THE CITY OF SPRINGBORO, OHIO
GOLF COURSE FUND

WARREN COUNTY

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2001

Prepared by:
Department of Finance

Robyn L. Brown
Director of Finance

STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Members of City Council
City of Springboro – (Golf Course Fund)

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, 2001 through December 31, 2001. 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.

JIM PETRO
Auditor of State

June 5, 2002

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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, 2001. 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 and nonexpendable trust funds 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, 2001, 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 17, 2002 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.

May 17, 2002

Wilson, Shannon & Snow, Inc.
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THE CITY OF SPRINGBORO, OHIO
BALANCE SHEET
GOLF COURSE FUND
DECEMBER 31, 2001

Assets:	
Receivables (net of allowances for doubtful accounts):	
Accounts	$49,944
Due from Other Funds	236
Materials and Supplies Inventory	38,660
Inventory Held for Resale	30,527
Prepaid Items	6,411
Property, Plant and Equipment	12,404,699
Less Accumulated Depreciation	(1,568,836)
Net Fixed Assets	10,835,863
Deferred Loss on Defeasance	347,204
Unamortized Bond Issuance Costs	75,522
Total Assets	$11,384,367
Liabilities and Fund Equity:	
Liabilities:	
Accounts Payable	$28,446
Advances from Other Funds	2,234,064
Estimated Loss Contingency	250,000
Accrued Interest Payable	17,864
Capital Leases Payable	92,117
General Obligation Bonds Payable	4,157,180
Total Liabilities	6,779,671
Fund Equity:	
Contributed Capital	1,594,139
Retained Earnings:	
Unreserved	3,010,557
Total Retained Earnings	3,010,557
Total Fund Equity	4,604,696
Total Liabilities and Fund Equity	$11,384,367

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

THE CITY OF SPRINGBORO, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
GOLF COURSE FUND
FOR THE YEAR ENDED DECEMBER 31, 2001

Operating Revenues:	
Charges for Services	$1,250,305
Sales	758,337
Other Operating Revenues	180,918
Total Operating Revenues	2,189,560
Operating Expenses:	
Materials and Supplies	125,633
Contractual Services	1,627,876
Cost of Goods Sold	218,460
Depreciation	142,403
Total Operating Expenses	2,114,372
Operating Income	75,188
Nonoperating Revenues (Expenses):	
Intergovernmental Revenue	58,952
Investment Income	87,713
Interest and Fiscal Charges	(241,075)
Capital Contributions	6,710
Gain on the Disposal of Fixed Assets	3,269
Total Nonoperating Revenues (Expenses)	(84,431)
Loss Before Operating Transfers	(9,243)
Operating Transfers:	
Operating Transfers In	250,000
Total Operating Transfers	250,000
Net Income	240,757
Retained Earnings at Beginning of Year	2,769,800
Retained Earnings at End of Year	$3,010,557

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

THE CITY OF SPRINGBORO, OHIO
STATEMENT OF CASH FLOWS
GOLF COURSE FUND
FOR THE YEAR ENDED DECEMBER 31, 2001

Cash Flows from Operating Activities:	
Cash Received from Customers	$2,008,406
Other Operating Receipts	130,974
Cash Payments for Goods and Services	(1,731,245)
Net Cash Provided by Operating Activities	408,135
Cash Flows from Noncapital Financing Activities:	
Payment of Advances from Other Funds	(2,674,504)
Receipt of Advances from Other Funds	2,234,064
Transfers In from Other Funds	250,000
Net Cash Used by Noncapital Financing Activities	(190,440)
Cash Flows from Capital and Related Financing Activities:	
Receipt of Intergovernmental Revenue	58,952
Acquisition and Construction of Assets	(14,600)
Principal Paid on General Obligation Bonds	(115,000)
Principal Paid on Capital Lease	(14,261)
Interest Paid on All Debt	(220,499)
Net Cash Used by Capital and Related Financing Activities	(305,408)
Cash Flows from Investing Activities:	
Receipt of Interest	87,713
Net Cash Provided by Investing Activities	87,713
Net Change in Cash and Cash Equivalents	0
Cash and Cash Equivalents at Beginning of Year	0
Cash and Cash Equivalents at End of Year	$0
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$75,188
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	142,403
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(49,944)
Increase in Due From Other Funds	(236)
Increase in Inventory	(23,525)
Increase in Inventory Held for Resale	(2,293)
Increase in Prepaid Items	(465)
Increase in Accounts Payable	17,007
Increase in Estimated Loss Contingency	250,000
Total Adjustments	332,947
Net Cash Provided by Operating Activities	$408,135

Schedule of Noncash Investing, Capital and Financing Activities:

At December 31, 2001, the golf course had outstanding liabilities of $7,400 for the purchase of certain capital assets. During 2001, the golf course incurred a new lease liability of $77,279. During 2001, the golf course received capital contributions from other funds in the amount of $6,710.

