

***CITY OF SPRINGBORO, OHIO***

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***Heatherwoode Golf Course***

***BASIC FINANCIAL STATEMENTS***

***FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2003***

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





**Auditor of State  
Betty Montgomery**

City Council  
City of Springboro Golf Course Fund  
320 West Central Avenue  
Springboro, Ohio 45066

We have reviewed the Independent Auditor's Report of the City of Springboro Golf Course Fund, Warren County, prepared by Wilson, Shannon & Snow, Inc., for the audit period January 1, 2003 through December 31, 2003. 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 Golf Course Fund is responsible for compliance with these laws and regulations.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

June 11, 2004

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*CITY OF SPRINGBORO, OHIO*

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# **Golf Course Fund**

## **BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2003**

*Prepared by:*  
**Finance Department**

**Robyn Brown  
Director of Finance**

# **Golf Course Fund**

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## INDEPENDENT ACCOUNTANTS' 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, 2003. 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 and are not intended to present fairly the financial position of the City and the results of its operations and cash flows of its proprietary fund types 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, 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2004 on our consideration of the City's internal control over financial reporting for this fund, and our tests of its compliance with certain provisions of laws, regulations, contracts and grants applicable to this fund. 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.

*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

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

*Wilson, Shuman & Snow, Inc.*

May 14, 2004

## CITY OF SPRINGBORO, OHIO

# Golf Course Fund

### *Management's Discussion and Analysis For the Fiscal Year Ended December 31, 2003*

The 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, 2003. The intent of this 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 2003 are as follows:

- In total, net assets increased \$646,019 due primarily from transfers in. The transfers are being made to eliminate the golf course's cash deficit.
- General revenues accounted for \$601,297 in revenue or 21.48% of all revenues. Program specific revenues in the form of charges for services represented 78.52% of total revenues of \$2,197,741.

#### 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 2002 and 2003 is presented below:

	2003	2002	Increase (Decrease) over/ (under) 2002
Current and other assets	\$562,228	\$509,634	\$52,594
Capital assets, Net	10,683,722	10,680,060	3,662
Total assets	11,245,950	11,189,694	56,256
Long-term debt outstanding	3,906,329	3,980,690	(74,361)
Other liabilities	1,535,471	2,050,873	(515,402)
Total liabilities	5,441,800	6,031,563	(589,763)
Net assets			
Invested in capital assets, net of related debt	6,987,257	6,953,910	33,347
Unrestricted	(1,183,107)	(1,795,779)	612,672
Total net assets	\$5,804,150	\$5,158,131	\$646,019

**CITY OF SPRINGBORO, OHIO**

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**Golf Course Fund**

*Management's Discussion and Analysis  
For the Fiscal Year Ended December 31, 2003*

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**Changes in Net Assets**

The following table shows the changes in net assets for the fiscal year 2003 and 2002:

	<u>2003</u>	<u>2002</u>	Increase (Decrease) over/ <u>(Under) 2002</u>
Revenues			
Program revenues:			
Charges for Services and Sales	\$2,197,741	\$2,025,909	\$171,832
General revenues:			
Property Taxes	0	62,672	(62,672)
Investment Earnings	17,017	66,290	(49,273)
Operating Transfers In (Out)	584,928	266,929	317,999
Loss on Disposal of Fixed Assets	<u>(648)</u>	<u>(6,400)</u>	<u>5,752</u>
Total revenues	2,799,038	2,415,400	383,638
Program Expenses			
Contractual Services	1,348,946	1,076,041	272,905
Materials and Supplies	201,520	160,551	40,969
Cost of Goods Sold	213,189	196,308	16,881
Depreciation	150,907	156,741	(5,834)
Debt Service:			
Interest and Fiscal Charges	<u>238,457</u>	<u>240,139</u>	<u>(1,682)</u>
Total expenses	<u>2,153,019</u>	<u>1,829,780</u>	<u>323,239</u>
Total Change in Net Assets	646,019	585,620	60,399
Beginning Net Assets	<u>5,158,131</u>	<u>4,572,511</u>	<u>585,620</u>
Ending Net Assets	<u>\$5,804,150</u>	<u>\$5,158,131</u>	<u>\$646,019</u>

Charges for services and sales increased during 2003, primarily in food and beverage operations. This was due to an increased number of banquets and events booked during the year.

