A Report to the Citizens
of Salt Lake County and the
County Mayor and County Council

November 2001

A Performance Audit of the

Salt Lake County Golf Courses

Craig B. Sorensen

County Auditor

A PERFORMANCE AUDIT

of the

SALT LAKE COUNTY GOLF COURSES

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Table of Contents

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I. Executive Summary

Background

Salt Lake County owns and operates six golf courses: ***South Mountain, Old Mill, Riverbend, Mountain View, Meadow Brook, and Mick Riley*** golf courses. South Mountain was purchased in 1999. Old Mill opened in 1998, and Riverbend opened in 1994. Each of these newer golf courses is underwritten by a lease-revenue bond. The approximate annual debt service on these bonds is $3.3 million. Mountain View was built in 1972, Meadow Brook in 1950, and Mick Riley in 1962. Each of the golf courses, except for Mick Riley, is an eighteen hole course. Mick Riley has nine full-length holes, and a nine-hole par three course.

Over the years, the golf courses, collectively, have been operated as a single "***enterprise fund***." Under this type of fund accounting, the operating revenues and expenses of each course are consolidated and accounted for separately from any other county fund.

The enterprise fund's budget is also separate and the fund retains any revenues in excess of expense in a "***retained earnings***" account which is carried over from year to year. Likewise, any operating loss is absorbed into the "***retained earnings***" account. The key issue addressed in this audit is the ability of this fund to generate sufficient revenue, in excess of operating expenditures, to meet its obligations under the related lease revenue bonds.

Attached as Appendix A is an analysis of the retained earnings-cash-balance of the Golf Courses Enterprise Fund from 1990 through 2000. The data was compiled from the Consolidated Annual Financial Reports (CAFR) for those years. Notable is the fact that the fund balance peaked in 1996 at $3.9 million, but would have been reduced to a mere $86,686 without the infusion of TRCC funds of $526,000 at year end 2000.

The scope of the audit included a review of the acquisition of South Mountain Golf Club, and the impact of that acquisition on the ability of the golf courses enterprise fund to service the debt payments related to its lease-revenue bond obligations. In addition, the scope included an evaluation of the internal controls that have been implemented by each golf course.

The County's $15 million purchase price for South Mountain Golf Club was excessive. As we reviewed the purchase of the South Mountain Golf Course, we found that the purchase price paid for the golf course seemed high for two reasons.

First the "rounds played" estimates used to value the course were overly optimistic and second, there was little, if any, consideration given to "down-side" or "worst-case" scenarios. Finally, in light of the actual performance of South Mountain Golf Course to date, the purchase price was excessive.

South Mountain began as a residential real estate development in the early 1990's. Development of the golf course was part of the planning agreement which provided an open-space, conservation easement "in perpetuity" in exchange for Draper City allowing higher real estate densities in the remainder of the project. Golf course construction began in 1994 and the golf course opened in 1998.

The acquisition of the South Mountain Golf Club (SMGC) was the end result of Salt Lake County's desire to provide golf opportunities to the Southeast quadrant of Salt Lake County. In late 1998, the County made an offer to purchase South Mountain Golf Club (SMGC) for $13,500,000. The offer was countered and accepted at $15,000,000. The sale was completed in July, 1999, and the total cost to the county added up to $15,905,400.

The key issue surrounding the golf course valuation is whether or not a more conservative approach was appropriate, and whether due consideration was given to "down-side" issues. Perhaps the clearest indication that the valuation was not conservative is found in the rounds played estimates. This is the basis for all of the revenue figures used in the pro-forma statements of revenues and expenses used to justify the purchase price and subsequent lease-revenue bond. The appraisal or valuation that was developed as a basis for purchase assumed 90,000 nine-hole rounds even though more conservative estimates of 85,000 and 76,000 had been made previously.

Since County operations began at South Mountain, the course produced 58,856 nine-hole rounds in 2000, and seems on track for about the same number this year. Since subsequent performance is the measure of any estimate, the characterization of this estimate as "optimistic" seems justified.

A more conservative approach to estimating rounds would have been more appropriate and might have saved the County money on the purchase price. Since more conservative estimates were available, we must question the process by which the appraiser chose the most optimistic of the three.

The golf courses fund may struggle to meet its bond obligation. As mentioned previously, the golf courses, together, are operated as an Enterprise Fund. Bond obligations are paid as rent from the Enterprise Fund. The bond expense is the single largest expense line item for the Enterprise Fund. The bonds are Lease Revenue bonds in which the golf courses are charged rent equivalent to the bond debt service. In 2000 the bond payments totaled $3,282,501. The bond payments are projected to be $3,288,009 in 2001.

At the end of 1999, the golf courses fund had cash (retained earnings) of $1,376,989. Operations in 2000 resulted in a loss of $1,290,303. The fund received a cash transfer in of $526,000 from the Tourism, Recreation, Cultural and Convention (TRCC) Fund. After the transfer, the net remaining balance in the cash (retained earnings) line item is $612,686.

Based on operating results through September 30, 2001, we are projecting a loss of $624,891 for the year ending December 31, 2001. To maintain the debt coverage ratio required by the bond indenture, we believe this will require another transfer of cash from the TRCC Fund to the Golf Courses Fund of approximately $500,000 by year end 2001.

Riverbend water billings increased significantly in 2000 over 1999. Near the end of the audit we were asked by golf course management to review the water usage at Riverbend Golf Course. In 2000, Riverbend was billed $177,301.22 for water by Riverton City. This represents an 89 percent increase over the 1999 billings (or $72,237.51).

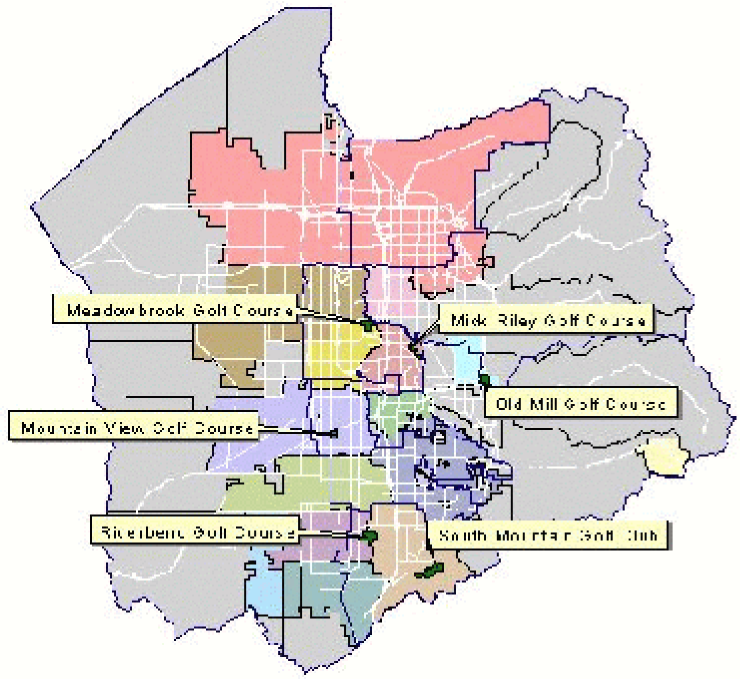
As part of the review we found that 52 percent of the increase was due to volume increases (from 111,544,000 gallons to 169,566,000 gallons). After receiving our analysis, golf course management has asked Riverton City to place a second meter to check the accuracy of the first. Early comparisons showed that the original meter was measuring high by a factor of fifty percent (1.5 measured for every 1 that actually passed through the meter).

A new on-line cash, reservations and inventory management system has provided increased information for more efficient golf course operation. Recently, golf course management purchased and implemented *Fore! Reservations* software. *Fore! Reservations* is a golf management and marketing software system designed to enable the golf course industry to better serve their customers. Potential benefits of the system include increased efficiency in the golf shops and better information collection for management to assist in decision making.

We believe the full implementation of this system will provide more uniform operations among the golf courses and help solve many of the cash handling, inventory control and fixed asset management issues addressed in Appendix B of this report.

II. Introduction

Salt Lake County owns and operates six golf courses: ***South Mountain, Old Mill, Riverbend, Mountain View, Meadow Brook, and Mick Riley*** golf courses. The golf courses are shown on the map below.



Annual debt service on the golf bond is $3.3 million.

South Mountain was purchased from CGP-South Mountain Golf in 1999. Old Mill opened in 1998, and Riverbend opened in 1994. Each of these newer golf courses is underwritten by a lease-revenue bond. The approximate annual debt service on these bonds is $3.3 million. Mountain View was built in 1972, Meadow Brook in 1950, and Mick Riley in 1962.

Each of the golf courses, except for Mick Riley, is an eighteen hole course. Mick Riley has nine full-length holes, and a nine-hole par three course. Golf course activity is measured in nine-hole rounds. Table 1, on page 6, summarizes the activity for each course in 1999 and 2000.

Golf Course	1999 Nine-hole Rounds	2000 Nine-hole Rounds
South Mountain (Opened 7/99)	33,138	58,856
Old Mill	85,586	89,434
Riverbend	93,527	86,096
Mountain View	78,841	76,016
Meadow Brook	93,353	85,859
Mick Riley (Includes Par-3 rounds)	68,447	51,261
TOTALS	**452,892**	**447,522**
Average No. of Nine-Hole Rounds	***75,482***	***74,587***

Table 1. *The number of nine-hole rounds played at County golf courses declined from 1999 to 2000.*

County golf courses averaged 75,000 nine-hole rounds in 1999 and 2000.

The total number of nine-hole rounds played in 2000 was 5,370 less than in 1999. A major factor in this is the 17,186 fewer nine-hole rounds played at Mick Riley. Capital improvements were underway at Mick Riley for much of 2000. With the construction completed, rounds played in 2001 should return to 1999 levels.

Over the years, the golf courses, collectively, have been operated as a single "***enterprise fund***." Under this type of fund accounting, the operating revenues and expenses of each course are consolidated and accounted for separately from any other County fund.

The enterprise fund's budget is also separate and the fund keeps any revenues in excess of expense in a "***retained earnings***" account which is carried over from year to year. Likewise, any operating loss is absorbed into the "***retained earnings***" account. The key issue addressed in this audit is the ability of this fund to generate sufficient revenue, in excess of operating expenditures, to meet its obligations under the related lease revenue bonds.

