Heatherwoode Golf Course

BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2005

AUDITED

88 Heatherwoode Blvd.
Springboro, Ohio
(937) 748-3222

Auditor of State
Betty Montgomery

City Council
City of Springboro
320 West Central Avenue
Springboro, Ohio 45066

We have reviewed the *Independent Auditor's Report* of the Golf Course Fund of the City of Springboro, Warren County, prepared by Wilson, Shannon & Snow, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Springboro is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 10, 2006

88 E. Broad St. / P.O. Box 1140 / Columbus, OH 43216-1140
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CITY OF SPRINGBORO, OHIO

Golf Course Fund

BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2005

AUDITED

Prepared by:
Finance Department

Robyn Brown
Director of Finance

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Golf Course Fund

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INDEPENDENT AUDITOR'S REPORT

City of Springboro
Warren County
320 West Central Avenue
Springboro, Ohio 45066

We have audited the accompanying financial statements of the Golf Course Fund of the City of Springboro, Warren County, (the City), as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the City'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.

As discussed in Note 1, the financial statements present only the Golf Course Fund of the City and do not purport to, and do not present fairly the financial position of the City of Springboro, Warren County, as of December 31, 2005 and the results of its operations and cash flows of its proprietary fund type in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Golf Course Fund of the City of Springboro, Warren County, as of December 31, 2005, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 10, effective January 1, 2005, the City implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
Newark, Ohio 43055
(740) 345-6611
1-800-523-6611
FAX (740) 345-5635

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2006 on our consideration of the City's internal control over financial reporting for the Golf Course Fund of the City, and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters applicable to the Golf Course Fund of the City. 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 the 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wilson, Shannon & Snow, Inc.

May 18, 2006

Golf Course Fund

Management's Discussion and Analysis - Unaudited
For the Fiscal Year Ended December 31, 2005

Management's discussion and analysis of the City of Springboro's golf course fund financial performance provides an overall review of the golf course's financial activities for the year ended December 31, 2005. The intent of management's discussion and analysis is to look at the golf course's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the golf course's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2005 are as follows:

- In total, net assets increased $1,056,293 due primarily from transfers in. The transfers were made to eliminate the golf course's cash deficit.

- General revenues accounted for $47,597 in revenue or 2.14% of all revenues. Program specific revenues in the form of charges for services represented $1,154,535 or 51.8% and revenues from sale of merchandise represented $799,774 or 35.9% of total revenues of $2,229,213.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis and* the *basic financial statements*.

The financial statements include notes that explain some of the information in the financial statements and provide more detailed data.

FINANCIAL ANALYSIS OF THE GOLF COURSE

A comparative analysis of 2004 and 2005 is presented below:

	2005	2004	Increase (Decrease) over/ (under) 2004
Current and other assets	$579,047	$432,771	$146,276
Capital assets, Net	10,738,243	10,592,338	145,905
Total assets	11,317,290	11,025,109	292,181
Long-term debt outstanding	3,563,694	3,757,860	(194,166)
Other current liabilities	280,589	850,535	(569,946)
Total liabilities	3,844,283	4,608,395	(764,112)
Net assets			
Invested in capital assets, net of related debt	7,321,744	7,009,237	312,507
Unrestricted	151,263	(592,523)	743,786
Total net assets	$7,473,007	$6,416,714	$1,056,293

Golf Course Fund

Management's Discussion and Analysis - Unaudited
For the Fiscal Year Ended December 31, 2005

Changes in Net Assets

The following table shows the changes in net assets for the fiscal year 2005 and 2004:

	2005	2004	Increase (Decrease) over/ (Under) 2004
Operating Revenues:			
Program revenues:			
Charges for Services and Sales	$2,181,616	$2,256,350	($74,734)
Nonoperating Revenues:			
Investment Earnings	47,597	32,423	15,174
Loss on Disposal of Capital Assets	(250)	0	(250)
Total revenues	2,228,963	2,288,773	(59,810)
Operating and Nonoperating Expenses:			
Contractual Services	1,335,330	1,537,434	(202,104)
Materials and Supplies	178,629	157,456	21,173
Cost of Goods Sold	230,899	259,598	(28,699)
Depreciation	166,488	170,299	(3,811)
Debt Service:			
Interest and Fiscal Charges	225,141	232,397	(7,256)
Total expenses	2,136,487	2,357,184	(220,697)
Change in Net Assets Before Transfers	92,476	(68,411)	160,887
Transfers In	963,817	680,975	282,842
Total Change in Net Assets	1,056,293	612,564	443,729
Beginning Net Assets	6,416,714	5,804,150	612,564
Ending Net Assets	$7,473,007	$6,416,714	$1,056,293

Charges for services and sales decreased during 2005, primarily in the sale of merchandise and food and beverage operations. The reduction in merchandise sales was due to the remodeling of the proshop area and the decision to eliminate the sale of complete golf club sets. Food and beverage operation income decreased due to the reduction in the number of banquets and events booked during the year.