The increase in contractual services was due to the lease purchase of new and replacement equipment for the golf course and an increase in property and liability insurance costs.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of fiscal 2003 the golf course had \$10,683,722 net of accumulated depreciation invested in land, land improvements, buildings, infrastructure, machinery and equipment and construction in progress. The following table shows fiscal year 2003 and 2002 balances:

**CITY OF SPRINGBORO, OHIO**

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**Golf Course Fund**

***Management's Discussion and Analysis  
For the Fiscal Year Ended December 31, 2003***

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	<u>2003</u>	<u>2002</u>	Increase (Decrease)
Land	\$7,755,718	\$7,755,718	\$0
Land Improvements	625,065	525,598	99,467
Buildings	3,349,304	3,319,919	29,385
Infrastructure	59,316	59,316	0
Machinery and Equipment	742,657	725,023	17,634
Construction in Progress	0	13,610	(13,610)
Less: Accumulated Depreciation	<u>(1,848,338)</u>	<u>(1,719,124)</u>	<u>(129,214)</u>
Totals	<u>\$10,683,722</u>	<u>\$10,680,060</u>	<u>\$3,662</u>

The primary change in capital assets was the current year depreciation expense of \$150,907 coupled with additions (\$168,827) and net disposals (\$14,258).

Additional information on the golf course's capital assets can be found in Note 8.

***Debt***

At December 31, 2003, the golf course had \$3.91 million in bonds outstanding, \$130,000 due within one year. The following table summarizes the golf course's debt outstanding as of December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
General Obligation Bonds	\$3,913,878	\$4,038,029
Capital Leases Payable	<u>165,055</u>	<u>90,718</u>
Totals	<u>\$4,078,933</u>	<u>\$4,128,747</u>

Additional information on the golf course's long-term debt can be found in Note 10.

## ***CITY OF SPRINGBORO, OHIO***

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# **Golf Course Fund**

*Management's Discussion and Analysis  
For the Fiscal Year Ended December 31, 2003*

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### **ECONOMIC FACTORS**

The golf course's outlook for 2004 is conservative, even with the increase realized in 2003 from banquets and events. Although there was an overall downturn in the economy, revenue from greens fees remained steady during 2003 and are expected to continue to be consistent in 2004.

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 administrators plan to eliminate the golf course's cash deficit within the next two years. To accomplish this, the City renegotiated a new management contract for operation of the golf course that reduced the amount paid in management fees to American Golf Corporation. Also, the user fee structure will be reviewed annually to determine if revenues can be enhanced. 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. Administrator's believe that sufficient monies will be available each year to transfer to the Golf Course Fund (if necessary) over the next two years.

### **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.

**CITY OF SPRINGBORO, OHIO**

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**Golf Course Fund**

***Statement of Net Assets  
Proprietary Funds  
December 31, 2003***

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	<u>Golf Course</u>
<b>Assets:</b>	
<i>Current Assets:</i>	
Receivables:	
Accounts	\$ 108,836
Inventory of Supplies at Cost	28,453
Inventory Held for Resale	35,240
Prepaid Items	7,231
<i>Total Current Assets</i>	<u>179,760</u>
<i>Non Current Assets:</i>	
Capital Assets, Net	10,683,722
Unamortized Bond Issuance Cost	68,330
Deferred Loss on Early Retirement of Debt	314,138
<i>Total Noncurrent Assets</i>	<u>11,066,190</u>
<b>Total Assets</b>	<u>11,245,950</u>
<b>Liabilities:</b>	
<i>Current Liabilities:</i>	
Accounts Payable	36,360
Deferred Revenue	73,293
Interfund Loans Payable	1,236,233
Accrued Interest Payable	16,981
Capital Leases - Current	42,604
General Obligation Bonds - Current	130,000
<i>Total Current Liabilities</i>	<u>1,535,471</u>
<i>Noncurrent Liabilities:</i>	
Capital Leases Payable	122,451
General Obligation Bonds Payable	3,783,878
<i>Total Noncurrent Liabilities</i>	<u>3,906,329</u>
<b>Total Liabilities</b>	<u>5,441,800</u>
<b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	6,987,257
Unrestricted	(1,183,107)
<b>Total Net Assets</b>	<u>\$ 5,804,150</u>

