

THE CITY OF SPRINGBORO, OHIO
GOLF COURSE FUND

WARREN COUNTY

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2002

Prepared by:
Department of Finance

Robyn L. Brown
Director of Finance



**Auditor of State
Betty Montgomery**

City of Springboro
Springboro, Ohio

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, 2002 through December 31, 2002. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 17, 2003

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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, 2002. 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, 2002, 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 20, 2003 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.

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, Shannon & Snow, Inc.

May 20, 2003

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
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**THE CITY OF SPRINGBORO, OHIO
GOLF COURSE FUND
MANAGEMENT DISCUSSION AND ANALYSIS**

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, 2002. 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 2002 are as follows:

- In total, net assets increased \$585,620 due primarily to operating revenues keeping relative pace with last year while, at the same time, seeing a large reduction in contractual services. This reduction is associated with the new contract the City has with American Golf and the fees charged to manage the Heatherwoode facility.
- General revenues accounted for \$323,201 in revenue or 13.4% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for 86.6% of total revenues of \$2,415,400.

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 2001 and 2002 is presented below:

	2002	2001	Increase (Decrease) over/ (under) 2001
Current and other assets	\$509,634	\$548,504	(\$38,870)
Capital assets, Net	10,680,060	10,803,678	(123,618)
Total assets	11,189,694	11,352,182	(162,488)
Long-term debt outstanding	3,980,690	4,104,300	(123,610)
Other liabilities	2,050,873	2,675,371	(624,498)
Total liabilities	6,031,563	6,779,671	(748,108)
Net assets			
Invested in capital assets, net of related debt	6,953,910	6,554,381	399,529
Unrestricted	(1,795,779)	(1,981,870)	186,091
Total net assets	<u>\$5,158,131</u>	<u>\$4,572,511</u>	<u>\$585,620</u>

THE CITY OF SPRINGBORO, OHIO
GOLF COURSE FUND
MANAGEMENT DISCUSSION AND ANALYSIS

Changes in Net Assets

The following table shows the changes in net assets for the fiscal year 2002 and 2001:

	<u>2002</u>	<u>2001</u>	Increase (Decrease) over/ <u>(Under) 2001</u>
Revenues			
Program revenues:			
Charges for Services and Sales	\$2,092,199	\$2,277,273	(\$185,074)
Capital Grants and Contributions	0	6,710	(6,710)
General revenues:			
Property Taxes	62,672	58,952	3,720
Operating Transfers In (Out)	266,929	250,000	16,929
Gain (Loss) on Disposal of Fixed Assets	<u>(6,400)</u>	<u>3,269</u>	<u>(9,669)</u>
Total revenues	2,415,400	2,596,204	(180,804)
Program Expenses			
Contractual Services	1,076,041	1,627,876	(551,835)
Materials and Supplies	160,551	125,633	34,918
Cost of Goods Sold	196,308	218,460	(22,152)
Depreciation	156,741	142,403	14,338
Debt Service:			
Interest and Fiscal Charges	<u>240,139</u>	<u>241,075</u>	<u>(936)</u>
Total expenses	<u>1,829,780</u>	<u>2,355,447</u>	<u>(525,667)</u>
Total Change in Net Assets	585,620	240,757	344,863
Beginning Net Assets	<u>4,572,511</u>	<u>4,331,754</u>	<u>240,757</u>
Ending Net Assets	<u><u>\$5,158,131</u></u>	<u><u>\$4,572,511</u></u>	<u><u>\$585,620</u></u>

Charges for services and sales decreased during 2002 due primarily to an exceptionally wet spring and early summer that had the total number of rounds played at near record lows. Good summer and fall weather provided some relief but did not make up for the early season decrease.

The decrease in contractual services, due to the new contract with American Golf, Inc., helped to offset the decrease in revenues and provide the overall increase in net assets.