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

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, 2001 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) 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 an "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of this fund is included on the balance sheet. Fund equity (i.e., net assets) is segregated into contributed capital and retained earnings components. The operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Cash Equivalents

During fiscal year 2001, 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, 2001 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. Fixed 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 fixed 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

G. Contributed Capital

Golf course contributed capital is recorded at the fair market value of the related assets at the date received. Depreciation on contributed fixed assets resulting from contributions from other funds, dedications by private developers and capital grants is recorded as an operating expense and closed along with other operating expenses directly into retained earnings.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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.

I. 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.

J. Interfund Assets/Liabilities

The City reports cash overdrafts from pooled cash and cash equivalents as an advance from other funds in the fund with the overdraft and as an advance to other funds 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.

K. Reservations of Retained Earnings

Retained earnings have been reserved as a result of bond covenants for replacement and improvement (accumulation of resources for unforeseen repairs and replacements of assets originally acquired with bond proceeds.)

L. 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 2 – ACCOUNTABILITY AND COMPLIANCE

Contrary to Ohio Revised Code, Section 5705.10, the Golf Course Fund has a negative cash balance of $2,234,064 at December 31, 2001. For GAAP reporting purposes, advances to other funds and advances from other funds 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;
- 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).

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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.

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>

At year end the carrying amount of the golf course's deposits was $0, and the bank balance was $1,600,224. 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, 2001 consisted of accounts receivable from American Golf Corp. and an amount due from the General Fund. 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 $250,000.

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

The golf course is owed $236 from the General Fund as payment for a meeting held in November 2001.

The golf course was advanced cash in the amount of $2,234,064 to eliminate its overdraft position. The monies were advanced from the General Fund in the amount of $2,115,758 and from the Income Tax Capital Improvement Fund in the amount of $118,306. The transaction was made strictly on a GAAP basis to eliminate the cash deficit.

NOTE 7 - FIXED ASSETS

A summary of the golf course property, plant, and equipment at December 31, 2001 follows:

Land and Land Improvements	$8,340,632
Buildings	3,319,919
Equipment	744,148
Subtotal	12,404,699
Accumulated Depreciation	(1,568,836)
Net Fixed Assets	$10,835,863

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 $144,596.

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, 2001.

Year Ending December 31,	
2002	$29,579
2003	21,610
2004	17,898
2005	17,898
2006	17,898
Minimum Lease Payments	104,883
Less: Amount representing interest at the City's incremental borrowing rate of interest	(12,766)
Present value of minimum lease payments	$92,117

NOTE 9 - CONTRIBUTED CAPITAL

The balance of contributed capital is $1,594,139. This amount did not change during 2001.

NOTE 10 - LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the golf course at December 31, 2001 were as follows:

		Balance December 31, 2000	Issued (Retired)	Balance December 31, 2001
Enterprise Funds:				
General Obligation Bonds:				
3.9 - 5.4% Golf Course Refunding	1999	4,290,000	(115,000)	4,175,000
Capital Leases Payable		29,099	77,279	
			(14,261)	92,117
Total Enterprise Long-Term Debt		$4,319,099	($51,982)	$4,267,117

The 1999 Golf Course Refunding bonds are reported at carrying value of $4,157,180. The face value of the bonds at December 31, 2001 was $4,175,000. The difference of $17,820 represents a discount on the issue amount. This discount is being amortized over the life of the bond.

NOTE 10 - 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, 2001, follow:

	General Obligation Bonds	
Years	Principal	Interest
2002	$120,000	$214,365
2003	125,000	209,205
2004	130,000	203,768
2005	135,000	197,982
2006	140,000	191,840
2007-2011	815,000	851,502
2012-2016	1,040,000	623,097
2017-2021	1,355,000	311,931
2022-2023	315,000	17,010
Totals	$4,175,000	$2,820,700

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, 2001, $6,845,000 of bonds outstanding are considered defeased.

NOTE 11 - 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 2001 the City contracted with several different insurance providers for various insurance coverages, as follows:

Type of Coverage	Liability Limits	Deductible
Property	$3,000,000	$1,000
Inland Marine	3,000,000	250
General Liability	3,000,000	0
Automobile	2,000,000	250
Excess Liability	5,000,000	10,000
Public Officials Liability	2,000,000	2,500
Police Liability	2,000,000	5,000

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 12 – CASH DEFICIT

The Golf Course Fund experienced a cash deficit of $2,234,064 at December 31, 2001. The City eliminated this cash deficit through advances of $2,115,758 from the General Fund and $118,306 from the Income Tax Capital Improvement 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 advances from other funds.

Management plans to eliminate the cash deficit in the Golf Course Fund within the next four 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 four 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 $6,391,244 at December 31, 2001 ($4,157,180 bonds payable and $2,234,064 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 13 – CONTINGENCY

The City of Springboro is the defendant against a breach of contract claim that is currently being appealed to the Ohio Supreme Court. An estimated potential loss of $250,000 has been recognized on the financial statements of the Golf Course Fund.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQURED 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, 2001, and have issued our report thereon dated May 17, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 2001-2

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 2001-1.

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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 be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses

We also 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 17, 2002.

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.