See accompanying notes to the basic financial statements

*CITY OF SPRINGBORO, OHIO*

**Golf Course Fund**

*Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended 31, 2003*

	<u>Golf Course</u>
<b>Operating Revenues:</b>	
Charges for Services	\$ 1,333,669
Sales	802,416
Other Operating Revenue	<u>61,656</u>
<b>Total Operating Revenues</b>	<u>2,197,741</u>
<b>Operating Expenses:</b>	
Contractual Services	1,348,946
Materials and Supplies	201,520
Cost of Goods Sold	213,189
Depreciation	<u>150,907</u>
<b>Total Operating Expenses</b>	<u>1,914,562</u>
Operating Income	283,179
<b>Nonoperating Revenue (Expenses):</b>	
Investment Earnings	17,017
Interest and Fiscal Charges	(238,457)
Loss on Disposal of Fixed Assets	<u>(648)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(222,088)</u>
Income Before Transfers	61,091
<b>Transfers:</b>	
Transfers In	<u>584,928</u>
<b>Total Transfers</b>	<u>584,928</u>
Change in Net Assets	646,019
Net Assets Beginning of Year	<u>5,158,131</u>
Net Assets End of Year	<u>\$ 5,804,150</u>

See accompanying notes to the basic financial statements

**CITY OF SPRINGBORO, OHIO**

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**Golf Course Fund**

***Statement of Cash Flows  
Proprietary Funds  
For the Year Ended 31, 2003***

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<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$2,026,603
Other Operating Receipts	80,017
Cash Payments for Goods and Services	<u>(1,726,851)</u>
Net Cash Provided by Operating Activities	<u>379,769</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Payment of Interfund Loans	(1,794,135)
Receipt of Interfund Loans	1,236,233
Transfers In from Other Funds	584,928
Net Cash Provided by Noncapital Financing Activities	<u>27,026</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	(39,210)
Principal Paid on General Obligation Bonds	(125,000)
Principal Paid on Capital Lease	(41,670)
Interest Paid on All Debt	(217,932)
Net Cash Used by Capital and Related Financing Activities	<u>(423,812)</u>
<u>Cash Flows from Investing Activities:</u>	
Receipt of Interest	17,017
Net Cash Provided by Investing Activities	<u>17,017</u>
Net Change in Cash and Cash Equivalents	0
Cash and Cash Equivalents at Beginning of Year	<u>0</u>
Cash and Cash Equivalents at End of Year	<u><u>\$0</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$283,179
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	150,907
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(63,986)
Increase in Inventory	(6,004)
Increase in Inventory Held for Resale	(2,248)
Increase in Prepaid Items	(485)
Increase in Accounts Payable	7,485
Increase in Deferred Revenue	10,921
Total Adjustments	<u>96,590</u>
Net Cash Provided by Operating Activities	<u><u>\$379,769</u></u>

Schedule of Noncash Investing, Capital and Financing Activities:

During 2003, the golf course incurred a new lease liability of \$116,007.

The notes to the financial statements are an integral part of this statement.

## **Golf Course Fund**

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2003*

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the City 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, 2003 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 on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

**CITY OF SPRINGBORO, OHIO**

**Golf Course Fund**

***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2003***

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Cash and Cash Equivalents**

During fiscal year 2003, 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 3 "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 3, "Cash, Cash Equivalents and Investments." At December 31, 2003 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:

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

## **Golf Course Fund**

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2003*

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**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 advances 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.

**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.

## **Golf Course Fund**

***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2003***

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**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 – ACCOUNTABILITY AND COMPLIANCE**

Contrary to Ohio Revised Code, Section 5705.10, the Golf Course Fund has a negative cash balance of \$1,236,233 at December 31, 2003. For GAAP reporting purposes, interfund loans receivable and interfund loans payable were created to eliminate the negative cash position at year end.

**NOTE 3 - 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;

## **Golf Course Fund**

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2003*

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**NOTE 3 - 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.

**CITY OF SPRINGBORO, OHIO**

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**Golf Course Fund**

***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2003***

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**NOTE 3 - 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. Deposits**

At year end the carrying amount of the golf course's deposits was \$0, and the bank balance was \$830,415. Federal depository insurance covered \$100,000, of the bank balance. All remaining deposits were classified as Category 3.

