



ELIZABETHTON MUNICIPAL GOLF COURSE

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

FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

ELIZABETHTON MUNICIPAL GOLF COURSE

A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE

FINANCIAL STATEMENTS

WITH SUPPLEMENTAL INFORMATION

For the Year Ended June 30, 2016

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
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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, 2016

Appointed Officials

Chair	Jeff Andrews
Vice-Chair	Shannon Johnson
Secretary	Don Lester
Board Member	Mike Mains
Board Member	Mike Matheson
Board Member	Steve Morton
Board Member	Scotty Bunton
Board Member	Cathy Ross
Board Member	Richard Tester

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, 2016, 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, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 8 to the financial statements, the Golf Course has continued to experience financial difficulties and has a deficit in unrestricted net position at year end.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 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 December 13, 2016, on our consideration of the Golf Course's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Golf Course's internal control over financial reporting and compliance.

Blackburn, Childers & Steagall, PLC

BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

December 13, 2016

**Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2016**

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, 2016.

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 three 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 includes the internal control and compliance.

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

Golf Course Highlights

The Golf Course memberships increased significantly in fiscal year 2016 due to an aggressive price structure for new members. The few members that did not renew were lost due to age and health issues. Customer revenue collection for green fees increased in fiscal year 2016 by \$20,965. Membership has increased to 173 total members. Extensive work has also been done to the course. Cart paths were refurbished and additional sod was laid to enhance playability. The new member fee structure and lower cost-to-play fees have resulted in more rounds played in fiscal year 2016.

As a total, operating expenses increased in fiscal year 2016. The extra expenses were incurred from upgrading the golf course with some refurbished cart paths and the continued need to replace sod from winter kill. Also, increasing in fiscal years 2016 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, 2016**

Financial Position Summary	<u>2016</u>	<u>2015</u>
Current Assets	\$ 113,083	121,555
Property, Plant, and Equipment (Net)	<u>503,056</u>	<u>514,748</u>
Total Assets	<u>616,139</u>	<u>636,303</u>
Current Liabilities	144,006	167,587
Long-Term Liabilities	<u>44,192</u>	<u>56,184</u>
Total Liabilities	<u>188,198</u>	<u>223,771</u>
Net Investment in Capital Assets	440,624	423,236
Restricted	875	875
Unrestricted (Deficit) Net Position	<u>(13,558)</u>	<u>(11,579)</u>
Total Net Position	<u>427,941</u>	<u>412,532</u>
Total Liabilities and Net Position	<u>\$ 616,139</u>	<u>636,303</u>

Capital Assets

The following chart highlights the capital assets for fiscal year 2016 and 2015.

Capital Assets	<u>2016</u>	<u>2015</u>
Building and Building Improvements	\$ 4,565	6,261
Machinery and Equipment	68,783	92,881
Course Improvements	<u>429,708</u>	<u>415,606</u>
Total Capital Assets	<u>\$ 503,056</u>	<u>514,748</u>

Assets are shown above net of accumulated depreciation.

**Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2016**

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 18 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>2016</u>	<u>2015</u>
Operating Revenue		
Cart Rentals	\$ 52,869	40,733
Green Fees	191,818	170,853
Membership Dues	150,076	163,130
Trail Fees	211	-
Cart Storage Fees	-	37
Driving Range Income	21,324	21,323
Locker and Club Rental	670	709
Tournaments	27,658	32,939
Other Income	5,342	1,161
Outing Income	52,134	57,219
USGA Handicap	26	569
Pro Shop Income	-	15,923
Vending	30,076	27,788
Contribution	<u>140,000</u>	<u>50,000</u>
 Total Operating Revenues	 672,204	 582,384

**Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2016**

Summary of Changes in Net Position (continued)