The overall decrease in expenses in 2005 was due to various factors: wages and benefits decreased due to a turnover in a majority of the management positions, and; cost of sales decreased due to the change in the type of merchandise being sold and in the costs associated with the lower number of banquets and events held at the facility.

Golf Course Fund

Management's Discussion and Analysis - Unaudited
For the Fiscal Year Ended December 31, 2005

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005 the golf course had $10,738,243 net of accumulated depreciation invested in land, land improvements, buildings, infrastructure, and machinery and equipment. The following table shows fiscal year 2005 and 2004 balances:

	2005	2004	Increase (Decrease)
Land	$7,755,718	$7,755,718	$0
Construction in Progress	291,528	0	291,528
Land Improvements	625,065	625,065	0
Buildings	3,384,046	3,384,046	0
Infrastructure	59,316	59,316	0
Machinery and Eqiupment	781,177	762,562	18,615
Less: Accumulated Depreciation	(2,158,607)	(1,994,369)	(164,238)
Totals	$10,738,243	$10,592,338	$145,905

The primary change in capital assets was the current year depreciation expense of $166,488 coupled with additions $312,643 and disposals of $2,500. The major addition to the capital assets was the complete replacement and widening of the cart paths. Construction of this project began in 2005 and will be completed in 2006.

Additional information on the golf course's capital assets can be found in Note 5.

Debt

At December 31, 2005, the golf course had $3.65 million in bonds outstanding, $140,000 due within one year. The following table summarizes the golf course's debt outstanding as of December 31, 2005 and 2004:

	2005	2004
General Obligation Bonds	$3,650,576	$3,784,727
Capital Leases Payable	108,133	160,713
Totals	$3,758,709	$3,945,440

Additional information on the golf course's long-term debt can be found in Notes 6 & 7.

Golf Course Fund

Management's Discussion and Analysis - Unaudited
For the Fiscal Year Ended December 31, 2005

ECONOMIC FACTORS

The golf course's outlook for 2006 is conservative. Revenue remained steady during 2005, while expenses were kept at a minimum, and the same is expected to continue in 2006.

City administrators will continue to pursue new revenue sources for the golf course, such as banquets, corporate meetings, weddings and golf outings, while keeping an eye on its core source of revenue, rounds of golf. If the current economic conditions continue, it is hopeful the golf course will remain fiscally stable.

FOR THE FUTURE

City Council and administration made the commitment in 2000 to eliminate the golf course's cash deficit within five years. To accomplish this, the City transferred funds from the General Fund to cover any operational deficit and funds from the Income Tax Capital Improvement Fund to cover any deficit associated from capital expenses. This was the first year since the golf course was built, in 1999, the Golf Course Fund was able to end the year with a positive balance. Annually, over the past five years, the golf course has generated net earnings and this is expected to continue. Finally, the General Fund and Income Tax Capital Improvement Fund continue to generate a substantial excess of revenues over expenditures, and it appears that this trend will continue. Administrators believe that sufficient monies will be available each year to transfer to the Golf Course Fund (if necessary).

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the golf course's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Finance Department by calling 937-748-4353 or writing to City of Springboro Finance Department, 320 West Central Avenue, Springboro, Ohio 45066.

Golf Course Fund

Statement of Net Assets
Proprietary Funds
December 31, 2005

	Golf Course
Assets:	
Current Assets:	
Cash and Cash Equivalents	$ 151,294
Receivables:	
Accounts	3,090
Inventory of Supplies at Cost	32,485
Inventory Held for Resale	41,588
Prepaid Items	8,380
Total Current Assets	236,837
Non Current Assets:	
Non-Depreciable Capital Assets	8,047,246
Depreciable Capital Assets, Net	2,690,997
Unamortized Bond Issuance Cost	61,138
Deferred Loss on Early Retirement of Debt	281,072
Total Noncurrent Assets	11,080,453
Total Assets	11,317,290
Liabilities:	
Current Liabilities:	
Accounts Payable	69,587
Accrued Interest Payable	15,987
Capital Leases - Current	55,015
General Obligation Bonds - Current	140,000
Total Current Liabilities	280,589
Noncurrent Liabilities:	
Capital Leases Payable	53,118
General Obligation Bonds Payable	3,510,576
Total Noncurrent Liabilities	3,563,694
Total Liabilities	3,844,283
Net Assets:	
Invested in Capital Assets, Net of Related Debt	7,321,744
Unrestricted	151,263
Total Net Assets	$ 7,473,007