**THE CITY OF SPRINGBORO, OHIO
GOLF COURSE FUND
MANAGEMENT DISCUSSION AND ANALYSIS**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2002 the golf course had \$10,680,060 net of accumulated depreciation invested in land, land improvements, buildings, infrastructure, machinery and equipment and construction in progress. The following table shows fiscal year 2002 and 2001 balances:

	2002	2001	Increase (Decrease)
Land	\$7,755,718	\$7,755,718	\$0
Land Improvements	525,598	525,598	0
Buildings	3,319,919	3,319,919	0
Infrastructure	59,316	59,316	0
Machinery and Equipment	725,023	744,148	(19,125)
Construction in Progress	13,610	0	13,610
Less: Accumulated Depreciation	<u>(1,719,124)</u>	<u>(1,601,021)</u>	<u>(118,103)</u>
Totals	<u>\$10,680,060</u>	<u>\$10,803,678</u>	<u>(\$123,618)</u>

The primary change in capital assets was the current year depreciation expense of \$156,741 coupled with a small amount of additions (\$39,523) and net disposals (\$6,400).

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

Debt

At December 31, 2002, the golf course had \$4.04 million in bonds outstanding, \$125,000 due within one year. The following table summarizes the golf course's debt outstanding as of December 31, 2002 and 2001:

	2002	2001
General Obligation Bonds	\$4,038,029	\$4,157,180
Capital Leases Payable	<u>90,718</u>	<u>92,117</u>
Totals	<u>\$4,128,747</u>	<u>\$4,249,297</u>

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

ECONOMIC FACTORS

The golf course's outlook for 2003 is very conservative due to the overall downturn in the economy. With disposable incomes on the decrease, leisure activities tend to be the first items cut out of family budgets. This fact coupled with another very wet spring and early summer has City administrators very cautious about overall revenues.

City administrators 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 will be imperative to increase revenue in order to maintain fiscal stability.

***THE CITY OF SPRINGBORO, OHIO
GOLF COURSE FUND
MANAGEMENT DISCUSSION AND ANALYSIS***

FOR THE FUTURE

City administrators plan to eliminate the golf course's cash deficit within the next three 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 three 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.

THE CITY OF SPRINGBORO, OHIO
STATEMENT OF NET ASSETS
GOLF COURSE FUND
DECEMBER 31, 2002

Assets:

Current Assets:

Receivables:

Accounts	\$44,850
Inventory of Supplies at Cost	22,449
Inventory Held for Resale	32,992
Prepaid Items	6,746
	6,746

Total Current Assets 107,037

Non Current Assets:

Capital Assets, Net	10,680,060
Unamortized Bond Issuance Cost	71,926
Deferred Loss on Early Retirement of Debt	330,671
	330,671

Total Noncurrent Assets 11,082,657

Total Assets \$11,189,694

Liabilities:

Current Liabilities:

Accounts Payable	\$28,875
Deferred Revenue	62,372
Interfund Loans Payable	1,794,135
Accrued Interest Payable	17,434
Capital Leases - Current	23,057
General Obligation Bonds - Current	125,000
	125,000

Total Current Liabilities 2,050,873

Long Term Liabilities:

Capital Leases Payable	67,661
General Obligation Bonds Payable	3,913,029
	3,913,029

Total Noncurrent Liabilities 3,980,690

Total Liabilities 6,031,563

Net Assets:

Invested in Capital Assets, Net of Related Debt	6,953,910
Unrestricted	(1,795,779)
	(1,795,779)

Total Net Assets \$5,158,131

See accompanying notes to the basic financial statements

THE CITY OF SPRINGBORO, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
GOLF COURSE FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

Operating Revenues:	
Charges for Services	\$1,225,551
Sales	668,161
Other Operating Revenue	<u>132,197</u>
Total Operating Revenues	<u>2,025,909</u>
Operating Expenses:	
Contractual Services	1,076,041
Materials and Supplies	160,551
Cost of Goods Sold	196,308
Depreciation	<u>156,741</u>
Total Operating Expenses	<u>1,589,641</u>
Operating Income (Loss)	436,268
Nonoperating Revenue (Expenses):	
Intergovernmental Revenues	62,672
Investment Earnings	66,290
Interest and Fiscal Charges	(240,139)
Loss on Disposal of Fixed Assets	<u>(6,400)</u>
Total Nonoperating Revenues (Expenses)	<u>(117,577)</u>
Income(Loss) Before Operating Transfers	318,691
Operating Transfers:	
Operating Transfers In	<u>266,929</u>
Total Operating Transfers	<u>266,929</u>
Change in Net Assets	585,620
Net Assets Beginning of Year	<u>4,572,511</u>
Net Assets End of Year	<u><u>\$5,158,131</u></u>