III. Scope and Objectives

The scope of the audit included a review of the acquisition of South Mountain Golf Club, and the impact of that acquisition on the ability of the golf course's enterprise fund to service the debt payments related to its lease-revenue bond obligations. In addition, the scope included an evaluation of the internal controls that have been implemented by each golf course. Our findings and recommendations related to internal controls are contained in a separate letter attached as Appendix B.

Accordingly, our objective was to review the process and the rationale associated with the acquisition of South Mountain Golf Club and the effect on overall golf-course operational cash flow of that purchase. Additionally, our objective was to determine the compliance of each of the golf courses with countywide policies on cash receipting and depositing, petty cash and imprest funds, fixed and controlled assets, and pro shop inventory practices.

IV. Findings and Recommendations

Our findings and recommendations are divided into two sections: Bonding Issues and Operations.

1.0 Bonding Issues

We examined the process and assumptions of the County Commission in securing lease revenue bonding for the South Mountain Golf Club acquisition and also actual operating results to determine whether bond obligations are being met and can be expected to be met in the future. Our findings in this area are as follows:

- **The County's $15 million purchase price for South Mountain Golf Club seems to have been excessive given current golf course performance.**
- **The "rounds-played" estimates were overly optimistic.**
- **The acquisition process did not adequately consider the "down-side."**
- **The golf courses fund may struggle to meet its bond obligation.**

South Mountain began as a residential real estate development.

South Mountain began as a residential real estate development of two local developers in the early 1990's. Development of the golf course was part of the project planning agreement which provided an open-space, conservation easement "in perpetuity" in exchange for Draper City allowing higher real estate densities in the remainder of the project. Golf course construction began in 1994 and the golf course opened in 1998.

The acquisition of the South Mountain Golf Club (SMGC) was the end result of Salt Lake County's desire to provide golf opportunities to the Southeast quadrant of Salt Lake County. The purchase was originally considered in 1995 when the developers of South Mountain offered to donate the land to Draper City for development as a golf course. When Draper City declined the offer to develop the golf course, the County became interested in the acquisition.

The County Commission requested that a certified Member of the Appraisal Institute (MAI), appraiser perform an appraisal of SMGC, which was completed September 16, 1996. The appraiser's transmittal letter read, in part, as follows:

"The question is this. Are Salt Lake County golfers better off paying $30 per 18 hole round to play it as a public course, or $50 and up.... as a private course open to the public? There is no place left in the south end of the east side of the Salt Lake Valley to build a course like this. Even if there were, it would cost the County as much to build it as to buy this one. If the County wants this type of mountain target course in this area to round out it's golf master plan, it will not fill that plan at less cost than buying the South Mountain course at the agreed on price of $7,900,000, in my opinion. This process will save years of time and the increased costs associated with that delay."

"It will be a different, and new, addition to Utah golfers either way. You asked me to estimate the value of the South Mountain Golf Course. After considerable study, I believe that this course, ***in public ownership****, will have a $13,375,000 value without the clubhouse and maintenance building, plus water not included in the land value."* (Emphasis added).

The County decided not to conclude the acquisition in September of 1996. Thereafter, the developers marketed the property to a golf course property management company, which purchased 51 percent ownership in November, 1996.

Much confusion appears to have surrounded the details relating to the formation of this joint venture. This confusion impacted the value placed on South Mountain Golf Club (SMGC) when the County's interest in purchasing the property was aroused again in 1999. The same certified appraiser was again requested, in early 1999, to "consult" with the County commissioners on the ultimate purchase of SMGC and seemed confused about the facts. There was a discrepancy between his valuation report of February 19, 1999, and the two contracts between the joint venturers. One could have obtained the facts by a review of two contracts which were available at the time. Set forth below are the facts as verified in the contracts and as recited by the law firm that worked on the transaction in a memo to the County Assessor's office, dated February 11, 1998:

- There was a \$9.4 million ***"transaction,"*** as reported to the *Salt Lake Tribune* by the developer, but there *was not a \$9.4 million* **"acquisition"** of South Mountain Golf by the property management company, as characterized by the appraiser.

- Before the transaction, the course was owned by South Mountain Golf, L. C. (SMG), with the two developers as members of the LLC. In November, 1996, they and the golf course property management company formed an LLC.

- For a 49% ownership interest, SMG contributed to the LLC the partially improved land which was valued by the parties at \$3 million. Closer examination of the contract indicates that a "*zero*" value was allocated to the "property"(land) and to water-share "stock," and all of the \$3 million was allocated to the improvements made to the land at that date. Based on an examination of the remainder of the transaction, it appears that the land, itself, was valued at \$3 million.

Total capital contribution to the LLC was \$12.4 million.

- For a 51% ownership interest the golf course property management company contributed to the LLC \$3 million in cash to pay off existing debts.

- In addition, the golf course property management company agreed to pay up to \$3.4 million to complete the course, which is what the parties agreed would be the cost to complete, and would not exceed that amount.

- Thus, as of November, 1996, the parties' estimate of costs incurred to date was \$6 million, and the estimated total cost to complete the course, *both past and future,* was \$9.4 million.

- *This total estimate of cost does not appear to place any value on the land,* and it should be reiterated, here, that the two developers offered to donate the property to Draper City if they would develop the course. This was done as part of the consideration extended by Draper City in allowing the two developers to have a higher-density residential development.

- Thus, the beginning capital accounts of the joint-venturers would appear to have been as illustrated in Table 2, on page 10.

	FMV	%	Cost Basis
South Mountain Golf (SMG):			
Unimproved Land	$3,000,000		Zero
Improvements to Land	*3,000,000		$3,000,000
Total Capital	**$6,000,000**	**49%**	**$3,000,000**
Golf Course Property Management:			
Cash Contributed			
To Pay-off Debt	*3,000,000		3,000,000
Obligation to Complete Course	*3,400,000		Zero
Total Capital	**6,400,000**	**51%**	**3,000,000**
Combined Capital	**$12,400,000**		
*** Total Cost to Complete Course (Excluding the Land)**	**$9,400,000**		

Table 2. *The beginning capital accounts of the joint-venturers would have been $12.4 million.*

The appraiser, in preparing his consulting "valuation" for the Commission, seems to have confused some of the details of the transaction. The *Valuation Report* stated that the SMG sold 51% interest in SMGC to the golf course property management company in the fall of 1996 for $9 million (actually $6.4 million). The appraiser further states that the developer characterized the total costs in SMGC at the time of offer to sell to the County as follows in Table 3.

Description	Valuation Report	Contracts and Other Documents
Value placed on land, excluding pad for clubhouse	$3,500,000	$0
Hard costs of constructing the golf course	$12,000,000	$9,400,000
Clubhouse, maint. bldg., and sprinkling system	$0	$2,600,000
TOTAL	**$15,500,000**	**$12,000,000**

Table 3. *The amounts listed in the appraiser's Valuation Report conflicted with prior contracts and other relevant documents.*

Note that the cost of completing the clubhouse, maintenance building, and sprinkling system were in addition to the $3.4 million originally needed to complete the course, which, at the time of the formation of the joint venture, brought the total to $9.4 million. So presumably, the cost of these buildings/improvements was about $2.6 million. This brought the total hard costs in the project, excluding the land, to $12 million ($9.4 + $2.6).

Observation: It seems as though by the time the County started to pursue this transaction the second time, the developer was no longer willing to donate the value of the unimproved land into the package at no cost as he had done with Draper City and the golf course property management company. Also, there does not appear to be a clear verification of the extra $2.6 million in costs other than the developer's characterization and estimates.

The County's total cost to purchase South Mountain in 1999 was $15,905,400.

In late 1998, the County made an offer to purchase South Mountain Golf Club (SMGC) for $13,500,000. The offer was countered and accepted at $15,000,000, including the club house, maintenance shed, parking lot, wells and water rights. The contract was subsequently amended for such things as the purchase of an additional 5.6178 acres, restoration of the flood control detention basin, intangible and prepaid items, the golf carts and associated lease agreement, and date of possession by Salt lake County. In addition, a rider was negotiated clarifying responsibilities and future costs of unsettled easements for cart paths. Thus, the total cost to the County added up to $15,905,400.

1.1 The County's $15 million purchase price for South Mountain Golf Club seems to have been excessive given current golf course performance.

Three appraisals were performed on South Mountain, two in 1996 and the third in 1999.

At issue, and key to this audit, is the amount paid for the golf course. Three appraisals were done on the golf course. The first, at the request of a local bank, appraised the proposed golf course in June 1996 on an "as completed - May 1, 1997" basis. The second appraisal, at the County Commission's request, was completed in September, 1996. The third, again performed by the same appraiser, was completed February 1999, and was used to evaluate the County's final purchase offer of $15 million. These latter two appraisals have been referred to previously.

Golf course valuation can be done using a variety of methods such as the ***Cost Approach, Market Value (Comparable Sales), Value-in-Use, or the Income Capitalization*** approaches. Certain unique features of the SMGC property were taken into account in determining which method or methods in combination was most appropriate. The land is encumbered, as mentioned above, by a perpetual conservation easement granted ". . . ***for the purpose of maintaining the property predominantly in an open condition while permitting its use for such recreational purposes as a publicly-played golf course, all for the citizens of Draper***." Therefore, no alternative development is possible and

Market Valuation (a comparison of land values to other properties on the market) is difficult to apply.

There was some value in determining what the replacement cost of the land might have been if the current site was not available. As far as comparing this golf course to others on the market, there were only limited opportunities for such comparisons, although Jeremy Ranch, located close to Park City, and Park Meadows, located in Park City, had both sold at "fire sale" prices in recent years. Both of these courses were privately developed, relatively remote, and more of a country club style course in difficulty and length, similar to SMGC. However, the details of those sales were not included in the final valuation of SMGC.

Because of the easement, the highest and best use of the land was restricted to that of a golf course. Golf courses typically have lower per-acre land values than the residential properties surrounding them because the "on-the-golf-course" property sells at a premium. In essence, the golf course transfers its land value to the surrounding residential property.

The ***Value-in-Use*** method employed by the final 1999 appraisal, or valuation consultation, relies on the value that the property (the golf course in this case) contributes to the County's business enterprise without regard to any monetary amount which may be realized upon its sale. The 1996 appraisal used a mix of valuation techniques, the ***Value-in-Use*** and ***Replacement-Cost*** approaches to appraise the golf course and improvements. This 1996 report appraised the property at $13,375,000, as previously pointed out. This figure came from summing the value-in-use ($8 million), replacement value of the land itself (estimated at $4.5 million) and the clubhouse land ($875,000).