**NOTE 4 - RECEIVABLES**

Receivables at December 31, 2003 consisted of accounts receivable from American Golf Corp. The receivables are considered collectible in full.

**NOTE 5 - OPERATING TRANSFERS**

The golf course received an operating transfer in from the General Fund in the amount of \$339,928 and from the Income Tax Capital Improvement Fund in the amount of \$245,000.

**CITY OF SPRINGBORO, OHIO**

**Golf Course Fund**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2003**

**NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES**

The golf course was advanced cash in the amount of \$1,236,233 to eliminate its overdraft position. The monies were advanced from the General Fund. The transaction was made strictly on a GAAP basis to eliminate the cash deficit.

**NOTE 7 - CAPITAL ASSETS**

A summary of the golf course property, plant, and equipment at December 31, 2003 follows:

<i>Historical Cost:</i>	December 31,			December 31,
Class	2002	Additions	Deletions	2003
<i>Capital assets not being depreciated:</i>				
Land	\$7,755,718	\$0	\$0	\$7,755,718
Construction in Progress	13,610	0	(13,610)	0
<b>Total Capital assets not being depreciated</b>	<b>7,769,328</b>	<b>0</b>	<b>(13,610)</b>	<b>7,755,718</b>
<i>Capital assets being depreciated:</i>				
Land Improvements	525,598	100,762	(1,295)	625,065
Buildings	3,319,919	29,385	0	3,349,304
Infrastructure	59,316	0	0	59,316
Machinery and Equipment	725,023	38,680	(21,046)	742,657
<b>Total Capital assets being depreciated</b>	<b>4,629,856</b>	<b>168,827</b>	<b>(22,341)</b>	<b>4,776,342</b>
Total Cost	<u>\$12,399,184</u>	<u>\$168,827</u>	<u>(\$35,951)</u>	<u>\$12,532,060</u>
<i>Accumulated Depreciation:</i>				
Class	December 31,			December 31,
	2002	Additions	Deletions	2003
Land Improvements	(\$284,322)	(\$26,205)	\$648	(\$309,879)
Buildings	(826,872)	(83,365)	0	(910,237)
Infrastructure	(9,582)	(913)	0	(10,495)
Machinery and Equipment	(598,348)	(40,424)	21,045	(617,727)
Total Depreciation	<u>(\$1,719,124)</u>	<u>(\$150,907)</u>	<u>\$21,693</u>	<u>(\$1,848,338)</u>
<b>Net Value:</b>	<u>\$10,680,060</u>			<u>\$10,683,722</u>

**CITY OF SPRINGBORO, OHIO**

**Golf Course Fund**

***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2003***

**NOTE 8 - CAPITAL LEASE COMMITMENTS**

The golf course is obligated under three leases accounted for as capital leases. The leased assets (golf course equipment) are accounted for as fixed assets. The original cost of the assets under capital lease was \$141,992.

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, 2003.

Year Ending December 31,	
2004	\$49,934
2005	49,934
2006	49,934
2007	29,077
2008	3,249
Minimum Lease Payments	182,128
Less: Amount representing interest at the City's incremental borrowing rate of interest	(17,073)
Present value of minimum lease payments	\$165,055

**NOTE 9 - LONG-TERM OBLIGATIONS**

Long-term debt and other long-term obligations of the golf course at December 31, 2003 were as follows:

	Balance December 31, 2002	Issued (Retired)	Balance December 31, 2003	Amount Due Within One Year
<b>Enterprise Funds:</b>				
General Obligation Bonds:				
3.9 - 5.4% Golf Course Refunding 1999	\$4,055,000	(\$125,000)	\$3,930,000	\$130,000
Capital Leases Payable	90,718	116,007		
		(41,670)	165,055	42,604
Total Enterprise Long-Term Debt	\$4,145,718	(\$50,663)	\$4,095,055	\$172,604

The 1999 Golf Course Refunding bonds are reported at carrying value of \$3,913,878. The face value of the bonds at December 31, 2003 was \$3,930,000. The difference of \$16,122 represents a discount on the issue amount. This discount is being amortized over the life of the bond.

