

CITY OF LEMOORE MUNICIPAL GOLF COURSE

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REPORT ON AUDITED  
FINANCIAL STATEMENTS

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YEAR ENDED JUNE 30, 2010

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May 23, 2011

City of Lemoore Municipal Golf Course  
Lemoore, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of the City of Lemoore Municipal Golf Course (Golf Course), as of June 30, 2010, and the related statement of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the City of Lemoore Municipal Golf Course'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 of the United States of America. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Golf Course as of June 30, 2010 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles of the United States of America.

*Sampson, Sampson and Partners, LLP*

CITY OF LEMOORE MUNICIPAL GOLF COURSE  
BALANCE SHEET  
JUNE 30, 2010

ASSETS

CURRENT ASSETS:	
Cash	\$ 69,310
Receivables	13,777
Prepaid expenses	3,767
Inventories	<u>55,687</u>
TOTAL CURRENT ASSETS	142,541
PROPERTY AND EQUIPMENT - net of accumulated depreciation	<u>668,379</u>
TOTAL ASSETS	<u>\$810,920</u>

LIABILITIES AND EQUITY

CURRENT LIABILITIES:	
Accounts payable	\$ 44,153
Accrued expenses	4,959
Deposits and other liabilities	17,544
Current portion of loans from Lemoore Redevelopment Agency	41,005
Current portion of capital leases	<u>26,162</u>
TOTAL CURRENT LIABILITIES	133,823
LONG-TERM, net of current portion	
Loans from Lemoore Redevelopment Agency	478,115
Capital leases	<u>13,186</u>
TOTAL LONG-TERM LIABILITIES	<u>491,301</u>
TOTAL LIABILITIES	625,124
EQUITY:	
Retained earnings	<u>185,796</u>
TOTAL LIABILITIES AND EQUITY	<u>\$810,920</u>

CITY OF LEMOORE MUNICIPAL GOLF COURSE  
STATEMENT OF INCOME AND RETAINED EARNINGS  
YEAR ENDED JUNE 30, 2010

REVENUES:	
Golf operations	\$ 966,220
Merchandise	182,531
Food and beverage	226,378
Other revenue	<u>9,371</u>
Total revenue	<u>1,384,500</u>
COST OF REVENUES:	
Merchandise	144,562
Beverage	<u>104,140</u>
Total cost of revenues	<u>248,702</u>
GROSS PROFIT	1,135,798
OPERATING EXPENSES:	
Food and beverage	52,638
General and administrative	75,930
Clubhouse	28,058
Golf operations	174,835
Course maintenance	448,075
Advertising and promotion	18,124
Fixed expenses	90,738
Interest expense	35,472
Depreciation	<u>125,926</u>
	<u>1,049,796</u>
NET INCOME BEFORE TRANSFERS	86,002
Transfers to City of Lemoore	<u>205,000</u>
NET LOSS	(118,998)
RETAINED EARNINGS, BEGINNING OF PERIOD	<u>304,794</u>
RETAINED EARNINGS, END OF PERIOD	<u>\$ 185,796</u>

CITY OF LEMOORE MUNICIPAL GOLF COURSE  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2010

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net Loss	\$(118,998)
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation	125,926
Gain on sale of property and equipment	(5,880)
(Increase) decrease in:	
Accounts receivable	(3,335)
Prepaid expenses	9,208
Inventories	10,306
Increase (decrease) in:	
Accounts payable	3,467
Accrued expenses	(7,484)
Deposits and other liabilities	4,334
Total cash flows from operating activities	<u>17,544</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of property and equipment	(27,552)
Proceeds from sale of property and equipment	<u>6,400</u>
Total cost of cash flows (used in) investing activities	<u>(21,152)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Proceeds from long-term debt	34,868
Principal payments on long-term debt	<u>(61,113)</u>
Total cash flows from financing activities	<u>(26,245)</u>
NET DECREASE IN CASH	(29,853)
CASH, BEGINNING OF YEAR	<u>99,163</u>
CASH, END OF YEAR	<u>\$ 69,310</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>	
Cash paid during the year for:	
Interest expense	<u>\$ 35,472</u>

See notes to financial statements and independent auditors' report.