See accompanying notes to the basic financial statements

Golf Course Fund

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005

	Golf Course
Operating Revenues:	
Charges for Services	$ 1,154,535
Sales	799,774
Other Operating Revenue	227,307
Total Operating Revenues	2,181,616
Operating Expenses:	
Contractual Services	1,335,330
Materials and Supplies	178,629
Cost of Goods Sold	230,899
Depreciation	166,488
Total Operating Expenses	1,911,346
Operating Income	270,270
Nonoperating Revenue (Expenses):	
Investment Earnings	47,597
Interest and Fiscal Charges	(225,141)
Loss on Disposal of Capital Assets	(250)
Total Nonoperating Revenues (Expenses)	(177,794)
Income Before Transfers	92,476
Transfers:	
Transfers In	963,817
Total Transfers	963,817
Change in Net Assets	1,056,293
Net Assets Beginning of Year	6,416,714
Net Assets End of Year	$ 7,473,007

See accompanying notes to the basic financial statements

Golf Course Fund

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Golf Course
Cash Flows from Operating Activities:	
Cash Received from Customers	$1,880,997
Other Operating Receipts	223,618
Cash Payments for Goods and Services	(1,807,018)
Net Cash Provided by Operating Activities	297,597
Cash Flows from Noncapital Financing Activities:	
Payment of Interfund Loans	(452,819)
Transfers In from Other Funds	963,817
Net Cash Provided by Noncapital Financing Activities	510,998
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Assets	(312,643)
Principal Paid on General Obligation Bonds	(135,000)
Principal Paid on Capital Lease	(52,580)
Interest Paid on All Debt	(204,675)
Net Cash Used by Capital and Related Financing Activities	(704,898)
Cash Flows from Investing Activities:	
Receipt of Interest	47,597
Net Cash Provided by Investing Activities	47,597
Net Increase in Cash and Cash Equivalents	151,294
Cash and Cash Equivalents at Beginning of Year	0
Cash and Cash Equivalents at End of Year	$151,294
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$270,270
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	166,488
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(373)
Increase in Inventory	(13,294)
Increase in Inventory Held for Resale	(819)
Increase in Prepaid Items	(625)
Decrease in Accounts Payable	(47,422)
Decrease in Deferred Revenue	(76,628)
Total Adjustments	27,327
Net Cash Provided by Operating Activities	$297,597

See accompanying notes to the basic financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Springboro, Warren County, (Ohio) present the financial position of the Heatherwoode Golf Course (the golf course) and the results of operations and the cash flows of the golf course **only**. The financial statements are presented as of December 31, 2005 and for the year then ended and have been prepared in conformity with accounting principles generally accepted in the United States of America, applicable to local governments. The Governmental Accounting Standards Board (the GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Basis of Presentation - Fund Accounting

The golf course is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the golf course are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of the golf course.

The golf course accounts for operations that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenses in the accounts and reported in the financial statements, and relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes by the golf course. Revenues are recognized when they are earned and expenses are recognized when incurred.

Pursuant to GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Cash Equivalents

During fiscal year 2005, cash and cash equivalents included amounts in demand deposits and investments with original maturities of less than three months.

The City pools its cash for investment and resource management purposes. The golf course's equity in pooled cash and cash equivalents represents the balance on hand as if each fund maintained its own cash and cash equivalent account. See Note 2 "Cash, Cash Equivalents and Investments."

D. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"*, the City records all its investments at fair value. All investment income, including changes in the fair value of investments, are recognized as revenue in the operating statements. Fair value is determined by quoted market prices. See Note 2, "Cash, Cash Equivalents and Investments." At December 31, 2005 the Golf Course Fund had no investments.

E. Inventory

Inventory is stated at the lower of cost or market (first-in, first-out). Inventories of the golf course are expensed when used.

F. Capital Assets and Depreciation

Property, plant and equipment acquired by the golf course are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees when applicable. Contributed capital assets are recorded at fair market value at the date received.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

Description	Estimated Lives (Years)
Land and Land Improvements	15 - 60
Buildings	10 - 40
Equipment	3 - 15

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Bond Issuance Costs

Bond issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method.

H. Interfund Transactions

During the course of normal operations, the golf course has numerous transactions with other funds of the City.

Transactions that would be treated as revenues and expenses if the transactions involved organizations external to the golf course are similarly treated when involving other funds of the City. The City also transfers cash from one fund to another as necessary to meet current obligations.