The earliest appraisal performed at the request of a local bank in 1996, estimated the ***Cost Approach*** value to be $11,120,000. However, the appraiser rejected that approach and estimated the value, using the ***Income Capitalization Approach,*** to be $6,490,000. This was supported by his ***Market Value*** (Comparable Sales) ***Approach*** value of $6,440,000.

The ***Income Capitalization Approach*** is a method of valuing property based on the income the property will earn. The valuation is done either by estimating net income and applying a capitalization rate, or by applying a discounted cash flow method to predict the present value of future income streams. As mentioned above, the first appraisal estimated the value as $6.49 million. This was arrived at using the figures in Table 4, on page 13.

Income and Expense Projections	
Gross Income	$2,079,000
Total Expense	1,300,000
Net Income	$779,000

Table 4. *Using the Income Capitalization approach, Net Income was estimated at $779,000.*

The 1996 appraisal valued South Mountain at $6,490,000.

Using the net income of $779,000 and applying a overall capitalization rate of 12 percent, the appraiser arrived at the ***Income Capitalization Approach*** value of $6,490,000. This initial appraisal appears to be a more in-depth, well-documented analysis compared to the "valuation" of February, 1999, which formed the basis for the Commission's decision to proceed with the purchase at $15 million.

In fact, the later appraisals make reference to the initial bank appraisal but seem to disregard much of the projection work performed, which seems to be much more accurate now that we have some actual hard data on the operation of SMGC for 1999, 2000, and 2001.

Shown in Table 5, on page 14, is a comparison of the operating projections made for the year 2000 on three separate occasions: 1) by the first appraiser for a local bank (1996), 2) by Parks and Recreation for the first meeting with bond rating agencies on April, 1999, and 3) by Parks and Recreation for a meeting with bond rating agencies in October, 2000. Finally, these projections are compared to the actual results of operation of SMGC for the year 2000 as provided by the County Director of Golf Operations.

The first appraiser went to great length in his appraisal to justify the use of a 62 percent "expense ratio", using as his source the *National Golf Foundation*. However, the latter appraisals and projections by County Parks and Recreation used a much softer expense ratio, 45 percent to 52 percent in their analysis. Actual expense ratio for 2000 turned out to be 72 percent, indicating that the revenue from course operations was not covering operating costs even close to the extent projected.

	First Appraiser's Projection	$15 Million Bond Projection	Bond Upgrade Projection	2000 Actual
Operating Revenue	$2,401,245	$2,354,000	$2,119,000	$1,464,391
Operating Expenses	$1,501,500	$1,059,870	$1,102,038	$1,053,613
Expense Ratio	62.53%	45.02%	52.01%	71.95%
Net Revenue	$899,745	$1,294,130	$1,016,962	$410,778
Debt Service	$490,175	$1,240,677	$1,385,650	$1,365,650
Total Net Balance	$409,570	$53,453	($368,688)	($954,872)
Note: No depreciation or capital projects expense included				

Table 5. *Analysis of South Mountain's cash-flow and debt service indicates the actual expense ratio was 10 to 27 percent higher than any of the projections.*

1.2 The "rounds-played" estimates were overly optimistic.

The largest discrepancy in the projections has to do with the number of nine-hole rounds. The projections were as indicated in Table 6 below.

	Number of Rounds	Income Per Round	Total Revenue
First Appraiser	76,000	$17.50	$1,330,000
Parks & Rec Appraiser	90,000	$22.50	$2,025,000
Actual for 2000	58,856	$22.50	$1,324,260
Projected 2001 Rounds	57,500	$25.00	$1,437,500

Table 6. *Actual rounds played were much lower than projected.*

The first appraiser pointed out that Salt Lake valley golf courses typically average about 90,000 to 110,000 nine-hole rounds per year. SMGC, he pointed out, would likely produce less than average due to a higher projected green fees and the length of the course. The appraiser noted that SMGC has an undulating topography being located on a hillside, and has a longer length than most other area courses. This would likely result in slower play, and the higher fees could eliminate some golfers who would opt to play on a lower-fee municipal course.

However, he observed that many golfers may be willing to pay a higher fee to play on a less crowded course. At the time, Jeremy Ranch and Park Meadows had similar fee schedules and their annual rounds were 52,000 and 60,000 nine-hole rounds, respectively. Both of these courses had been the subject of distressed dispositions at "fire-sale" prices, as the appraiser had previously stated.

The appraiser used 90,000 nine-hole rounds in making the valuation, but actual rounds have been closer to 58,000.

An accurate estimation of nine-hole rounds played is essential to a meaningful projection of future golf course cash flow. Rounds played are the main component of revenue. Ancillary revenue estimates are usually based on a percentage of rounds played. The estimate used in the third appraisal for valuing SMGC was 90,000 nine-hole rounds. At the time of the appraisal, the golf course had been operational for less than a year, so actual annual rounds played were not available. A comparison of other golf courses was made in the final appraisal or valuation, with a high of 100,000 at Meadow Brook (five times in the 1990's) and Mountain View (twice in the 1990's).

Comparisons with either Meadow Brook or Mountain View were, however, somewhat suspect for two reasons. First, both are located on the valley floor just west of the Jordan River. This gives them the advantage of more playable days because there is usually less snowfall and earlier sun on the course than the Southeast bench location of South Mountain. Second, neither Meadow Brook or Mountain View is considered a premium golf experience and, therefore, has more affordable green fees which in turn leads to more rounds played. National Golf Properties (NGP), a national firm specializing in golf course management, projected a mature course figure of about 85,000 nine-hole rounds for SMGC. The first appraiser estimated 76,000 nine-hole rounds in his valuation process. The subsequent appraiser had both the first appraiser's and the NGP estimate available to him for his 1999 valuation, but seems to have disregarded these earlier estimates.

Salt Lake County Parks and Recreation also estimated that SMGC would produce 90,000 nine-hole rounds per year as part of the $15 million bonding process. With current data available for comparison, these estimates appear to have been overly optimistic. Year-to-date rounds through September, 2001, are 51,750. Actual nine-hole rounds played for 2000 were 58,856. In the year 2000, Riverbend golfers played 86,096 nine-hole rounds while Old Mill recorded 89,434. None of Salt Lake County's premium courses achieved the 90,000 nine-hole rounds projected for South Mountain in 2000. As shown in Table 6, on page 14, we project the number of nine-hole rounds for 2001 at 57,500.

The variance in rounds played is important because of the revenue needed to retire the lease-revenue bonds. Had 85,000 rounds been used, at $22.50 per round, the revenue would have been $1,912,500, versus $2,025,000. ***Initially the difference, $112,500, does not seem significant, but reduce pro forma net income by $112,500 and the supportable bond drops by over two million dollars ($112,500 divided by 5.25% = $2,142,857).*** Using the first appraiser's estimate of 76,000 rounds, the pro forma revenue would be

$1,710,000 - a reduction of $315,000. This would reduce the supportable bond by $6,000,000.

Now that South Mountain Golf Course has been open for play as a County course for two years, it is clear that the rounds-played estimates were overly optimistic. Certainly, making accurate estimations is difficult and there is no sure way to see into the future. In this case, however, it has become clear that a more conservative approach to estimating rounds would have been appropriate and would have significantly reduced the purchase price. Since more conservative estimates were available, we must question the process by which the appraiser chose the most optimistic of the estimates and why County golf course management also supported these estimates.

1.3 The acquisition process did not adequately consider the "down-side."

We found nothing during our review of this purchase which would indicate that sufficient inquiry was made as to what might happen if the golf course failed to meet the projections. The entire process of reviewing this acquisition seemed to be in need of a deliberate, more considered approach. In light of the rounds played at SMGC before purchase, there may have been less optimism about the potential had the County Commissioners asked for a fresh, in-depth, MAI appraisal and paid more attention to the prior appraisal and related information available through the County Assessor's office.

It would be difficult to over-emphasize how optimistic the second appraiser was in preparing his February 1999 *Valuation Report* for the County. Examples of his projections are outlined in Table 7, on page 17.

	Year 2000	
	Valuation Report	Actual Results
Net Operating Income (NOI)		
NOI per Appraiser	1,425,000	410,778
NOI per County Golf Management	1,294,130	410,778
Capitalization Rates		
REIT - per Appraiser	7.00%	N/A
Bond Rate per Appraiser	5.25%	N/A
Used by County Golf Management	8.63%	N/A
Resulting Valuation		
REIT Rate (@7.00%)	20,350,000	5,868,257
Bond Rate (@5.25%)	27,150,000	7,824,343
Golf Management (@8.6275)	15,000,000	4,761,263

Table 7. *The appraiser's valuations were drastically higher than actual results.*

The appraiser would have done well to have examined a less optimistic scenario such as illustrated by the actual results of operations in the year 2000, shown in the right hand column above. This produces a drastically different valuation result.

The County Assessor's office had valued SMGC, using a "market-value estimate," at $6,636,000 for 1998, and $8,365,000 for 1999 based on financial information provided by the owners of the golf course, the joint venturers.

The County Assessors office was not given an opportunity to review the valuation report of February 1999, performed by the second appraiser under a "consultation" request of the County Commissioners, until after the purchase decision was announced.

Based on discussions with some members of the Debt Review Committee of the County involved in the due diligence review of the South Mountain acquisition during the first half of 1999, the process could be characterized as follows. This acquisition was an extremely high-priority, fast-track project of one of the County commissioners, with apparent backing of the other commissioners. Members of the Debt Review Committee requested, on a number of occasions, the typical in-depth analysis and financial projections attendant to a County purchase of this magnitude. These requests were not welcomed and were characterized as attempts to impede the timetable and frustrate the efforts of the commissioner. Likewise, requests by Debt Review Committee members to meet directly with the seller, and seller's representatives were denied as intrusive and unnecessary.

As a result, and out of frustration with the lack of understanding of the transaction, the Debt Review Committee held a meeting on February 9, 2001, at which these specific inquiries were made:

- ***Will the proposed revenue cover the operation and maintenance, as well as the debt service on South Mountain, at a purchase price of $15,000,000?*** The answer provided was "yes," if the number of nine-hole rounds played is 90,000 @ $22.50 per round, and there is a fee increase of 9 % in 2001 and 2003. And, even at that, the debt coverage ratio would drop to 1.23 to 1 in the year 2000, below the coverage ratio of 1.25 to 1 set forth in the proposed "Official Statement" provided to the bonding rating agencies. (In fact, the debt coverage ratio was .82 to 1 in 2000 and is projected to be .85 to 1 in 2001).