May 17, 2002

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

FINDING NUMBER 2001-01

Reportable Condition - Monitoring Cash Deficit in Golf Fund

Historically, the Golf Course fund has not generated sufficient cash from operations to be self supporting. The debt service and the related interest payments has and continues to add to the operating deficit of the golf course.

As of December 31, 2001 the deficit was $2,234,064 which is an improvement from the prior year deficit of $2,674,504. However, it is important to note the $440,440 improvement includes an operating transfer of $250,000 and interest earning allocations from a pooled investment of approximately $50,000.

Section III of the City's Annual Appropriation ordinance No. 0-0-01 dated December 21, 2000 states that " The Golf Fund can achieve a positive fund balance through revenues generated by the golf course operations and contributions from other funds. It is the commitment of City Council that the Golf Fund be restored to a positive balance within a ten year period." In July of 2001, City management developed a plan to eliminate the cash deficit in the Golf Course Fund by July of 2006. Prior to these actions, the City did not have a formal plan to reduce the cash deficit of the Golf Course Fund.

In addition to the above plan, management of the City believe the General Fund and the Income Tax Capital Improvement Fund will generate an excess of revenues over expenditures over the next four years to provide sufficient monies to transfer to the Golf Course fund, if necessary.

In an effort to improve the deficit and to address weaknesses in the management agreement the City of Springboro negotiated a revised management agreement dated October 16, 2001. Although there were some favorable changes made to this agreement, the revised contract still provides no incentive for AGC to generate operating income. The base management fee under the former agreement was $154,992, which included $99,996 for golf course management and $54,996 to manage the food and beverage area. Under the new agreement the management fee is $155,000 which includes the food and beverage. The incentive management fee under the prior agreement was equal to 10% of all gross revenues in excess of $750,000. Under the new agreement the incentive is 2% of all gross revenues in excess of $1,450,000. For example, if the golf course generated $1,500,000 in revenue under the prior arrangement, the total fees paid to the management company would have been $229,992. Under the new agreement if $1,500,000 in revenue is generated the total fees paid to the management company would be $156,000. Although this is an improvement over prior year, we believe the incentive payment should be based on operating revenue and not gross revenue.

FINDING NUMBER 2001-01 (Continued)

We recommend the City modify the management agreement with American Golf Corporation to focus the incentive on managing operating income. If this modification is made, AGC will also be focusing their efforts on making the golf course self supporting. If AGC and the City work together to achieve the same goal it is more likely to occur.

FINDING NUMBER 2001-02

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 $2,234,064 at December 31, 2001.

THE CITY OF SPRINGBORO, OHIO - THE GOLF COURSE FUND

SCHEDULE OF PRIOR AUDIT FINDINGS

December 31, 2001

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-20483-001			
(a)	Insufficient City approval and supporting documentation for Golf Course expenditures	No	Partially Corrected; beginning in July 2001, the City performs random audits of Golf Course expenditures. Beginning in Aug. 2001, the City Financial Dept. signs off on Golf Course expenditures, and beginning in Sept. 2001, all original invoices are maintained by the City.
(b)	Insufficient City involvement in the verification and control over cash receipts at the Golf Course.	No	Partially Corrected; beginning in Aug. 2001, the City Finance Dept. performs random cash counts at the Golf Course.
(c)	Insufficient review of Golf Course payroll records by the City.	No	Partially Corrected; beginning in Aug. 2001, the City performs random audits of payroll records.
(d)	AGC does not prepare an annual budget or monthly budget to actual summaries for City Council review.	No	Partially Corrected; beginning in Aug. 2001, the Finance Director started presenting budget to actual reports to the City Finance Committee.
(e)	The City should arrange for an audit of the Golf Course by a qualified CPA firm.	Yes	In 2001, the City hired Wilson, Shannon and Snow, Inc. to perform an audit of the Golf Course Fund.
2000-20483-002			
(a)	The City has no controls or record keeping procedures in place to monitor transfers into the Golf Course Fund.	Yes	Transfers to the golf course fund occur in compliance with City Ordinance and Ohio Revised Code.
(b)	The City has no monitoring controls over management's plan to reduce the Golf Course Fund deficit.	No	Partially Corrected; in October of 2001 the City did amend the contract with AGC. However, an incentive to manage operating income was not created in the agreement.

THE CITY OF SPRINGBORO, OHIO - THE GOLF COURSE FUND

SCHEDULE OF PRIOR AUDIT FINDINGS

December 31, 2001

<table>
<tr><td>2000-20483-003</td><td>Total appropriations exceeded estimated resources for the Golf Course Fund.</td><td colspan="2">Budgetary compliance for the golf course was tested at the city-wide level. For results of this testing and for budgetary statements see the December 31, 2001 audit report of the City of Springboro.</td></tr>
<tr><td>2000-20483-004</td><td>Due to negative cash balance in the Golf Course Fund, monies were transferred from another fund to cover expenses.</td><td>No</td><td>Partially Corrected; although the fund did have operating income in 2001 it was still necessary to subsidize the fund to make debt payments.</td></tr>
</table>

STATE OF OHIO
OFFICE OF THE AUDITOR

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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 18, 2002