I. Interfund Assets/Liabilities

The City reports cash overdrafts from pooled cash and cash equivalents as an interfund loan payable in the fund with the overdraft and as an interfund loan receivable in the fund(s) designated by management. Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables" and "interfund payables". Long-term interfund loans are classified as "advances to/from other funds" and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources since they are not a component of net current assets. Balances, such as those described above, did not exist at December 31, 2005.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

K. 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 the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the golf course, these revenues are greens fees, cart rental, driving range fees, food and beverage charges, banquet rental and golf equipment/apparel sales. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of the golf course are combined to form a pool of cash and investments with other City funds. Ohio law requires the classification of funds held by the City into three categories.

Category 1 consists of "active" funds - those funds required to be kept in a "cash" or "cash equivalent" status for immediate use by the City. Such funds must be maintained either as cash in the City treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

- Interim deposits in eligible institutions applying for interim funds;

- Bonds and other obligations of the State of Ohio;

- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and

- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3 *"Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,"* collateral held in single financial collateral pools with securities being held by the pledging financial institutions' agent in the pool’s name are classified as Category 3.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

Category 1	Insured or collateralized with securities held by the City or by its agent in the City's name.
Category 2	Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
Category 3	Uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investments:

Category 1	Insured or registered, or securities held by the City or its agent in the City's name.
Category 2	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
Category 3	Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

A. <u>Deposits</u>

The City of Springboro internally pools cash and investments amongst all funds. The City's Finance Director monitors interest rate, credit and concentration of credit risk associated with the City's cash and investments as a whole. At year end the carrying amount of the golf course's deposits was $151,294, and the bank balance was $1,637,810. Federal depository insurance covered $100,000, of the bank balance. All remaining deposits were uninsured and collateralized with securities held by the pledging institutions' trust department in the name of the City.

NOTE 3 - RECEIVABLES

Receivables at December 31, 2005 consisted of accounts receivable from American Golf Corp. The receivables are considered collectible in full.

NOTE 4 - OPERATING TRANSFERS

The golf course received a transfer in from the General Fund in the amount of $363,817 and from the Income Tax Capital Improvement Fund in the amount of $600,000.

Golf Course Fund

Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 5 - CAPITAL ASSETS

A summary of the golf course property, plant, and equipment at December 31, 2005 follows:

Historical Cost: Class	Balance at December 31, 2004	Additions	Deletions	Balance at December 31, 2005
Capital assets not being depreciated:				
Land	$7,755,718	$0	$0	$7,755,718
Construction in Progress	0	291,528	0	291,528
Total Capital assets not being depreciated	7,755,718	291,528	0	8,047,246
Capital assets being depreciated:				
Land Improvements	625,065	0	0	625,065
Buildings	3,384,046	0	0	3,384,046
Infrastructure	59,316	0	0	59,316
Machinery and Equipment	762,562	21,115	(2,500)	781,177
Total Capital assets being depreciated	4,830,989	21,115	(2,500)	4,849,604
Total Cost	$12,586,707	$312,643	($2,500)	$12,896,850

Accumulated Depreciation: Class	Balance at December 31, 2004	Additions	Deletions	Balance at December 31, 2005
Land Improvements	($346,151)	($32,921)	$0	($379,072)
Buildings	(993,970)	(87,208)	0	(1,081,178)
Infrastructure	(11,407)	(914)	0	(12,321)
Machinery and Equipment	(642,841)	(45,445)	2,250	(686,036)
Total Depreciation	($1,994,369)	($166,488)	$2,250	($2,158,607)
Net Value:	$10,592,338			$10,738,243

Golf Course Fund

Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 6 - CAPITAL LEASE COMMITMENTS

The golf course is obligated under five leases accounted for as capital leases. The leased assets (golf course equipment) are accounted for as capital assets. The original cost of the assets under capital lease was $261,322.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2005.

Year Ending December 31,	
2006	$59,274
2007	38,417
2008	12,589
2009	4,670
Minimum Lease Payments	114,950
Less: Amount representing interest at the City's incremental borrowing rate of interest	(6,817)
Present value of minimum lease payments	$108,133

NOTE 7 - LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the golf course at December 31, 2005 were as follows:

		Balance December 31, 2004	Issued (Retired)	Balance December 31, 2005	Amount Due Within One Year
Enterprise Funds:					
General Obligation Bonds:					
3.9 - 5.4% Golf Course Refunding	1999	$3,800,000	($135,000)	$3,665,000	$140,000
Capital Leases Payable		160,713	(52,580)	108,133	55,015
Total Enterprise Long-Term Debt		$3,960,713	($187,580)	$3,773,133	$195,015

The 1999 Golf Course Refunding bonds are reported at carrying value of $3,650,576. The face value of the bonds at December 31, 2005 was $3,665,000. The difference of $14,424 represents a discount on the issue amount. This discount is being amortized over the life of the bond.