- ***What is the County's best interest in establishing the value of this transaction?*** The debt review committee, through their own means, obtained copies of prior negotiations and related appraisal from 1996 when the County had first entertained the possibility of acquiring South Mountain. From the documents, and from a new consultation performed for the Commission (the third appraisal) it was determined that the possible range of values was from a low of $11.2 million to a high of $16.1 million. The question debated at length was whether the seller's asking price of $15 million was appropriate given that the original cost to build the course, other appraisals, and the 1996 negotiated deal had all come in well under this price. The question of whether the County's offering to purchase at a price on the high end of the scale, in a situation where the current owner-manager of the course, Crown, had concluded that it was not profitable to continue operating, was in the County's best interest, or whether the County should view the transaction as a "distress sale," and reduce the offering price, accordingly. In the end, members of the Debt Review Committee relied on the financial projections, expertise, and years of golf-course operation experience of the County Director of Parks and Recreation.

- ***What legal protections would be prudent?*** The following issues were given discussion: *clear title, hold harmless clauses, failure to disclose, interim financing arrangement, appropriation for an earnest money payment, definition of purchase price, and escrow funds*. Generally, the sponsoring commissioner and his representatives resisted getting into this level of detail and asked the Debt Review Committee to trust the Commissioner's ability to directly negotiate the sale. It was proposed that an earnest money payment of $5 million could be taken care of by an "interim" budget adjustment, an idea that did not come to fruition. In the end, the negotiations were conducted and concluded directly between the commissioner and the seller. This may have led to misunderstandings about the terms of the contract of sale, such as the inclusion of golf carts in the original proposed sale, as understood by the Debt Review Committee, when in fact the purchase of the golf carts took place as an addendum to the contract at the additional cost of about $126,000. The near abandonment of prudent contract protection, in the end, resolved expensive questions in favor of the seller, and resulted in a total acquisition cost of nearly $16 million.

- ***What was the most efficient and prudent method of financing until bond proceeds are available?*** Several alternatives were reviewed: *obtaining a "bridge" bond, using short-term notes, deferring closing date, and internal borrowing*. In the end, the decision to defer the close won out over other alternatives.

Perhaps a more current comparison of a golf course acquisition is informative at this point. According to the Deseret News (July 2, 2001), West Valley City purchased the Stonebridge Golf Course for a reported $9,500,000. Stonebridge is a Johnny Miller designed twenty-seven hole golf course that opened 18 holes in 1999 and added its third nine holes a year later. The city manager has been quoted as saying surplus revenue from the golf course would be used to pay down city debt service.

1.4 The golf courses fund may struggle to meet its bond obligation

The golf courses, together, are operated as an Enterprise Fund. As discussed previously, this financial reporting methodology accounts for all of the revenue and expense of the golf courses operations separately from any other County activity. Bond obligations are paid as rent from the Enterprise Fund. Any revenue in excess of expense is added to retained earnings and carried over to the next fiscal year. Conversely, any expense in excess of revenues must be made up from retained earnings. If retained earnings are insufficient to cover the bond payment with a coverage ratio of 1.15 to 1, then a fund balance transfer from another fund would be required.

The bond expense is the single largest expense line item for the Enterprise Fund. The bonds are lease revenue bonds in which the golf courses are charged rent equivalent to the bond debt service. In 2000 the sources of revenue for bond payments due (net of interest accrued in the trust fund) are outlined in Table 8, on page 20.

2000 Bond Payments Due	
South Mountain	$1,365,350
Old Mill	1,141,040
Riverbend	775,811
Total	$3,282,501

Table 8. *Bond payments in the amount $3.3 million were due for the year 2000.*

For the year 2000, results from operations for the golf courses fund are as shown in Table 9 below, per the Consolidated Annual Financial Report (CAFR) of the County.

Year 2000 Results from Operations	
REVENUES:	
Operating	$7,654,132
Interest and non-operating	91,900
TOTAL REVENUE	$7,746,032
EXPENSES:	
Operating Expense	$5,068,282
Depreciation	416,629
Rent (Bond payments)	3,282,501
NET INCOME (LOSS) FROM OPERATIONS	**$(1,021,380)**
ADJUSTMENTS:	
Capital Expenses	(698,997)
Operating Transfers In (TRCC Fund)	526,000
Depreciation Adjustment	416,629
Cash Flow Adjustment to Reconcile Fund Bal.	13,445
FUND BALANCE INCREASE (DECREASE)	**($764,303)**

Table 9. *After operating expenses and bond payments, the golf course fund experienced a net loss of over $1 million during the year 2000.*

At the end of 1999, the golf courses fund had cash (retained earnings) of $1,376,989. Using the results shown above, at the end of 2000, the net remaining balance in the cash (retained earnings) line item is $612,686.

A $526,000 fund transfer propped up the golf fund to maintain the required ratio of retained earnings.

Near the end of the 2000 the golf courses fund was the recipient of $526,000. This was transferred into the fund from the Tourism, Recreation, Cultural and Convention (TRCC) Fund in order to maintain the ratio of retained earnings required by the bond indenture. Without this transfer, the fund balance would have fallen to $86,686.

2001 will be pivotal in the financial success of the golf courses. Beginning January 2001, the courses instituted a nine percent fee increase.

Based on golf course performance through the first nine months of 2001, we are projecting revenues of $7,814,476. This represents an increase of only $68,444 over last year. Expenses, including Capital Expense, are projected to be $5,151,358. This leaves $2,663,118 to cover a bond payment of $3,288,009, a shortfall of $624,891.

The County's internal policy is to charge fees sufficient to generate revenues at least equal to 1.25 times such operation and maintenance expenses and the required bond payment. Further analysis, seen in Table 10, on page 22 and 23, shows that in 2000, the golf courses fund Revenue-to-Expense ratio was .856. With bond payments and expenses of over $9 million, the revenue required to meet 1.25 coverage ratio would have been over $11 million. Projections for 2001 show that additional funds will be required to keep the golf fund from falling to zero.

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Salt Lake County Golf Courses Enterprise Fund
Cash Flow Analysis
For Year 2000, Year-to-Date and Year-End 2001 (Projected)

REVENUES	**2000**	**Y-T-D 2001**	**Projected 4th Qtr 2001**	**Projected Year-end 2001**
Operating Revenue:				
Meadow Brook	1,184,375	1,052,014	102,542	1,154,556
Mick Riley	793,374	741,383	54,075	795,458
Mountain View	1,082,689	1,025,710	107,126	1,132,836
Riverbend	1,385,388	1,331,919	138,202	1,470,121
Old Mill	1,748,373	1,562,011	164,400	1,726,411
South Mountain	1,464,391	1,321,440	130,540	1,451,980
Interest & Non-Oper. Rev	91,900	55,583	27,530	83,113
Less CAFR Adjustment	(4,458)			
TOTAL REVENUES	**7,746,032**	**7,090,060**	**724,416**	**7,814,476**
Operating Expenses:				
Meadow Brook	1,045,726	847,741	122,077	969,818
Mick Riley	726,849	627,497	140,498	767,995
Mountain View	830,317	686,361	149,311	835,672
Riverbend	1,113,542	575,966	133,842	709,808
Old Mill	990,730	930,467	217,744	1,148,211
South Mountain	1,053,613	811,826	202,214	1,014,040
Less CAFR Adjustment	(275,866)			
Total Operating Expense	**5,484,911**	**4,479,858**	**965,686**	**5,445,544**
Less Depreciation	(416,629)	(324,137)	(114,891)	(439,028)
NET OPERATING EXPENSE	**5,068,282**	**4,155,721**	**850,795**	**5,006,516**
NET OPERATING INCOME	**2,677,750**	**2,934,339**	**(126,379)**	**2,807,959**
Less Debt Service:				
Riverbend	775,811	125,757	642,613	768,370
Old Mill	1,141,040	319,466	823,747	1,143,213
South Mountain	1,365,650	0	1,376,426	1,376,426
TOTAL DEBT SERVICE	**3,282,501**	**445,223**	**2,842,786**	**3,288,009**
Debt Coverage Ratio	81.58%			85.40%
NET OPERATING PROFIT (LOSS)	**(604,751)**	**2,489,116**	**(2,969,165)**	**(480,050)**
Less Capital Expense	**(698,997)**		**(144,842**	**(144,842)**
TOTAL FUND PROFIT (LOSS)	**(1,303,748)**	**2,489,116**	**(3,114,007)**	**(624,891)**

Analysis of Golf Fund Balance

	2000	Y-T-D 2001	Projected 4th Qtr 2001	Projected Year-end 2001
Beginning Balance Cash	1,376,989			612,686
PLUS Net Profit (Loss)	(1,303,748)			(624,891)
PLUS Transfers in	***526,000***			
Ending Cash Balance	612,686			(12,205)
Revenue to Expense Ratio	.856			.926

Table 10. *It is projected that additional funds will be required to keep the golf fund from falling to zero.*

Furthermore, unless present operating trends are dramatically improved, we project an ongoing use of fund balance transfers in the near term.

1.5 Recommendation

We recommend that:

1.5.1 Future enterprise and related operational proformas receive thorough debt review and analysis.

We recommend that future acquisitions of County recreational properties, especially those involving enterprise funds which are expected to operate in the same manner as a business enterprise, be carefully scrutinized. Well developed illustrations of “best-case”, “most-likely”, and “worst-case” scenarios must be presented to the County Debt Review Committee. Scenarios should fully disclose the anticipated sources of additional debt-service and operational funding, should enterprise net-revenue fall short of providing sufficient cash flow to service debt and/or cover operating expenses. Such analysis would include the source and use of “fund balance transfers” to make up operating deficits.

Projects involving enterprise funds and lease-revenue bond financing should not be undertaken based on “best case” most optimistic operating projections and should be expected to provide adequate debt payment coverage on a stand alone basis.

2.0 Operating Concerns

We examined areas where improvements in operations can or have been made, including water usage at Riverbend and the acquisition of a new on-line cashiering and inventory maintenance system. Our findings are as follows:

- **Riverbend water billings increased significantly in 2000 over 1999.**
- **A new on-line cash, reservations and inventory management system has provided increased information for more efficient golf course operation.**

2.1 Riverbend water billings increased significantly in 2000 over 1999.

Near the end of the audit we were asked by golf course management to review the water usage at Riverbend Golf Course. In 2000, Riverbend was billed $177,301 for water by Riverton City. This represents an 89 percent increase over the 1999 billings, or $72,238.