	2016	2015
Operating Expenses		
Wages and Employee Benefits	261,781	224,217
Repairs and Maintenance	123,830	101,848
Insurance-General	12,111	12,720
Utilities	34,452	33,573
Fuel Purchase	18,441	21,066
Administrative and General	17,986	51,572
Handicap Service	2,628	706
Tournaments	8,991	-
Club House Expense	-	897
Rent and Rental Expense	13,500	13,500
Leases	37,798	32,046
Depreciation	61,917	73,595
Sales and Marketing	95	1,305
Professional Services	33,552	16,187
Bank Fees	9,132	6,755
	<u>636,214</u>	<u>589,987</u>
Total Operating Expenses		
	<u>636,214</u>	<u>589,987</u>
Net Operating Income (Loss)	<u>35,990</u>	<u>(7,603)</u>
NONOPERATING REVENUES(EXPENSES)		
Interest Income	48	35
Interest Expense	<u>(6,259)</u>	<u>(5,094)</u>
TOTAL NONOPERATING REVENUES(EXPENSES)	<u>(6,211)</u>	<u>(5,059)</u>
Change in Net Position	<u>29,779</u>	<u>(12,662)</u>
Net Position, Beginning	412,532	425,194
Prior Period Adjustment	<u>(14,370)</u>	-
Net Position, Beginning (Restated)	398,162	425,194
Net Position, Ending	<u>\$ 427,941</u>	<u>412,532</u>

**Elizabethton Municipal Golf Course
Management's Discussion and Analysis
June 30, 2016**

Total Net Position Sheet Summary

Total net position increased in the amount of \$29,779 for fiscal year 2016. 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, 2016

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 90,363
Accounts Receivable	258
Inventories	22,171
Prepaid Expense	<u>291</u>

Total Current Assets 113,083

Property, Plant and Equipment

Cost	2,359,606
Less: Accumulated Depreciation	<u>(1,856,550)</u>

Net Property, Plant and Equipment 503,056

TOTAL ASSETS \$ 616,139

(Continued)

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2016

LIABILITIES AND NET POSITION

LIABILITIES

Current Liabilities

Accounts Payable	\$ 14,427
Accrued Payroll Taxes	15,369
Sales Tax Payable	1,153
Unearned Revenue	94,817
Capital Leases	<u>18,240</u>

Total Current Liabilities 144,006

Long-Term Liabilities

Capital Leases	<u>44,192</u>
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TOTAL LIABILITIES 188,198

NET POSITION

Net Investment in Capital Assets	440,624
Restricted	875
Unrestricted Deficit	<u>(13,558)</u>

TOTAL NET POSITION 427,941

TOTAL LIABILITIES AND NET POSITION \$ 616,139

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, 2016

OPERATING REVENUE		
Cart Rentals	\$	52,869
Green Fees		191,818
Membership Dues		150,076
Trail Fees		211
Driving Range Income		21,324
Locker and Club Rental		670
USGA Handicap		26
Tournaments		27,658
Outing Income		52,134
Vending		30,076
Contributions - City of Elizabethton		140,000
Other Income		5,342
		<hr/>
TOTAL OPERATING REVENUE		672,204
OPERATING EXPENSES		
Wages and Employee Benefits		261,781
Repairs and Maintenance		123,830
Insurance-General		12,111
Utilities		34,452
Fuel Purchases		18,441
Administrative and General		17,986
Handicap Service		2,628
Tournaments		8,991
Rent and Rental Expenses		13,500
Leases		37,798
Depreciation		61,917
Sales and Marketing		95
Professional Services		33,552
Bank and Credit Card Fees		9,132
		<hr/>
TOTAL OPERATING EXPENSES		<u>636,214</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, 2016

NET OPERATING INCOME (LOSS)	35,990	
NONOPERATING REVENUES (EXPENSES)		
Interest Income	48	
Interest Expense	<u>(6,259)</u>	
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(6,211)</u>	
Change in Net Position		<u>29,779</u>
Net Position, July 1, 2015		412,532
Prior Period Adjustment		<u>(14,370)</u>
Net Position, July 1, 2015 (Restated)		<u>398,162</u>
Net Position, June 30, 2016		<u><u>\$ 427,941</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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Users	\$ 652,772	
Cash Payments to Suppliers for Goods and Services	(316,385)	
Cash Payments for Employee Services and Benefits	<u>(259,799)</u>	
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		76,588
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property, Plant and Equipment Acquisitions	(43,425)	
Payments on Leases Payable	(35,880)	
Interest Paid	<u>(6,259)</u>	
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES		(85,564)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	<u>48</u>	
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES		<u>48</u>
Net Increase (Decrease) in Cash and Cash Equivalents		(8,928)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>99,291</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>\$ 90,363</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, 2016