Golf Course Fund

Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

A. <u>Future Long-Term Financing Requirements</u>

The golf course's future long-term obligation funding requirements, including principal and interest payments as of December 31, 2005, follow:

	General Obligation Bonds	
Years	Principal	Interest
2006	$140,000	$191,840
2007	150,000	185,330
2008	155,000	178,205
2009	160,000	170,688
2010	170,000	162,847
2011-2015	990,000	675,111
2016-2020	1,285,000	381,139
2021-2022	615,000	50,220
Totals	$3,665,000	$1,995,380

B. <u>Defeased Debt</u>

In prior years, the golf course has defeased certain general obligation and other bonds by placing the proceeds of the refunding bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the golf course's financial statements. At December 31, 2005, $5,460,000 of bonds outstanding are considered defeased.

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During 2005 the City contracted with several different insurance providers for various insurance coverages, as follows:

Type of Coverage	Liability Limits	Deductible
Property	$3,000,000	$5,000
Inland Marine	3,000,000	250
General Liability	3,000,000	0
Automobile	2,000,000	250/500
Excess Liability	5,000,000	10,000
Public Officials Liability	2,000,000	25,000
Police Liability	2,000,000	5,000

NOTE 8 - RISK MANAGEMENT (Continued)

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 9 – FACILITY MANAGEMENT AGREEMENT

The management and operations of Heatherwoode Golf Course (herein referred to as Facility) is facilitated through a Management Agreement with American Golf Corporation (herein referred to as AGC). The current Management Agreement is effective through December 31, 2006. As part of this Management Agreement, AGC is responsible for all activities at the Facility. AGC collects all revenues associated with the Facility from: greens fees, cart fees, driving range fees, merchandise sales, food and beverage sales and all other charges associated with the operation of the Facility. These revenues are deposited into the City of Springboro's Facility account. AGC pays for all operating expenses from its own accounts, except for utilities and certain leases. The City of Springboro reimburses AGC for the cost of all expenses, after review of such disbursements requiring reimbursement. Financial activity of the Facility is monitored monthly by the City of Springboro and audited annually.

AGC receives an annual Base Management Fee for providing management services as follows:

Base Fee 2005	$165,281
2006	increases annually by 3.5% of the Base Management Fee in effect during the immediately preceding Operating Year or an amount equal to the percentage increase in the CPI (defined term) during the twelve month period ending on October 31 of the immediately preceding Operating Year, whichever is less.

AGC is also entitled to an annual Incentive Management Fee equal to two percent (2%) of all gross revenues in excess of $1,450,000. In 2005, the City of Springboro paid AGC an Incentive Management Fee of $9,600.

All Capital Improvements to the Facility is the responsibility of the City of Springboro. The City Manager is authorized to approve $10,000 in capital improvements annually. Amounts in excess of $10,000 must be approved by City Council.

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLES

The Golf Course Fund of the City of Springboro has implemented GASB 40, *Deposits and Investment Risk Disclosures*, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investment (Including Repurchase Agreements) and Reverse Repurchase Agreements*. Implementation of this GASB had no impact on the Golf Course Fund's financial position or results of operation.

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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*

City of Springboro – Golf Course Fund
Warren County
320 West Central Avenue
Springboro, Ohio 45066

We have audited the financial statements of the Golf Course Fund of the City of Springboro, Warren County, Ohio (the City), as of and for the year ended December 31, 2005, and have issued our report thereon dated May 18, 2006. As described in Note 10, the Golf Course Fund of the City adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosure*. 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 City's internal control over financial reporting related to the Golf Course Fund in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Wilson, Shannon & Snow, Inc.
CERTIFIED PUBLIC ACCOUNTANTS
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement related to the Golf Course Fund, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts for the Golf Course Fund of the City. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the audit committee, management, the City Council, and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Wilson, Shannon & Snow, Inc.

May 18, 2006

CITY OF SPRINGBORO– THE GOLF COURSE FUND
WARREN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	A negative cash balance in the Golf Course Fund resulted in a citation under Ohio Revised Code section 5705.10. Monies were transferred from another fund to cover expenses.	Yes	N/A.

Auditor of State
Betty Montgomery

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800-282-0370
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CITY OF SPRINGBORO GOLF COURSE FUND

WARREN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 25, 2006