As part of the review we found that 52 percent of the increase was due to volume increases (from 111,544,000 gallons to 169,566,000 gallons). We also found that there had been two adjustments related to inaccurate meter readings. To validate the volume increases we obtained the meteorologic data for both 1999 and 2000. During 2000 the average daily temperature and average daily high temperature were higher, but not significantly so in either category.

We contacted Mr. Gene Bates, the golf course architect. He indicated that estimating the per-day volume of water on the golf course would require operating the system at near full capacity for the entire watering period. Further, we calculated that the volume billed was equal to over one-third inch of water on every square inch of the golf course, every day.

The 89 percent increase in water usage at Riverbend is being addressed by placing meters to monitor water flow.

We provided golf course management with this information in April, 2001. Since then, management asked Riverton City to place a second meter to check the accuracy of the first. Early comparisons showed that the original meter was measuring high by a factor of fifty percent (1.5 measured for every 1 that actually passed through the meter). Riverton City has since agreed monitor the two meters and refund or credit according to the error factor. This could be as much as $30,000 or more.

2.2 Recommendation

We recommend that:

2.2.1 ***Golf course management be commended for its immediate attention to the problem of water over-usage.***

2.2.2 ***Due diligence be continued on the part of grounds maintenance staff to insure that water usage is continually monitored and proactive conservation measures are in place.***

2.3 A new on-line cash, reservations and inventory management system has provided increased information for more efficient golf course operation.

Implementation of Fore! Reservations on-line management system has streamlined golf course operations.

Recently, golf course management purchased and implemented *Fore! Reservations* software. *Fore! Reservations* is a golf course management and marketing system designed to enable the golf course industry to implement cost-effective, direct-marketing campaigns and better serve their customers. Potential benefits of the system include increased efficiency in the golf shops and better information collection for management to assist in decision making.

Fore! Reservations system has many features including a customer database, a reservation system for tee-times and lessons, and a point of sale inventory system.

The customer database enables County golf courses to collect customer information that defines the profile of their target market. This information can be used to implement marketing programs to recruit new customers while increasing existing customer demand. Names, addresses, and phone numbers of each customer are entered into the system. The system collects:

- number of reservations, cancellations and no-shows
- immediate access to detailed customer history
- credit card information and individual customer notes
- complete detail of every reservation and any changes made

The reservation system handles tee times and schedules professional golf lessons. Features include:

- reservations for an unlimited number of players
- a wait list to manage walk-ins and cancellations during prime times

- reservation and customer specific notes
- one entry for a permanent tee time per season

To simplify the reservation process, customers are identified by the last four digits of their phone numbers.

The point of sale system is integrated to the tee sheet. It enables golf course cashiers to select the name of the person on the tee sheet and ring up their green fees, merchandise purchased , cart fees, and other items by using point and click technology.

Other features of the Fore! Reservations system include a purchasing and receiving module and an accounts receivable module. Features of these two modules are as follows:

- automatically assigns sequential purchase order numbers
- sorts all outstanding purchase orders by vendor and items
- prints hard copy of purchase orders
- automatically prints pricing labels based on items received or items on hand
- reports daily items received
- reports inventory in real time (as a product is sold from the point of sale the quantity is deducted from inventory, similarly, as product is received using the purchasing module, the stock quantity is increased)

County golf course management purchased this system in the first quarter of 2001. Thus, this is the first year of its integration into use by all the County golf courses.

2.4 Recommendations

We recommend that:

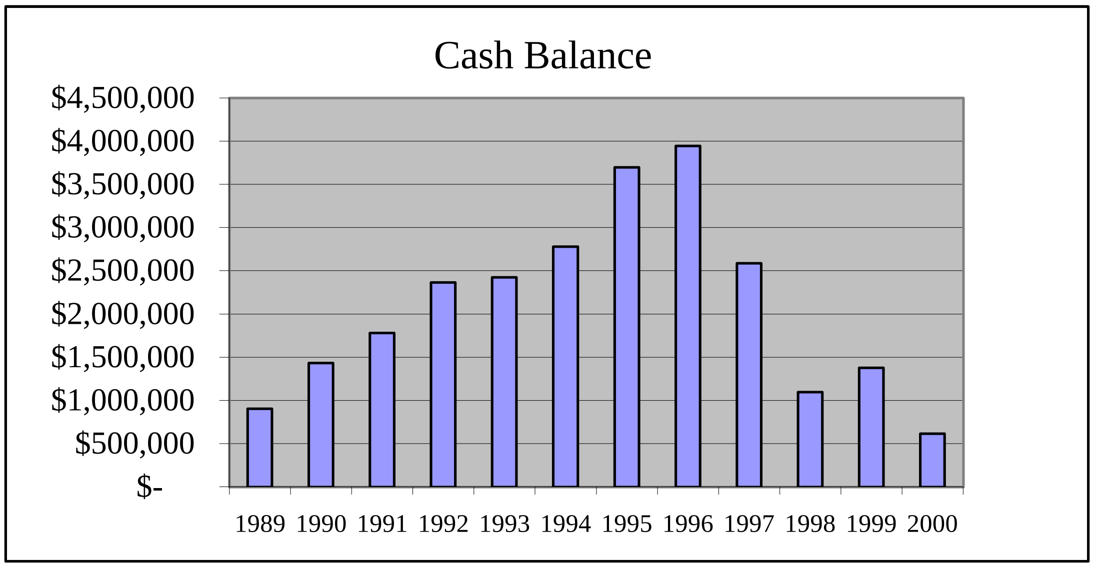
2.4.1 ***Golf course management continue its efforts to master and implement this system and to train all golf course employees on its use. We believe this system, if fully implemented, will be a key factor in solving many of the cash handling, inventory control, and fixed asset management issues brought out in the letter appended to this report in Appendix B.***

2.4.2 ***Golf course management utilize this software to enhance its marketing and promotional programs based on the golfer-specific information gathered by the system.***

As previously stated, our audit also included an examination of cash, fixed and controlled assets and merchandise inventory. We have included findings and recommendations in these areas in a separate management letter, included in this report as Appendix B.

Analysis of Golf Course Fund Cash-Flow, 1990 to 2000

Cash:	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Beginning Balance	$ 901,991	$ 1,433,960	$ 1,780,038	$ 2,363,807	$ 2,424,507	$ 2,779,691	$ 3,697,478	$ 3,943,347	$ 2,587,878	$ 1,095,834	$ 1,376,989
Activities:											
Operations Provided/(Used)	737,249	653,395	736,403	936,943	662,863	985,766	688,283	1,002,186	686,554	606,961	(683,206)
Non-Capital Financing	-	-	(1,504)	(415,675)	(57)	(34)	-	630,068	16,179	-	526,000
Capital Financing	(316,431)	(403,145)	(230,426)	(547,117)	(431,169)	(270,398)	(707,874)	(3,176,798)	(2,320,250)	(429,560)	(698,997)
Investing	111,151	95,828	79,296	86,549	123,547	202,453	265,460	189,075	125,475	103,754	91,900
Net Cash In/(Out)	531,969	346,078	583,769	60,700	355,184	917,787	245,869	(1,355,469)	(1,492,042)	281,155	(764,303)
Cash Balance End of Year	$ 1,433,960	$ 1,780,038	$ 2,363,807	$ 2,424,507	$ 2,779,691	$ 3,697,478	$ 3,943,347	$ 2,587,878	$ 1,095,836	$ 1,376,989	$ 612,686



Year	Cash Balance
1989	901,991
1990	1,433,960
1991	1,780,038
1992	2,363,807
1993	2,424,507
1994	2,779,691
1995	3,697,478
1996	3,943,347
1997	2,587,878
1998	1,095,836
1999	1,376,989
2000	612,686

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October 15, 2001

Glen Lu, Director
Parks and Recreation Division
2001 South State Street #S4400
Salt Lake City, UT 84190

Dear Glen:

Recently we examined cash, fixed and controlled assets and merchandise inventory procedures at the golf courses in conjunction with our performance audit work there. Since our audit, the golf courses have greatly enhanced cash and inventory controls through implementation of the Fore! Reservations on-line management system.

The cashing of golf patrons' personal checks–contrary to county policy and the event that originally prompted this audit–continues to be an issue of concern. In our roundtable discussions last spring, some golf personnel argued for its continuation. However, continued check cashing will have to be taken up with the county council as an amendment to countywide policy.

Overs and shorts, which at some golf courses exceeded $70, need to be addressed right away. Overs and shorts are expected in the ordinary course of business, but excessive amounts could signal theft.

In spite of these concerns, we note that golf personnel were diligent in performing their duties and eager to make sure that cash was handled properly and other controls in place to ensure adequate safeguarding of county assets.

Our letter is organized by three functional topics: Cash Receipting and Depositing, Fixed and Controlled Assets and Merchandise inventory.

CASH RECEIPTING AND DEPOSITING

As part of the audit, we examined the cash receipts for a statistically valid sample of operational days from April to August, 2000. We compared cash register activity to amounts deposited, examined over/short logs and bank records to obtain a picture of each golf course's cash handling practices. In addition, we counted each change fund, petty cash fund and tested the internal control environment. A discussion of our findings follows. In each case, unless a golf course is named specifically, the observation applies to all courses.

- **Cashiers are cashing patrons' checks.**
- **Excessive overages or shortages occur in change funds.**
- **Cashiers do not verify change fund amounts at the beginning of their shift.**
- **Cashiers do not restrictively endorse checks upon receipt or require a valid ID when accepting patron checks.**
- **Some courses have multiple cashiers operating out of the same cash register.**
- **Petty cash vouchers are not completely filled out.**

Golf course personnel are cashing patrons' checks. Countywide policy #1301, Acceptance of Checks, states, *"Checks shall not be accepted in amounts greater than the amount of the 'purchase' (i.e., the cost of direct goods or services being paid for by the issuer)."* Also, as stated in Countywide policy #1203, Petty Cash and other Imprest Funds, section 3.4, *"Petty cash and change funds shall not be used to cash checks of any type."* During our audit and during a special project in September, 2000, we found that golf course cashiers were accepting checks for more than the amount of the purchase. In a few cases, the checks were cashed with no accompanying purchase.

Golf course personnel have indicated that this is done to allow patrons the cash necessary to make purchases at the golf course food concession. In either case, the action violates Policy #1301. Golf courses would have to amend county policy to continue this practice. Our office has also recommended installation of ATM machines at the courses, thereby allowing patrons to retrieve cash for making purchases.