**CITY OF SPRINGBORO, OHIO**

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**Golf Course Fund**

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2003*

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**NOTE 9 - LONG-TERM OBLIGATIONS (Continued)**

**A. Future Long-Term Financing Requirements**

The golf course's future long-term obligation funding requirements, including principal and interest payments as of December 31, 2003, follow:

Years	General Obligation Bonds	
	Principal	Interest
2004	\$130,000	\$203,768
2005	135,000	197,982
2006	140,000	191,840
2007	150,000	185,330
2008	155,000	178,205
2009-2013	895,000	769,142
2014-2018	1,155,000	508,863
2019-2022	1,170,000	162,000
Totals	<u>\$3,930,000</u>	<u>\$2,397,130</u>

**B. Defeased Debt**

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, 2003, \$6,195,000 of bonds outstanding are considered defeased.

**NOTE 10 - 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 2003 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

## **Golf Course Fund**

*Notes to the Basic Financial Statements  
For the Year Ended December 31, 2003*

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**NOTE 10 - 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 11 – CASH DEFICIT**

The Golf Course Fund experienced a cash deficit of \$1,236,233 at December 31, 2003. The City eliminated this cash deficit through an interfund loan of \$1,236,233 from the General Fund.

Historically, the Golf Course has not generated sufficient cash from operations to pay required debt service. These debt service payments have created cash deficits in the Golf Course Fund. The deficits have been eliminated through operating transfers and interfund loans from other funds.

Management plans to eliminate the cash deficit in the Golf Course Fund within the next two years. To accomplish this, the City renegotiated a new management contract for operation of the golf course that reduced the amount paid in management fees to American Golf Corporation. Also, the user fee structure will be reviewed annually to determine if revenues can be enhanced. 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. Management believes that sufficient monies will be available each year to transfer to the Golf Course Fund (if necessary) over the next two years.

Management has also reduced the Golf Course Long-Term Debt from \$9,928,724 at December 31, 1993 (\$3,300,000 bonds payable, \$6,313,274 capital lease, and \$315,000 due to other funds) to \$5,150,111 at December 31, 2003 (\$3,913,878 bonds payable and \$1,236,233 advances payable). If the Golf Course Fund continues to generate sufficient cash operating income, this reduced debt burden should eventually eliminate the need for debt service payments to be subsidized by other funds.

**NOTE 12 – 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.

**CITY OF SPRINGBORO, OHIO**

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**Golf Course Fund**

***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2003***

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**NOTE 12 – FACILITY MANAGEMENT AGREEMENT**

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

2003	\$157,940
2004-2006	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 2003, the City of Springboro paid AGC an Incentive Management Fee of \$12,052.

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.



## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *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, 2003, and have issued our report thereon dated May 14, 2004. 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.

### Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2003-1.

### 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 assurance 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 over financial reporting 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 in amounts that would be material in relation to the financial statements being audited may occur and not

*Wilson, Shannon & Snow, Inc.*

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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. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated May 14, 2004.

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

*Wilson, Shuman & Snow, Inc.*

May 14, 2004

THE CITY OF SPRINGBORO, OHIO - THE GOLF COURSE FUND  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2003

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE  
REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2003-01

Material Noncompliance - Negative Cash Balance

Ohio Rev. Code Section 5705.10 requires money that is paid into a fund must be used only for the purposes for which such fund has been established.

The Golf Course Fund (Fund 660) and the Golf Course Capital Reserve Account (Fund 661) had a combined negative cash balance of \$1,236,233 at December 31, 2003. This indicates monies from other funds were used to cover expenses of the Golf Course Fund and The Golf Course Capital Reserve Account.

THE CITY OF SPRINGBORO, OHIO - THE GOLF COURSE FUND

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken; or Finding No Longer Valid; <u>Explain:</u>
<b>2002-001</b>	City management needs to continue to monitor the cash deficit.	Yes	The City monitors the financial position of the Golf Course in an effort to eliminate the fund deficit.
<b>2002-002</b>	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.	No	Partially Corrected. Although the fund did have operating income in 2003 it was still necessary to subsidize the fund to make debt payments.



**Auditor of State  
Betty Montgomery**

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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  
JUNE 24, 2004**