RECONCILIATION OF OPERATING INCOME (LOSS) TO	
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	
Net Operating Income (Loss)	\$ 35,990
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash	
Provided by (Used for) Operating Activities:	
Depreciation Expense	61,917
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(150)
(Increase) Decrease in Inventories	(306)
Increase (Decrease) in Accounts Payable	(3,632)
Increase (Decrease) in Accrued Payroll Taxes	1,982
Increase (Decrease) in Sales Tax Payable	69
Increase (Decrease) in Unearned Revenue	<u>(19,282)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 76,588</u>
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND	
RELATED FINANCING ACTIVITIES	
Borrowing Under Capital Leases	<u>\$ 6,800</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, 2016

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

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Property, Plant and Equipment

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

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

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

E. Unearned Revenue

Unearned revenue includes unearned membership dues 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.

NOTE 2 - CASH DEPOSITS WITH A FINANCIAL INSTITUTION

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 \$88,963 and the financial institution balance was \$81,008. Carrying amounts differ from the financial institution balances primarily due to outstanding checks and deposits in transit.

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

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

The cash and cash equivalents on the Statement of Net Position include \$1,400 of cash on hand. All deposits with financial institutions must be collateralized in an amount equal to 105% of the market value of uninsured deposits. The bank deposits are insured up to the Federal Deposit Insurance Corporation (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, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated				
Building and Building Improvements	\$ 72,334	-	-	72,334
Machinery and Equipment	787,389	9,304	-	796,693
Vehicles	4,500	-	-	4,500
Office Equipment	13,442	-	-	13,442
Course Improvements	1,424,926	40,921	-	1,465,847
Carts, Range and Other	6,790	-	-	6,790
Total Capital Assets, Being Depreciated	<u>2,309,381</u>	<u>50,225</u>	<u>0</u>	<u>2,359,606</u>
Less Accumulated Depreciation For				
Building and Building Improvements	(66,073)	(1,696)	-	(67,769)
Machinery and Equipment	(694,508)	(33,402)	-	(727,910)
Vehicles	(4,500)	-	-	(4,500)
Office Equipment	(13,442)	-	-	(13,442)
Course Improvements	(1,009,320)	(26,819)	-	(1,036,139)
Carts, Range and Other	(6,790)	-	-	(6,790)
Total Accumulated Depreciation	<u>(1,794,633)</u>	<u>(61,917)</u>	<u>0</u>	<u>(1,856,550)</u>
Net Capital Assets, Being Depreciated	<u>\$ 514,748</u>	<u>(11,692)</u>	<u>0</u>	<u>503,056</u>

NOTE 4 - LEASE OBLIGATIONS

Capital Leases

The Golf Course leases various mowing and turf equipment from several financing companies. The economic substance of the leases is that the Golf Course is financing the acquisition of the assets through the leases and, accordingly, the leases are recorded in the Golf Course's assets and liabilities. Capital leases reflect the transfer of risks and benefits associated with the asset to the lessee. During fiscal year 2016, the Golf Course obtained one new capital lease for equipment.

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016**

NOTE 4 - LEASE OBLIGATIONS (CONTINUED)

Capital Leases (Continued)

Additionally, all capital leases held under one leasing company were consolidated into one lease in March of 2016. Under the new 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>(94,993)</u>
	<u>\$ 52,380</u>

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

During the year ended June 30, 2016, the following debt transactions occurred.

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital Lease - Various Equipment	\$ 60,182	6,800	25,291	41,691	7,229
Capital Lease - Toro Groundmaster	31,330	-	10,589	20,741	11,011
	<u>\$ 91,512</u>	<u>6,800</u>	<u>35,880</u>	<u>62,432</u>	<u>18,240</u>

The following presents future minimum lease payments as of June 30, 2016:

Fiscal Year Ending June 30	
2017	\$ 28,058
2018	28,676
2019	18,763
2020	9,381
Less: Interest	<u>(22,446)</u>
Present Value of Minimum Lease Payments	<u>\$ 62,432</u>

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

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, 2016. 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 \$36,803.

Future payments required under the operating leases are as follows:

Year	Amount
<u>Ending June 30</u>	<u> </u>
2017	\$ 31,141
2018	33,972
2019	33,972
2020	16,986
	<u>\$ 116,071</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, 2016

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, 2016, 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, 2016.

NOTE 8 - EMPHASIS OF MATTER

As of June 30, 2016, the Golf Course reports a deficit in unrestricted net position of \$13,558. The Board closely monitors revenues and expenses. Management of the Golf Course will continue to seek additional cost saving options as well as increased marketing efforts.