RECOMMENDATIONS:

1. ***We recommend that golf course personnel immediately stop cashing patron checks and accepting checks in excess of actual amount due.***

2. ***Should golf course management deem it necessary to cash patron checks, we recommend that they formulate a written policy, consistent with Countywide Policy #1062, Management of Public Funds, for cashing checks.***

3. ***We recommend that golf course management consider other means, such as debit cards or ATMs, for providing cash for patrons.***

Excessive overages or shortages occur in change funds. An overage or shortage occurs when a cashier collects more or less than the amount of the transaction or gives incorrect change. Excessive overs and shorts could be a sign of theft. Therefore, the cause needs to be determined and an appropriate remedy put into place.

One element of internal control over cash is the ability to track each transaction from point of sale to deposit with a high degree of assurance. Internal controls are in place to prevent or detect problems within the cash receipting system. Cash reconciliation is a key element of the system of internal control. Excessive overages or shortages render this element ineffective and thus reduce internal controls.

The frequency of overages and shortages on a course by course basis are shown below in Table 1.

Golf Course	Shortages/ Overages	Shortages exceeding $25	Overages exceeding $25	Overage/ Shortage Ranges ($)
Mtn. View	45% / 51%	11%	20%	-92.70 to 141.00
South Mountain	32% / 53%	6%	7%	-92.54 to 99.88
Mick Riley	37% / 56%	6%	2%	-116.42 to 36.38
Meadow Brook	46% / 41%	0%	0%	-24.31 to 12.48
Old Mill	26% / 74%	0%	0%	-8.31 to 6.91
Riverbend	48% / 48%	4%	13%	-74.1 to 63.41

Table 1. Golf Course over/shorts sometimes exceed $70.

All golf course cashiers must make the effort necessary to ensure a correct record of the days activity. In addition, many golf course personnel viewed cash outages as the norm rather than the exception, a point of view that must be changed.

RECOMMENDATIONS:

1. ***We recommend that golf course cashiering staff correctly enter all cash register transactions.***

2. ***We recommend that golf course management monitor the daily routine of cashiers to ensure that they are properly balancing out at the end of their shift.***

Cashiers do not verify change fund amounts at the beginning of their shift. Thus, there is no assurance that the fund is correct to begin the days activity. Requirements regarding the pre-shift count vary from course to course; however, the current practice is not to count the fund before the shift. When the amount of the change fund is established, the cashiers have assurance that their own actions will affect the accuracy of the change fund and any resulting overages or shortages.

RECOMMENDATION:

We recommend that all cashiers count their change fund at the beginning of their shift.

Cashiers do not restrictively endorse checks upon receipt or require a valid ID when accepting patron checks. Countywide policy #1062, Management of Public Funds, section 3.6.1, *"As a rule, all checks and other negotiable instruments received by the Agent Cashier will be made nonnegotiable as soon as possible after receipt."* Also, policy #1062, section 3.7.3, *When accepting checks for payment, immediately stamp the back of the check with a 'deposit only' stamp."*

As we performed cash counts at the golf courses it was common for us to find checks that were not restrictively endorsed. Management was aware of the requirement to endorse upon receipt. However, emphasis is placed on completing the transaction rapidly and getting the customer on the course. Nevertheless, checks not restrictively endorsed when received are at a greater risk for diversion if lost or stolen.

In addition, golf course cashiering staff are not performing adequate check guarantee procedures when accepting personal checks. Cashiers do not ask for identification when receiving personal checks. This oversight was also blamed on cashiers being too busy. Golf course personnel are concerned that they will lose customers if ID is required. They believe that the process will decrease their ability to get patrons on the golf course quickly.

However, Countywide policy #1301, Acceptance of Checks, states, *"When receipting payments for user fees and other revenues...over-the-counter receipts in the form of a personal check [should be] accompanied by a valid form of identification."* If a check is returned, the information gathered during the identification check will help in the collection effort. In addition, when identification is not asked for, there is no way to verify that the check is written by the account holder; thus the county could lose money from a bad check.

RECOMMENDATIONS:

1. ***We recommend that cashiers restrictively endorse all checks immediately or shortly after their receipt.***

2. ***We recommend that cashiers ask for identification when checks are accepted from patrons.***

5.5 Some courses have multiple cashiers operating out of the same cash register. Countywide policy #1062, Management of Public Funds, section 2.10.1, *"All Agent Cashiers, alternate Agent Cashiers, cashiers will have their own cash drawers unless deemed impossible or unnecessary by the Agency in consultation with the Fund Management Committee."*

At some of the golf courses we observed more than one employee processing transactions at a single cash register. Adherence to this policy was difficult at times due to the fact that cashiers were sometimes busy assisting other customers. At times the cashier was too busy answering phones, answering customer questions, and helping customers in the pro shop to attend to cashiering duties. If the assigned cashier was busy performing other duties, another golf employee would operate the cash register.

In addition, some golf courses operate with only one cash register and, to expedite the cash receipting process, more than one person will operate the cash register. However, when more than one cashier at a time works out of the same drawer, responsibility for cash outages cannot be established.

RECOMMENDATION:

We recommend only one cashier work out of and have access to any single cash drawer.

5.6 Petty cash vouchers are not completely filled out. Countywide policy #1203, Petty Cash and Other Imprest Funds, section 3.11.1 states, *"Vouchers are to be filled in completely, prior to releasing any cash. The voucher shall be dated and the reason for the expenditure explained. The total amount released to the individual receiving the cash should be recorded, it shall be signed by the payee and approved by the custodian."* Any cash not used by the recipient will be returned to the custodian and returned to the petty cash fund.

At Meadow Brook we found that the custodian of the fund was disbursing money without signing the release voucher. We examined 19 vouchers and only one of them was signed by the custodian. Also, there were three instances where money was released without a voucher being filled out. There were receipts for the purchases; however, the vouchers could not be found. At a subsequent count of the petty cash, the fund was in balance and the vouchers up-to-date.

RECOMMENDATION:

We recommend that all petty cash vouchers be completed and signed before funds are released for purchases.

FIXED AND CONTROLLED ASSETS

Fixed assets are those assets which cost $3000 or more and have a useful life of greater than two years. Controlled assets are items likely convertible to personal use valued at $100 to $2999. Our review of fixed and controlled assets resulted in the following findings:

- **County golf courses are not conducting an annual inventory of fixed and controlled assets.**
- **County courses do not maintain a current inventory list of controlled assets.**
- **Controlled assets are not tagged.**
- **There is no transfer paperwork for two controlled assets (golf carts) that were said to be in the shop for repair work.**
- **Some fixed assets are on site are not listed on the AFIN 0801 report and some are no longer on site that have not been deleted from the list.**
- **We observed fixed assets that did not have asset number tags attached to them.**

Each golf course operates as a separate entity and, as such, has its own unique list of fixed and controlled assets. Per County policy (Policy #1125, Safeguarding Property/Assets), these assets should be inventoried annually. Implicit in the policy is that the assets be "controlled," that is, that their whereabouts be known to golf course personnel at all times.

County golf courses are not conducting an annual inventory of fixed and controlled assets. Countywide policy #1125, section 2.2.11, states: *"At least annually, conduct physical inventory of fixed assets and controlled assets, to ensure complete accountability for all property owned by, or assigned to the organization."* Five out of the six courses we audited did not maintain a copy of countywide policy #1125, which may indicate that the head professional at each course is unaware of the policy and its requirements. The only exception was Mountain View Golf Course. One of Mountain View's employees said that an inventory of assets is conducted annually; however, their last asset inventory report was dated 20 months prior to our audit work. Conducting an annual inventory on both fixed and controlled assets will allow property managers to add or delete any assets their organization is no longer responsible for.

RECOMMENDATIONS:

1. ***We recommend that all of the golf courses perform an annual inventory on all fixed and controlled assets.***

2. ***We recommend that a copy of countywide policy #1125 be maintained at each course.***

County courses do not maintain a current inventory list of controlled assets. Countywide policy #1125, <u>Safeguarding Property/Assets</u>, section 2.2 states, *"Property managers assigned by their Administrators are responsible for accounting for all controlled assets within the organization's operational and/or physical control."* Controlled assets by definition are sensitive to conversion to personal use. Therefore, they require special provisions for safeguarding. Although the county policy makes a numbering (tagging) system for controlled assets optional, uniquely tagging and recording controlled assets will ensure better asset management and control.

A controlled asset inventory report should include the following: a description of the item, serial number or county tag number, and the location of each item. Although it may be impractical to define exact locations on the forms in circumstances where property is used by more than one employee, or where it is frequently moved or reassigned, property managers should use exact locations whenever possible (and update them as needed) to establish better control.

With the exception of Mountain View the remainder of the courses did not maintain a controlled asset inventory report. Mountain View did have a controlled asset inventory report but it was neither current nor maintained on site.

RECOMMENDATIONS:

1. ***We recommend that all controlled assets be listed on a controlled asset inventory report.***

2. ***We recommend that all controlled assets be tagged or otherwise uniquely identified.***

No paperwork was found for two controlled assets (golf carts) that were taken to the shop for repair work. Two golf carts, one at South Mountain (cart #28) and the other at Mountain View (cart unidentified) were taken off-site to the shop for repair work. No transfer documents were found to verify the transfer. Since the carts were being removed from their respective golf courses, a transfer of accountability occurred. Countywide policy #1125, Safeguarding Property/Assets, section 4.2, *"When transfer of accountability occurs both the receiving and transferring organization should appropriately document transfers of controlled assets."*

RECOMMENDATION:

We recommend that all appropriate paperwork (PM-2) be completed by the transferor and the transferee when controlled assets are moved from one organization to another.

Some fixed assets on site are not listed on the AFIN 0801 report and some are no longer on site but have not been deleted from the list. Countywide policy #1125, Safeguarding Property/Assets, section 2.2.1 states, *"Property manager assigned by their Administrators are responsible for accounting for all fixed asset within the organization's operational and/or physical custody as listed on the AFIN 0801 'Salt Lake County Fixed Asset Inventory by Organization' report."* Fixed assets that are not properly accounted for could be sensitive to theft, misuse or abuse.

As part of the fixed assets audit, we verified that assets listed on the report were at each golf course. We also noted assets which should have been on the report, but were not. Also, there were some assets which were on the list, but either transferred, surplused or cannibalized for parts.

RECOMMENDATIONS:

1. ***We recommend that Mick Riley and Mountain View send a letter to the Auditor's Office requesting that fixed assets which they no longer exercise control over be removed from the AFIN 0801.***

2. ***We recommend that PM-2 forms be completed when fixed assets are surplused, transferred, or otherwise disposed of.***

3. We recommend that assets which are being used for spare parts be deleted from the AFIN 0801 and noted on a PM-2 form as being used for spare parts only.

