Understanding the Golf Fund Financial Statements

The Golf Fund has three main financial statements: (1) statement of net assets; (2) statement of revenues, expenses, and changes in fund net assets; and (3) statement of cash flows. The *statement of net assets* shows what the City owns and what it owes at a fixed *point* in time. The *statement of revenues, expenses, and changes in fund net assets* show how much money the City made and spent over a *period* of time. The *statement of cash flows* shows the exchange of money between the City and the outside world over a *period* of time.

STATEMENT OF NET ASSETS

The *statement of net assets* provides detailed information about the golf course assets, liabilities, and net assets. The following formula summarizes what the statement of net assets shows:

ASSETS = LIABILITIES + NET ASSETS

The City's assets have to equal the sum of its liabilities and net assets.

Assets are things that the City owns that have value. This means they can either be sold or used by the City to make products or provide services that can be sold. Assets include physical property, such as land, plants, golf carts, equipment, and inventory. Assets also include cash and receivables. Assets are typically recorded at their historical cost.

Liabilities are amounts of money that the City owes to others. This can include all kinds of obligations such as money borrowed from other funds, the bank, or bond holders. It can also include money owed to suppliers, payroll owed to employees, and sales tax owed to the government.

Net assets are sometimes called equity or net worth. Total equity is the money that would be left if the City sold all of its assets and paid off all of its liabilities.

Assets are generally listed based on how quickly they will be converted into cash. *Current assets* are things the City expects to convert to cash within one year. *Noncurrent assets* are things the City does not expect to convert to cash within one year or that would take longer than one year to sell. Noncurrent assets include fixed assets. Fixed assets are those assets used to operate the golf course but that are not available for sale, such as golf carts, land, and other property.

Liabilities are generally listed based on their due dates. Liabilities are said to be either current or long-term. *Current liabilities* are obligations the City expects to pay off within the year. *Long-term liabilities* are obligations due more than one year away.

The statement of net assets shows a snapshot of the City's assets, liabilities and equity at the end of the reporting period. It does not show the flows into and out of the accounts during the period.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

A *statement of revenues, expenses, and changes in fund net assets* is a report that shows how much revenue the golf course earned over a period of time, usually one fiscal year. The report also shows the costs and expenses associated with earning that revenue. The literal "bottom line" of the statement usually shows the City's net earnings or losses. This tells you how much the golf course earned or lost over the period.

At the top of the statement is the total amount of money brought in from sales of products or services. *Golf revenue* includes green fees, practice range, and season pass revenue. *Other operating revenues* include Sunset Room rentals, concessions, and pro shop revenue.

The next section deals with *operating expenses*. These are expenses that go toward supporting the golf club's operations for a given period—for example, salaries of personnel, course maintenance, and advertising.

Depreciation is also deducted from total operating revenues. Depreciation takes into account the wear and tear on some assets, such as equipment and course improvements, which are used over the long term. The City spreads the cost of these assets over the periods they are estimated to be used. This process of spreading these costs is called depreciation or amortization. The "charge" for using these assets during the period is a fraction of the original cost of the assets.

After all operating expenses are deducted from operating revenues, you arrive at operating profit or loss.

Next the City must account for *non-operating revenues and expenses*. This section includes interest expense, property tax revenue, and gain or loss on sale of assets. Interest expense is the money the City paid to borrow money. If the City borrowed money from other City funds, the City will still pay interest from the Golf Fund. Property tax revenue is the money received from taxpayers to cover the debt service of the City's $6.25 million General Obligation bond. This bond was issued in 2005 and replaced the $6.427 million Lease Revenue Bond.

Finally, capital contributions and transfers are added and you arrive at the bottom line: *net income or net loss*. This tells you how much the City actually earned or lost during the accounting period. The net profit or loss is added to total net assets at the beginning of the year, which equals net assets at the end of year. (This number can also be found on the statement of net assets.)

STATEMENT OF CASH FLOWS

The *statement of cash flows* reports the City's inflows and outflows of cash. This is important because the City needs to have enough cash on hand to pay its expenses and purchase assets. While the statement of revenues, expenses, and changes in net assets can tell you whether the golf course made a profit, a cash flow statement can tell you whether the City generated cash.

The statement of cash flows shows changes over time rather than absolute dollar amounts at a point in time. It uses and reorders the information from the City's statement of net assets and statement of revenues, expenses, and changes in net assets. The bottom section of the statement of cash flows shows the net increase or decrease in cash for the period. This change is added to cash at the beginning of the year. (This number can also be found on the statement of net assets; i.e., cash or outstanding checks in excess of deposits.)

Generally, the statement of cash flows is divided into four parts. Each part reviews the cash flow from one of four types of activities: (1) operating activities; (2) noncapital financing activities; (3) capital financing activities; and (4) investing activities.

Operating Activities

The first part of the statement of cash flows analyzes the City's cash flow from net income or losses. This section of the statement reconciles the net income (as shown on the statement of revenues, expenses, and changes in net assets) to the actual cash the City received from or used in its *operating activities*. To do this, net income is adjusted for any non-cash items (such as adding back depreciation expenses) and adjusted for any cash that was used or provided by other operating assets and liabilities.

Noncapital Financing Activities

The second part of the statement of cash flows shows the cash flow from all *noncapital financing activities*. Typical sources of cash flow include cash paid from other funds and property tax revenue.

Capital Financing Activities

The third part of the statement shows the cash flow from all *capital and related financing activities*. Typical sources of cash flow include cash raised by selling bonds or borrowing from banks. Likewise, paying back a bank loan would show up as a use of cash flow. In addition, the purchase or sale of long-term assets, such as property, plant, and equipment would be included in this section. If the City buys a piece of machinery, the statement would reflect this activity as a cash outflow from financing activities because it used cash. If the City decided to sell some fixed assets, the proceeds from the sales would show up as a cash inflow from investing activities because it provided cash.

Investing Activities

The final part of the statement of cash flows shows the cash flow from all *investing activities*, which has only included interest income up to this point.

BRINGING IT ALL TOGETHER

Although this document discusses each financial statement separately, keep in mind that they are all related. The changes in assets and liabilities that you see on the statement of net assets are also reflected in the revenues and expenses that you see on the income statement, which result in the City's gains or losses. Cash flows provide more information about cash assets listed on a statement of net assets and are related, but not equivalent, to net income shown on the statement of revenues, expenses, and changes in net assets. No one financial statement tells the complete story. But combined, they provide very powerful information for residents.

Please contact the City's Finance Department with questions.