 REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the Elizabethton Municipal Golf Course (EMGC), a component unit of the City of Elizabethton, Tennessee as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated November 17, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the EMGC's internal control over financial reporting as a basis for designing our auditing procedures 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 EMGC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the EMGC's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting: 2011-01, 2011-02, 2008-02, and 2008-03. 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.

To the Board of Directors of  
Elizabethton Municipal Golf Course  
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the EMGC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as items 2011-01, 2011-02, 2008-02 and 2008-03.

We noted certain other matters that we reported to management of the EMGC in a separate letter dated November 17, 2011.

The EMGC's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the EMGC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Blackburn, Childers & Steagall, PLC*  
BLACKBURN, CHILDERS & STEAGALL, PLC

November 17, 2011

ELIZABETHTON MUNICIPAL GOLF COURSE  
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2011

---

**2011-01: Significant Deficiency:** Line of Credit

**Condition:** During our testing of debt, we noted an unsecured line of credit with Carter County Bank. Proper approval from the State of Tennessee Comptroller, Division of Local Finance was not obtained.

**Criteria:** The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 25 indicates, that before entering into a debt agreement, the board (as documented in the minutes) and the Comptroller (Division of Local Finance) must approve the issuance of the loan or bond.

**Effect:** The effect of this deficiency is failure to comply with the *Internal Control and Compliance Manual for Tennessee Municipalities*.

**Recommendation:** We recommend paying off the remaining outstanding balance and closing the line of credit as well as obtaining proper approval from the State of Tennessee Comptroller, Division of Local Finance.

**Management's Response:** Management agrees with this finding. While we have carried a line of credit with the bank for several years, due to our large year-end deficit, we were unable to pay it back by year-end. We will make every effort to pay this off as soon as possible and close this line of credit. In addition, we will notify the State Comptroller and explain what has taken place. We will also make efforts to defer other debt service payments to help keep us from finding ourselves in this predicament in the future.

**2011-02: Significant Deficiency:** Purchasing Procedures and Documentation

**Condition:** During audit procedures regarding disbursements, we noted the following issues. Based upon testing, seven checks lacked supporting documentation, invoices, etc. Five invoices were not properly cancelled or marked with check number, amount, and date. Two instances were noted where sales tax had been charged and paid. Four instances were noted where proper verification of the cancelled checks could not be confirmed because the bank statements did not supply a copy of the cancelled checks. Two instances were noted where two checks with the same check number cleared the bank.

**Criteria:** To enhance internal controls, all disbursements should be properly supported with original documentation such as invoices, receiving reports, sales receipts or other support. Purchase orders should be timely completed and approved before purchases are made.

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

ELIZABETHTON MUNICIPAL GOLF COURSE  
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2011

---

**Recommendation:** We recommend the purchasing procedures be followed and that all documentation for all disbursements be maintained in an organized manner. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 19, indicates that all disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets, or other adequate supporting documentation. The documentation should be sufficient to determine that the expenditure was for a municipal purpose. The supporting documentation should be signed by the person receiving the goods or services to verify that the municipality received and accepted the goods/services for which it was charged. Supporting documents should be canceled by writing the check number, amount, payment date, and account to be charged on the first page of documentation and stamping "PAID" on all other pages. The Manual also states canceled checks must be retained and on file with the applicable bank statements for future reference and audit purposes.

**Management's Response:** Management agrees with this finding. Management will make greater efforts to follow the proper procedures concerning purchasing and documentation. It will make certain that all purchases will be accompanied by a proper purchase order and then marked paid by indicating the corresponding check number and date paid.

**PRIOR YEAR FINDINGS NOT IMPLEMENTED**

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

**Condition:** The Golf Course experienced a significant decline in cash, a net loss for the year, and also has a deficit in unrestricted net assets.

**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 the EMGC. Monthly budgets and financial reports should be prepared and reviewed.

**Management's Response:** Management agrees with this finding. To lower our expenditures we have laid off all employees possible. Although efforts are always made to reduce expenditures, inadequate revenue continues to be our biggest problem. We will continue to take steps to try to encourage an increase in play and find ways to effectively market our golf course.

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

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

June 30, 2011

---

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

**Condition:** Currently, the manager performs most accounting, reconciling and general ledger functions. In addition, journal entries were not always properly approved or fully supported with documentation. Also, four of the bank reconciliation worksheets lacked a signature for review and approval and all twelve lacked the date reviewed and approved.

**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:** 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 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:** Management agrees with this finding. However, with only four full-time employees, proper segregation of duties will not be easy to achieve. Officers of the Board of Directors will have to be used to share in the duties in an effort to alleviate this problem. To help insure segregation of duties, the following procedures will either be continued or implemented. A member of the board of directors will continue to open bank statements and after proper review initial and submit them to the manager and reviewed with an Officer along with daily worksheets for the month. Mail will continued to be picked up by our course superintendent. He separates the mail and distributes it to the proper person. Invoices and statements are given to our course mechanic who serves as the purchasing agent for the golf course. He then matches them up with the corresponding purchase order, and submits them to the manager for payment. The manager will review for proper documentation, issue checks and present both the check and the documentation to an Officer at the time of signing. After checks are signed, the manager will then give the checks to our pro-shop staff member on duty to be mailed. Daily reports will be prepared by our pro-shop staff and reviewed by the manager and then deposits will be made.

PRIOR YEAR FINDING IMPLEMENTED

2010-01: Bank Deposits