MERCHANDISE INVENTORY

As a part of our audit we wanted to determine if the pro shop at each course was profitable. To achieve that goal, we attempted to examine purchases of pro-shop merchandise to ensure that they were appropriate and accurately entered into the inventory control system. We reviewed sales to see if they were being accurately recorded and whether shrinkage was adequately controlled. Finally we counted merchandise inventories in an effort to compare them to the computer generated perpetual inventory report.

Inventory control is a process by which management assures itself that goods purchased for resale are properly acquired, accurately received and entered into the system, securely stored, and the sales accurately recorded. With the implementation of the Fore! Reservations system, each of the golf courses will be operating using the same software. This is an opportunity for management to create a uniform inventory policy for the golf courses. The following is a list of the issues we found during our audit.

- **No uniform written inventory control policy exists for the golf courses as a whole.**
- **None of the golf courses except for South Mountain have an up-to-date perpetual inventory control system.**
- **Methods and formats for taking and controlling inventories are not uniform throughout the golf shops.**
- **Merchandise sales are not adequately recorded.**
- **Purchase requests are not consistently signed by two persons**

No uniform written inventory control policy exists for the golf courses as a whole. During the audit we found that each golf course controls inventory differently. Some of the variation is due to the difference in computer or cash register systems. However, a uniform written policy with specific requirements regarding the key elements of inventory control would improve the system-wide control of inventory.

7.2 None of the golf courses, except for South Mountain, use current computer technology to track merchandise inventory. However, this has changed with the recent implementation at all golf courses of the Fore! Reservations system which allows for on-line tracking of merchandise inventory.

However, at the time of our audit, pro shop merchandise inventory was not adequately tracked resulting in the possible occurrence of thefts that could go undetected. Inventory counts may occur, but running inventory totals are often so different as to render the counts useless..

South Mountain used a scanner to tie in to the computer program for a continual updating. We conducted a physical inventory at this pro shop and compared it to a report provided by the manager for the same date. We counted 290 items and found that for 111 items, our count was more and for 24 items, our count was less.

Mick Riley tracked inventory on a computer program, but it was not tied to the cash register system. The day we took inventory the computer program was inoperable and we used a physical inventory that had been taken two weeks earlier as the basis on which to count.

Meadow Brook had a computer program in place with a scanner and computer tie-in for inventory control. However, several months prior to our audit an electrical storm disrupted their systems and the computer program link to the cash register had not been restored. The scanner records a sale but does not update the inventory and a report cannot be generated. Therefore we performed a count, but had no current record of inventory against which to compare our count.

Mountain View did not have an inventory control system capable of tracking merchandise as it was sold. We were told a manual count was conducted quarterly. We conducted a physical count and compared it to the latest report provided by the manager. Our count noted items which had been left off the report and in many cases totals did not match our count. We counted 189 items and there were 109 instances that showed a variance.

Riverbend had the same problem as the other courses, in that the inventory report format did not describe items well enough to be readily identified. We compared our physical count to their latest report dated December 14, 2000 and found a number of items that were not shown on the report. For those items on the inventory report that were counted, we found a large number of variances.

Old Mill had no scanner for sales. The cashier relied on a printed list located near the register if the price label is not on the item. Otherwise the code was input from the key board, which does tie into a computer inventory control program. We were told this system updates the inventory, but again a physical inventory compared to the computer generated report of the same date showed 147 items of the 195 items we counted were at variance. The variance ranged from as low as 1 to as high as 118, with 74 items reflecting fewer and 73 more than the report.

ACTION TAKEN:

Golf courses implemented the Fore! Reservations system which uniquely identifies each item from purchase through sale, given that personnel properly enter the unique control number at each step of the process.

Merchandise sales are not adequately recorded and moved. At the shops where there was no scanning system in place merchandise sales were recorded as miscellaneous sales. At Old Mill if the price tag was incorrectly input or label was missing a different item than the actual one sold would be recorded. At any rate the variances in inventory counts indicate a problem in how the sales were recorded. At each of the courses we found there were items that had been in inventory from two to five years and some of those items along with newer items had lost the price label. Since periodic physical inventories are not taken and the labels have not been replaced it makes it difficult and time consuming for cashiers to determine the correct sale price when such an article is sold.

At each of the shops we found clothing items in storage or still on display that had been part of inventory for as long as five years. Some of the shops were in the process of holding sales on some of the older items, however the only advertising was the use of tables and signs for any walk in traffic, at a very slow time of year.

As an inventory moves through its phases of purchase, receipt and sale, there must be adequate controls on both physical movement and costs. Controls are considered part of the sales and collection cycle. Physical inventories are necessary to verify recorded inventory actually exists at any given date**.** If observation of the physical inventories are carried out, then shrinkage or fraud can be detected.

RECOMMENDATION:

Special event sales be advertised to ensure coordination of times and adequate foot traffic.

Purchase requests are not consistently signed by two persons. The golf courses purchase much of their pro-shop inventory using a $50,000 imprest checking account. Purchases for retail resale are not subject to the bid requirements of other county purchases. Reimbursements to the imprest checking account are made through the Auditor's Office, much like any other petty cash fund reimbursement. Because the purchases are outside the typical county purchasing controls, management should remain attentive to the possibility of misuse of the fund. During our audit we found areas which may reflect a weakening of management oversight.

We reviewed a sample of purchase requests, invoices and other supporting documents relating to purchases prepared by the county golf courses from January 1, 2000 to August 31, 2000. Our examination revealed 23 to 84 percent of the purchase requests were processed without a second [approval] signature. The division administrative agent did not have the written procedures for reference and was under the impression that head golf professionals did not need a second signature.

According to the Parks and Recreation Internal Purchasing Procedures, section 6.4, "...*Employee signs his/her own signature and then obtains the signature of a Budget Manager, District Manager or Section Manager.*" Also section 6.4.1, "*If a Budget Manager initiates a PR [purchase request], the second signature must be that of the District Director or Section Manager.*" For the purposes of this instruction, golf pros are defined as budget managers. Figure 1 below shows the rate at which purchases were processed without the second signature.

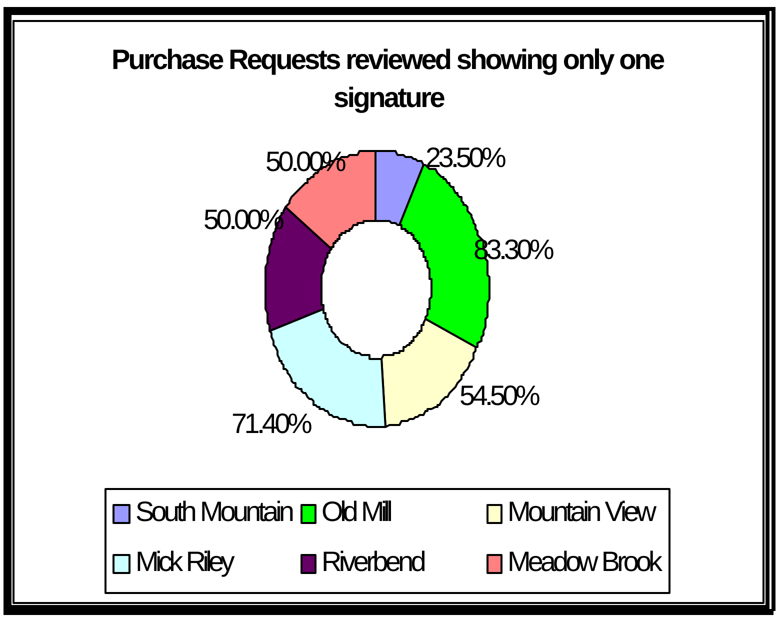

Figure 1 Purchase requests signed by only one person

RECOMMENDATION:

We recommend that superiors review the propriety of all purchases made at each golf course and make certain all requests are properly approved.

We appreciate golf course pros and personnel for the time and energy they devoted to helping our office conduct this audit. The spirit of cooperation, willingness to learn of better internal control methods and overall attitude of friendliness greatly contributed to the successful completion of our work. Implementation of recommendations will help to ensure better control of county assets. Please feel free to contact me at 468-3577, or Larry Decker at 468-3795 if you have any further questions.

Sincerely,

James B. Wightman, CPA
Internal Audit Division Director

cc:

Nancy Workman
Leslie Reberg
Devin Dehlin
Paul Ross

SALT LAKE COUNTY PARKS & RECREATION DIVISION

RESPONSE TO A PERFORMANCE AUDIT OF THE
SALT LAKE COUNTY GOLF COURSES

AUDIT PERFORMED BY THE SALT LAKE COUNTY AUDIT DIVISION
OCTOBER 2001

November 6, 2001

Introduction

In the audit of the Salt Lake County Golf Courses performed by the Salt Lake County Audit Division, dated October 2001, it was stated that the objective was to "…review the process and rationale associated with the acquisition of South Mountain Golf Club (Course) and the effect on overall golf course operational cash flow of that purchase." Furthermore, the key issue addressed in the audit was the ability of the golf enterprise fund to generate sufficient revenue, in excess of operating expenditures, to meet its obligations under the related lease revenue bonds, i.e., the ability of the fund to service the debt payments.

This response, prepared by the Parks & Recreation Division, addresses each corresponding point identified in the audit's Table of Contents. For convenience sake, the sections of this response coincide numerically with the listing of points in the audit report.

1.0 Bond Issues

1.1 The County's $15 million purchase price for South Mountain Golf Club seems to have been excessive given the current golf course performance.

- The value of the golf course is more than the simple function of current golf course performance, that is to say the number of rounds played in a given season on the South Mountain Golf Course (SMGC). The value of SMGC, generally stated, is a factor of the cost per acre of land (290 acres) and the amenities, i.e., clubhouse/pro shop, maintenance building and equipment, golf carts, etc. Golf course performance would, however, certainly be of considerable importance in determining the course's ability to generate revenue as a means to retire debt service.

If we use Old Mill Golf Course (OMGC) as a measuring stick against which to compare its acquisition and construction costs with the $15 million price for SMGC, it becomes persuasively evident that the county could not have purchased the SMGC 290 acre site, provided funding for its construction, and endured the inflation of a two year construction cycle for a lesser figure.