See accompanying notes to the basic financial statements

THE CITY OF SPRINGBORO, OHIO
STATEMENT OF CASH FLOWS
GOLF COURSE FUND
FOR THE YEAR ENDED DECEMBER 31, 2002

<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$1,956,320
Other Operating Receipts	137,291
Cash Payments for Goods and Services	(1,661,660)
Net Cash Provided by Operating Activities	<u>431,951</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Payment of Interfund Loans	(2,234,064)
Receipt of Interfund Loans	1,794,135
Transfers In from Other Funds	266,929
Net Cash Used by Noncapital Financing Activities	<u>(173,000)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Receipt of Intergovernmental Revenue	62,672
Acquisition and Construction of Assets	(21,010)
Principal Paid on General Obligation Bonds	(120,000)
Principal Paid on Capital Lease	(27,312)
Interest Paid on All Debt	(219,591)
Net Cash Used by Capital and Related Financing Activities	<u>(325,241)</u>
<u>Cash Flows from Investing Activities:</u>	
Receipt of Interest	66,290
Net Cash Provided by Investing Activities	<u>66,290</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</u>	
<u>Provided by Operating Activities:</u>	
Operating Income	\$436,268
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	156,741
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	5,094
Decrease in Due From Other Funds	236
Decrease in Inventory	16,211
Increase in Inventory Held for Resale	(2,465)
Increase in Prepaid Items	(335)
Increase in Accounts Payable	7,829
Increase in Deferred Revenue	62,372
Decrease in Estimated Loss Contingency	(250,000)
Total Adjustments	<u>(4,317)</u>
Net Cash Provided by Operating Activities	<u><u>\$431,951</u></u>

Schedule of Noncash Investing, Capital and Financing Activities:

During 2002, the golf course incurred a new lease liability of \$25,913.

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

THE CITY OF SPRINGBORO, OHIO
GOLF COURSE FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002

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, 2002 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Cash Equivalents

During fiscal year 2002, 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 4 "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 4, "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. 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

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.

NOTE 2 – RESTATEMENT OF NET ASSETS

Adjustments were made to the beginning net asset balance of the golf course fund. The restatement was made to correct an error in the calculation of accumulated depreciation. Net assets decreased by \$32,185 from a balance of \$4,604,696 to \$4,572,511.

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

Contrary to Ohio Revised Code, Section 5705.10, the Golf Course Fund has a negative cash balance of \$1,794,135 at December 31, 2002. For GAAP reporting purposes, interfund loans receivable and interfund loans payable were created to eliminate the negative cash position at year end.

NOTE 4 - 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 4 - 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. Deposits

At year end the carrying amount of the golf course's deposits was \$0, and the bank balance was \$2,252,312. Federal depository insurance covered \$100,000, of the bank balance. All remaining deposits were classified as Category 3.

NOTE 5 - RECEIVABLES

Receivables at December 31, 2002 consisted of accounts receivable from American Golf Corp. The receivables are considered collectible in full.

NOTE 6 - OPERATING TRANSFERS

The golf course received an operating transfer in from the General Fund in the amount of \$266,929.

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

The golf course was advanced cash in the amount of \$1,794,135 to eliminate its overdraft position. The monies were advanced from the General Fund in the amount of \$1,610,783 and from the Income Tax Capital Improvement Fund in the amount of \$183,352. The transaction was made strictly on a GAAP basis to eliminate the cash deficit.

NOTE 8 - CAPITAL ASSETS

A summary of the golf course property, plant, and equipment at December 31, 2002 follows:

Land	\$7,755,718
Land Improvements	525,598
Buildings	3,319,919
Infrastructure	59,316
Machinery and Equipment	725,023
Construction in Progress	<u>13,610</u>
Subtotal	12,399,184
Accumulated Depreciation	<u>(1,719,124)</u>
Capital Assets, Net	<u><u>\$10,680,060</u></u>

NOTE 9 - 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, 2002.