NOTE 9 - PRIOR PERIOD ADJUSTMENT

The Golf Course determined that certain transactions were recorded incorrectly in the prior year. The prior year deferred revenue was understated while revenue was overstated in comparison to what was actually collected. Thus, a prior period adjustment was made in the amount of \$14,370 which decreased net position as of July 1, 2015.

**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, 2016**

Dues for Membership Year April 1, 2016 to March 31, 2017:

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
Locker Fee (Small)	21
Club Owned Cart Unlimited Play	1,200
Private Cart Unlimited Play	1,200
Cart Storage	100
Range Balls (Non-Member)	8
Range Balls (Member)	5
Unlimited Range Membership	480
Unlimited Range Membership @ \$5 a bucket	200
Junior Range Membership	330

(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, 2016

	<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	\$ 20.00	\$ 15.00
Early Bird (Sunday 8:00am - 10:30am with Cart)	\$ 25.00	\$ 25.00
Twilight Rate (Saturday, Sunday, and Holidays after 3:00pm)	\$ 25.00	\$ 22.00
Green Fees (Walking)		
Eighteen Holes	\$ 20.00	\$ 15.00
Nine Holes	\$ 11.00	\$ 8.00
Junior Green Fees (Under the age of 16 and Walking)		
Unlimited Holes	\$ 10.00	\$ 10.00
Nine Holes	\$ 5.00	\$ 5.00
Cart Rentals (Per Rider)		
Eighteen Holes	\$ 10.00	\$ 10.00
Nine Holes	\$ 5.00	\$ 5.00
<u>Winter Rates (November 1st- March 31st)</u>		
Green Fees (includes cart)		
Eighteen Holes	\$ 29.00	\$ 26.00
Nine Holes	\$ 21.00	\$ 16.00
Early Bird (Sunday 8:00am - 10:30am with Cart)	\$ 26.00	\$ 26.00
Green Fees (Walking)		
Eighteen Holes	\$ 21.00	\$ 16.00
Nine Holes	\$ 16.00	\$ 11.00

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, 2016, 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 December 13, 2016.

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: 2008-002, 2008-003, and 2016-001 through 2016-004.

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 2008-002, 2008-003, and 2016-001 through 2016-004.

The Golf Course's Response to Findings

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

Purpose of this Report

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

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

December 13, 2016

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, 2016

Financial Statement Findings

Finding Number		Finding Title		Status
2008-002		Deficit		Repeated
2008-003		Segregation of Duties		Repeated

ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2016

PRIOR YEAR FINDINGS NOT IMPLEMENTED

2008-002: Significant Deficiency: Deficit (Repeated from 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: The Golf Course has a deficit in unrestricted net position in the amount of \$13,558. During the fiscal year, the Golf Course reported a positive change in net position of \$29,779; however, this included contributions from the City of Elizabethton totaling \$140,000.

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

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

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

Management's Response: Under the direction of a newly appointed board of directors, the Golf Course will work more closely with the City of Elizabethton, vendors and new board members to create a revenue stream that will allow the course to finish fiscal year 2017 with a net position of \$0. Effective immediately the Golf Course Board will prepare monthly budgets that outline financial requirements that can be adjusted and those that cannot be altered month to month. Through this process we will better understand sales and cost of sales in order to secure a positive net position.

2008-003: Significant Deficiency: Segregation of Duties (Repeated from 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 transactions.

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

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

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2016**

PRIOR YEAR FINDINGS NOT IMPLEMENTED (CONTINUED)

2008-003: Significant Deficiency: Segregation of Duties (Repeated from 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)(Continued)

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: Effective immediately the new Golf Course board will review our Accounting "internal controls" process and designate corrective actions. The correct controls have been stressed strongly in the past with a plan that satisfies state regulations. With a small staff adhering to such controls can sometimes be challenging. Our accounting practices will become a top shelf priority in fiscal year 2017. Currently, the finance committee reviews all phases of our accounting system, using controls that were recommended in the past. Much of the oversight is done electronically, viewing bank statements for instances, hence the use of a stamp for the paper documents.

CURRENT YEAR FINDINGS

2016-001: Significant Deficiency: Bids

Condition: Documentation could not be located for bids or price inquiries regarding the cart path resurfacing.