CITY OF LEMOORE MUNICIPAL GOLF COURSE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business Activity

The City of Lemoore Municipal Golf Course (Golf Course) consists of an 18-hole public course, driving range, and clubhouse located on 217 acres in the City of Lemoore (City). The City (a California Municipal Corporation) owns the property and facilities. The City has contracted with Sierra Golf Management, Inc. to operate the golf course and its facilities. Only the operations of the golf course are included in these financial statements.

Basis of Accounting

The financial statements of the Golf Course have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosure. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For purposes of the statement of cash flows, the Golf Course considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2010.

Inventories

Inventories consist of food and beverage and merchandise held for sale and is valued at lower of cost or market. Cost is determined using the first in, first out method of accounting.

Equipment and Depreciation

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful life of the respective assets. Maintenance and repairs are charged to expense as incurred.

Income Taxes

The Golf Course is exempt from Federal and State Income taxes.

CITY OF LEMOORE MUNICIPAL GOLF COURSE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010  
(Continued)

NOTE 2 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at June 30, 2010:

Office furniture	\$ 15,471
Kitchen	17,383
Golf shop equipment	19,637
Driving range	6,540
Maintenance equipment	199,899
Pumps	99,096
Improvements	985,237
Golf carts	<u>35,319</u>
	1,378,582
Less accumulated depreciation	<u>(710,203)</u>
Total property and equipment	<u>\$ 668,379</u>

Depreciation expense for the year ended June 30, 2010 was \$125,926.

NOTE 3 - LONG-TERM LIABILITIES:

The golf course's liabilities for capital leases consist of the following at June 30, 2010:

Capital lease for lawn mowers, 60 monthly payments of \$742, beginning June 1, 2006, effective rate of 13.63%.	\$ 7,628
Capital lease for an equipment tractor, 36 monthly payments of \$487, beginning August 15, 2007.	487
Capital lease for an articulator, 60 monthly payments of \$386, beginning July 15, 2007, effective rate of 8.90%.	8,454
Capital lease for lawn mower, 48 monthly payments of \$1,116, beginning May 1, 2008, effective rate of 7.90%.	<u>22,779</u>
	39,348
Less current portion	<u>(26,162)</u>
Total long-term liability for capital leases	<u>\$ 13,186</u>

CITY OF LEMOORE MUNICIPAL GOLF COURSE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010  
(Continued)

Annual debt service requirements to maturity for the capital lease commitments are as follows:

Year Ended June 30,	Business-Type Activities
2011	\$ 26,162
2012	<u>18,175</u>
Total	44,337
Less: Estimated amount representing interest	<u>(4,989)</u>
Present value of future liability payments	<u>\$ 39,348</u>

Outstanding loan balances due to the Lemoore Redevelopment Agency at June 30, 2010 are as follows:

Loan for cart barn and irrigation equipment	\$148,549
Loan for golf course construction	<u>370,571</u>
	<u>\$519,120</u>

NOTE 4 - LEASE COMMITMENTS:

The Golf Course leases golf carts under operating lease agreements that expire in February 2012 and November 2012. The operating leases consist of the following at June 30, 2010:

Annual minimum rental payments for the golf carts are as follows:

Year Ended June 30,	Golf Carts	Total
2011	\$ 47,835	\$ 47,835
2012	41,009	41,009
2013	<u>23,519</u>	<u>23,519</u>
Total	<u>\$112,363</u>	<u>\$112,363</u>

Golf Cart rents for the years ended June 30, 2010 and 2009 were \$31,364 and \$21,961 respectively.

CITY OF LEMOORE MUNICIPAL GOLF COURSE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010  
(Continued)

NOTE 5 - MANAGEMENT CONTRACT:

The City of Lemoore is under contract with Sierra Golf Management, Inc. for the management and operation of the Golf Course. The contract calls for base payments of \$4,000 per calendar month payable in advance on the first day of each month. The contract with Sierra Golf Management expired on June 30, 2010.

NOTE 6 - SUBSEQUENT EVENTS:

The City of Lemoore entered into a management contract with Rhoads Golf, LLC beginning July 1, 2010. The contract calls for base payments of \$7,500 per month.