Year Ending December 31,	
2003	\$27,527
2004	23,815
2005	23,815
2006	23,815
2007	2,959
Minimum Lease Payments	101,931
Less: Amount representing interest at the City's incremental borrowing rate of interest	(11,213)
Present value of minimum lease payments	<u>\$90,718</u>

NOTE 10 - LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the golf course at December 31, 2002 were as follows:

	Balance December 31, 2001	Issued (Retired)	Balance December 31, 2002	Amount Due Within One Year
Enterprise Funds:				
General Obligation Bonds:				
3.9 - 5.4% Golf Course Refunding 1999	\$4,175,000	(\$120,000)	\$4,055,000	\$125,000
Capital Leases Payable	92,117	25,913		
		(27,312)	90,718	23,057
Total Enterprise Long-Term Debt	<u>\$4,267,117</u>	<u>(\$121,399)</u>	<u>\$4,145,718</u>	<u>\$148,057</u>

The 1999 Golf Course Refunding bonds are reported at carrying value of \$4,038,029. The face value of the bonds at December 31, 2002 was \$4,055,000. The difference of \$16,971 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:

Years	General Obligation Bonds	
	Principal	Interest
2003	\$125,000	\$209,205
2004	130,000	203,768
2005	135,000	197,982
2006	140,000	191,840
2007	150,000	185,330
2008-2012	855,000	811,605
2013-2017	1,095,000	567,719
2018-2022	1,425,000	238,886
Totals	<u>\$4,055,000</u>	<u>\$2,606,335</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, 2002, \$6,530,000 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 2002 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	5,000
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 \$1,794,135 at December 31, 2002. The City eliminated this cash deficit through interfund loans of \$1,625,269 from the General Fund and \$168,866 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 interfund loans from other funds.

Management plans to eliminate the cash deficit in the Golf Course Fund within the next three 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 three 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 \$5,832,164 at December 31, 2002 (\$4,038,029 bonds payable and \$1,794,135 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.



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, 2002, and have issued our report thereon dated May 20, 2003. 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 2002-2.

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. A reportable condition is described in the accompanying schedule of findings as item 2002-1.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
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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 20, 2003.

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 20, 2003

THE CITY OF SPRINGBORO, OHIO - THE GOLF COURSE FUND
SCHEDULE OF FINDINGS
DECEMBER 31, 2002

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

FINDING NUMBER 2002-01

Reportable Condition - Monitoring Cash Deficit in Golf Fund

Historically, the Golf Course fund has not generated sufficient cash from operations to be self-supporting.

As of December 31, 2002 the deficit was \$1,794,135 that is an improvement from the prior year deficit of \$2,234,064. However, it is important to note the \$439,929 improvement includes an operating transfer of \$266,929 and interest earning allocations from a pooled investment of approximately \$66,000.

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 2002, 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 three years to provide sufficient monies to transfer to the Golf Course fund, if necessary.

We recommend the City continue to monitor the financial position of the golf course in an effort to eliminate the deficit and to enable the Course to be self-sufficient.

THE CITY OF SPRINGBORO, OHIO - THE GOLF COURSE FUND
SCHEDULE OF FINDINGS
DECEMBER 31, 2002

FINDING NUMBER 2002-02

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 \$1,794,135 at December 31, 2002.

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>	<u>Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</u>
2001-001	The City has no monitoring controls over management's plan to reduce the Golf Course Fund deficit.	No	Partially Corrected. The City continues to monitor the financial position of the Golf Course in an effort to eliminate the fund deficit.
2001-002	Due to negative cash balance in the Golf Course Fund, monies were transferred from another fund to cover expenses.	No	Partially Corrected. Although the fund did have operating income in 2002 it was still necessary to subsidize the fund to make debt payments.



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CITY OF SPRINGBORO - GOLF COURSE

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
AUGUST 7, 2003**