Criteria: Price inquiries, price quotes and/or bids should be in place where applicable. Golf Course standard business practices, Section III Procurement Procedures, A.4 states in part, "Requisitions greater than or equal to \$1,000 that are not normal operating expenses or that are not budgeted will require an RFQ."

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2016**

CURRENT YEAR FINDINGS (CONTINUED)

2016-001: Significant Deficiency: Bids (Continued)

Effect: The effect of this deficiency creates the possibility that the Golf Course may not have received the best price for the services provided.

Recommendation: The Golf Course should follow adopted board policies and practices including obtaining bids and price inquiries.

Management's Response: Bids were obtained, from several vendors, for Cart Path repair at the Golf Course. A golf course member contacted paving companies, toured the repair sites with the vendor and collected bids from at least three vendors. Unfortunately, the individual is no longer a member of the Golf Course and before they left all corresponding paperwork associated to this project was not gathered from them.

2016-002: Significant Deficiency: Bank Reconciliations

Condition: It was noted that several of the monthly bank reconciliations did not properly reconcile to the general ledger balance for cash. Specifically, seven of the twelve months' reconciliations did not appear to be properly reconciled. It was noted that some items that should have been included as deposits in transit or as outstanding checks were not. Other instances included amounts as outstanding checks but these were voided. Additionally, instances were noted in which ACHs cleared the current month but the transactions occurred in the subsequent month within the accounting software.

Criteria: General ledger accounts should be timely reviewed, reconciled to the appropriate supporting documentation or subsidiary ledger reports and adjusted, as necessary.

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

Recommendation: We recommend that the bank reconciliation be completed monthly. Once reconciled to the general ledger, the month should be "locked" so transactions (i.e. voids, etc.) are not entered into the accounting system which change the reconciliation. Additionally, the bank reconciliations should be reviewed for accuracy and approved on a monthly basis.

Management's Response: Bank Reconciliation recommendations from auditor have been noted and will be discussed at the January board meeting with the intentions of placing into practice at the Golf Course these exact procedures.

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2016**

CURRENT YEAR FINDINGS (CONTINUED)

2016-003: Significant Deficiency: Lack of Supporting Documentation

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, it was noted that the checks lacked complete support substantiating all the items being reimbursed.

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.

Effect: The effect of this deficiency creates the possibility that an employee could approve their own reimbursement that lacks the proper support.

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.

Management's Response: The Golf Course accepts recommendations concerning supporting documents. The Golf Course board will investigate all disbursements that lacked supporting documents. It is understood that all transactions must be supported by proper documentation and cases of negligence will result in disciplinary action where needed.

2016-004: Significant Deficiency: Pro-Shop Inventory

Condition: The pro-shop inventory could not be verified as accurate in the current fiscal year. It is our understanding beginning July 1, 2015, the pro-shop duties began to be conducted by the golf pro. It is also our understanding there is no written or approved agreement/contract with the golf pro which specifies terms of employment or responsibilities with regard to the pro shop. Therefore, it cannot be determined how the pro-shop inventory, at the end of the prior year, would be handled since this has not been stipulated in writing. The inventory balance remained unadjusted from the previous year. It was noted that the majority of items have either been sold and the profits went to the golf pro or they are still in the pro-shop waiting to be sold and have been included with the items the golf pro has purchased and stocked in the pro-shop.

Criteria: Management should be insuring that all current year activity is reported accurately and that all activity is properly supported.

**ELIZABETHTON MUNICIPAL GOLF COURSE
A COMPONENT UNIT OF THE CITY OF ELIZABETHTON, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2016**

CURRENT YEAR FINDINGS (CONTINUED)

2016-004: Significant Deficiency: Pro-Shop Inventory (Continued)

Effect: The effect of this deficiency creates the possibility that misstatements within inventory may have occurred and may not be timely noted and corrected.

Recommendation: The Board of Directors should develop an agreement with the golf pro that stipulates how the inventory will be handled as of the transition date (July 1, 2015). Once this agreement has been documented and approved, the Golf Course should adjust the inventory balances and any other balances accordingly.

Management's Response: A contract with Golf Pro has been finalized, signed and presented to City of Elizabethton City Manager. This contract contains stipulations as to Pro-Shop sales and contains enough information that will allow the Golf Course to clear the books concerning Pro-Shop inventory.