OMGC was constructed in 1996 and 1997 on a 90-acre site at a consummate cost to Salt Lake County of $12 million – excluding the amount paid for ancillary land acquisition. If in 1999 the county could have procured a suitable site in the southeast quadrant of the valley and immediately commenced construction on an equivalent course to SMGC, only now would we be looking at a grand opening in early 2002, at a cost undoubtedly in excess of the $15 million the county paid for SMGC.

- Two years ago, when the decision was made to purchase SMGC, who would have been able to predict the cumulative impact of the following on current economic conditions:

    - There have been a number of new golf courses constructed in the past two years drawing players from existing courses, county wide. This is to be expected, as the golfing public will naturally want to play new courses to determine their preferences on where to spend their golf time and money. Two of the newest courses are: River Oaks Golf Course, 9300 South Riverside Drive (900 West) and Stonebridge Golf Club, 4415 West Links Drive. The close proximity of River Oaks to SMGC is of particular note in the interplay of golf patrons between the two courses.

    - The golf industry nation wide is seeing lower player participation per course. Much of this is due to more courses becoming available through new construction, without a concomitant expansion in golf patronage. The National Golf Foundation recently validated this with the following statement: "…the recent explosive growth of new golf courses has outpaced the growth of new golfers resulting in fewer golfers per course. From a business standpoint this excess supply has meant declining utilization rates for golf courses". Simply stated supply has outpaced demand, driving earnings per course down.

    - The I-15 reconstruction project inhibited traffic flow throughout Salt Lake County and significantly impacted north/south traffic movement. SMGC's location at the far southeastern end of the valley did not position it to gain from the constricted traffic conditions in the county. The reconstruction project had a dampening affect on golf activity county wide; at both county and city courses.

      With the reopening of I-15 in July of this year, traffic flows are gradually assuming more normal patterns and access to SMGC from most county locations is greatly improved.

    - The year 2000 golf season ended abruptly with unusually early snow showers and lingering cold. In other years we have seen the season extend well into November and even December. For example, in 1999 we saw 28,814 rounds of golf played during the last two months of the year. Expected revenues for November and December of 2000 were simply forfeited to bad weather.

    - Utah, especially the northern part of the state, is in the third year of a prolonged drought. The year 2001 has been hot and dry, thereby deterring many golfers from spending more time on the links.

    - The incident of September 11 has had a significant impact on the economy. One affect reflected at our golf courses has been a downturn in individual play and numerous tournament cancellations.

1.2 The "rounds-played" estimates were overly optimistic.

- In providing estimates of the projected rounds of play that could be expected at SMGC, Parks & Recreation used the county's existing golf courses and neighboring municipal golf courses as comparables, which was the best and most reliable information available at the time. For example: in 1999 Meadowbrook Golf Course saw 93,300 rounds of play; Riverbend 93,500; OMGC 85,500 (its first season of operation of only ten months); Bonneville Golf Course 94,300; and 100,000 plus rounds of play at Murray City's Murray Parkway Golf Course. OMGC sustained that high rate of play through the year 2000 with 89,400 rounds of play. SMGC fit easily within that same matrix.

- Crown Golf, the former owner of SMGC, was charging $70 for an 18-hole round of golf at the time it sold the course to Salt Lake County. The division genuinely expected by reducing the rate to $45 we would significantly increase the rounds played and subsequently generate greater revenue than ever before at SMGC. This did not appear to be too ambitious a goal and was considered very achievable. We would make a premier golfing experience available to the general public at an affordable, medium priced tee time fee.

1.3 The acquisition process did not adequately consider the "down-side".

- The analysis and related projections were based on the best available information at the time and considered achievable. The decision to purchase the SMGC was not made unilaterally by the Parks & Recreation Division. Information relating to the proposed acquisition was reviewed by the Debt Review Committee, the County Financial Advisors, and the Board of County Commissioners. Hindsight, in light of the present economic factors, does not change the validity and correctness of the measurements used in 1999.

1.4 The golf courses fund may struggle to meet its bond obligation.

- Since 1996 when the Golf Course Enterprise fund balance peaked at $3.9 million, the Parks & Recreation Division has invested substantial amounts of money in one-time improvements to the county golf system. The following is a list of major projects completed with golf enterprise funding, resulting in a draw-down of the fund balance:

  - Construction of a new clubhouse and cart storage facility at Meadowbrook Golf Course, as-well-as a complete renovation of the course irrigation system.

  - Refurbishment and improvement of deteriorating conditions at Mick Riley Golf Course.

  - Expansion and improvements to the cart storage and staging area at Mountain View Golf Course.

  - Construction of two new outdoor pavilions – one at Mountain View and the other at SMGC.

- Extraordinary fence construction at MBGC and Mountain View Golf Course, to protect private properties adjacent to course fairways and subsequently reduce our legal liabilities.

- Installation of a secondary water line at SMGC to protect our investment against inadequate water resources.

Cumulatively these capital improvements have totaled more than $6 million. The net affect of these necessary capital improvement projects has been a significant drain to the golf fund balance. These amenities and course improvements have, however, raised the individual course standards to a level that will reap greater profits in the future to the county golf system.

The golf enterprise fund will, in fact, pay all debt service requirements of forthcoming years, but the fund balance itself will not sustain a debt ration of 1.15 percent for some time to come. Please refer to the attachment entitled *Golf Fund Revenue & Expenditure Projections 2001 – 2005* for specific details.

The Division's Planned Course of Action

It is indisputable that play on our golf courses has dropped off, resulting in a financial condition unparalleled in the county's golf history. The present downturn will, in all likelihood, last until the nation as a whole and the golfing industry in particular rebounds from its present economic doldrums.

The Parks & Recreation Division has, however, been meeting regularly with the golf course senior staff to formulate plans and an affirmative course of action to ameliorate existing revenue issues. Division senior management and staff propose a number of varied approaches to abate the worsening revenue conditions.

- Staff is diligently working on new programs and innovative ways of attracting more players and tournaments to the county golf system. It is anticipated that projected new tournament play alone will generate an additional $100 - $125,000 in the year 2002.

- The division has been and continues to implement cost control measures that include: (a) a reduction of six permanent staffing positions within the golf course system – resulting in a savings greater than $200,000 in salary expenses; and, (b) improving efficiency, i.e., *Fore! Reservations* golf management system.

- We will see a greatly reduced level of capital spending at the golf courses. The division has made early golf system capital improvements to reduce the amount of money that would otherwise be spent in forthcoming years. The preemptive expenditures and associated capital projects listed at the head of this section will enable the division to save approximately $500,000 over the next two years in capital outlay.

- SMGC is better known now than ever before due to its accessibility to the general golfing public, under the management of Salt Lake County. The division optimistically projects increased play at SMGC. The completion of Traverse Ridge Road will provide a more direct traffic route to SMGC from the interstate, facilitating much easier access to the golf course. The residential subdivision surrounding SMGC, when fully completed, is expected to place more potential golf patrons in close proximity to SMGC, subsequently providing additional afternoon and weekend play on the course. Growth figures for Draper City indicate the population expanding from 35,300 residents in 2005 to over 51,000 by the year 2020.

- The decision to purchase SMGC was a long-term investment intended to provide the residents of Salt Lake County with a unique and high quality golfing experience. It would seemingly be hasty to judge the long-term benefit of having acquired SMGC contingent upon only two years of revenue shortfall. The game of golf is locally and nationally one of our most popular pastime activities. There is little doubt that the number of golfers and rounds played will only increase with time, leading to much improved financial conditions.

2.0 Operating Concerns

2.1 Riverbend water billings increased significantly in 2000 over 1999.

- The Parks & Recreation Division has addressed this issue with Riverton City. The city has acknowledged a metering discrepancy of water flow to Riverbend Golf Course, and has agreed to work with the division in rectifying the problem and making an adjustment to the course's account.

Other Issues Contained in Appendix B of the Audit Report

- The issues of: (a) Cash Receipting and Depositing, (b) Fixed and Controlled Assets, and (c) Merchandise Inventory have been substantively addressed by the division and the recommendations proposed by the Audit Division, by and large, implemented.

GOLF FUND REVENUE & EXPENDITURE PROJECTIONS 2001-2005

11/05/01

YEAR 2001:

Golf Fund Beginning Fund Balance January1, 2001		$612,686
ADD: 2001 Projected Revenues	7,814,476	
SUBTRACT: 2001 Projected Operating Expenditures	(4,740,854)	
SUBTRACT: 2001 Projected Capital Expenditures	(322,200)	
AVAILABLE FOR DEBT SERVICE		3,364,108
SUBTRACT: 2001 Debt Service	(3,288,006)	
2001 YEAR END FUND BALANCE		**76,102**

YEAR 2002:

Golf Fund Beginning Fund Balance January1, 2002		76,102
ADD: 2002 Projected Revenues	7,964,476	
SUBTRACT: 2002 Operating Expenditures	(4,663,839)	
SUBTRACT: 2002 Capital Expenditures	(154,700)	
AVAILABLE FOR DEBT SERVICE		3,222,039
SUBTRACT: 2002 Debt Service	(3,214,043)	
2002 YEAR END FUND BALANCE		**7,996**

YEAR 2003:

Golf Fund Beginning Fund Balance January1, 2003		7,996
ADD: 2003 Projected Revenues (includes a scheduled fee increase)	8,681,279	
SUBTRACT: 2003 Operating Expenditures	(4,897,603)	
SUBTRACT: 2003 Capital Expenditures	(325,000)	
AVAILABLE FOR DEBT SERVICE		3,466,672
SUBTRACT: 2003 Debt Service	(3,170,068)	
2003 YEAR END FUND BALANCE		**296,604**

YEAR 2004:

Golf Fund Beginning Fund Balance January1, 2004		296,604
ADD: 2004 Projected Revenues	8,681,279	
SUBTRACT: 2004 Operating Expenditures	(5,068,380)	
SUBTRACT: 2004 Capital Expenditures	(559,000)	
AVAILABLE FOR DEBT SERVICE		3,350,503
SUBTRACT: 2004 Debt Service	(3,161,333)	
2004 YEAR END FUND BALANCE		**189,170**

YEAR 2005:

Golf Fund Beginning Fund Balance January1, 2005		189,170
ADD: 2005 Projected Revenues (includes a scheduled fee increase)	9,462,594	
SUBTRACT: 2005 Operating Expenditures	(5,244,280)	
SUBTRACT: 2005 Capital Expenditures	(558,270)	
AVAILABLE FOR DEBT SERVICE		3,849,214
SUBTRACT: 2005 Debt Service	(3,161,733)	
2005 YEAR END FUND BALANCE		**$687,481**