

TOWN OF NATICK, MASSACHUSETTS

Agreed Upon Procedures for the  
Town of Natick Landfill and  
Municipal Golf Course

August 12, 2003

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Mr. Philip E. Lemnios  
Town Administrator  
Town of Natick  
13 East Central Street  
Natick, Massachusetts 01760

Dear Mr. Lemnios:

The following report is a result of our performing agreed upon procedures for the Town of Natick. We were requested to perform procedures for the Town landfill closure project and the municipal golf course project because project costs may have exceeded authorized budgets.

The purpose of our procedures was to determine:

### **I. Expenditures Charged to the Landfill Capital Project**

- Costs incurred were an appropriate use of municipal funds, consistent with industry standards.
- Costs charged to the bond authorization were project-related costs and were effective in fulfilling specific project requirements.

### **II. Golf Course Capital Project**

- Assess the reasonableness of the feasibility studies and construction costs.
- Determine why funds to construct a clubhouse and maintenance facility appear to be unavailable.
- Costs charged to the bond authorization were project-related costs and were effective in fulfilling specific project requirements.
- Project budget was accurate and adequately monitored.

*Additional Offices:*

Nashua, NH • Greenfield, MA • Ellsworth, ME

### **III. Golf Course Enterprise Fund**

- Assessment of \$125,000 payment to Sterling Golf Management, Inc. during the grow-in period.
- Determination of proper fund for outstanding watering bills, debt service costs and other potential operating costs.
- Fees charged were consistent with contract agreements.

### **IV. Town of Natick Golf Facility Study**

- Assess reasonableness of the projected market demand, estimated rounds of play and operating estimates.

### **V. Recommended Action**

The performances of these agreed upon procedures and our conclusions and recommendations were based on information provided to us by the Town. As of the date of this report, certain amendments and change orders could not be located.

Because the above procedures do not constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the accounts or items referred to above. Had we performed additional procedures or made an examination of the financial statements in accordance with generally accepted auditing standards, matters may have come to our attention that would have been reported to you. This report relates only to the procedures specified above and does not extend to any financial statements of the Town of Natick taken as a whole.

We are presenting for your consideration our findings and conclusions regarding the capping of the Town landfill and construction of the municipal golf course.

We would be pleased to discuss any of the matters in this report with you at your convenience.

*Melanson Heath & Company, P.C.*

Andover, Massachusetts  
August 12, 2003

## **I. Expenditures Charged to the Landfill Capital Project**

### **A. Review of Original Warrant Articles and Contracts**

Original Warrant Articles appropriating funds for the landfill capping project and authorizing the borrowing of funds under Massachusetts General Laws Chapter 44 Section 8(24) were reviewed. All of the warrant articles and bond authorizations were approved by Town Meeting.

Article 12 was originally approved on April 12, 1994 authorizing the sum of \$3,000,000 "for closing out and capping the existing landfill." On October 1, 1996, Article 12 was amended to add \$2,127,086. On December 15, 1998, Article 12 was amended again to add an additional \$900,000. Finally on April 15, 1999, Article 12 was amended for the last time, adding \$388,000. The Town added a \$ 74,430 State grant and a \$ 60,000 contribution from the Conservation Commission to the project bringing the total approved under Article 12 including all amendments was \$6,549,516.

Landfill contracts were reviewed and projected costs were compared to actual results. Change orders were also reviewed for proper approval.

### **B. Review of Landfill Expenditures**

All bond proceeds and expenditures incurred by the landfill capping project were recorded in general ledger fund 36. We reviewed the general ledger detail by account in fund 36, and traced expenditures to individual invoices. Each invoice was then examined for a description of goods and/or services provided, the project that they were provided for, approval for payment, warrant number, and finally the date and check number. Additionally, we verified whether the expenditure was posted to the correct capital projects fund.

Of the \$5,829,549 recorded as landfill expenditures, \$5,723,035 have proper documentation supporting the fact that the costs were incurred capping the landfill. \$78,023 of expenditures appear to relate to the construction of the golf course (see appendix A). The remaining \$28,491 of expenditures may be landfill related, but are questionable as to whether they should have been funded by the landfill capital projects fund, the golf course capital projects fund, or the general fund as operating costs (see appendix B). These expenditures include items such as the inventory of rare species study conducted by Oxbow Associates totaling \$5,250. As of the date of this report, we have not been provided with sufficient documentation to determine whether or not the expenditures are properly classified.

In addition, during our review of the golf course expenditures, we discovered \$114,833 (appendix C) recorded as golf course construction costs; however, upon review of supporting documentation, these expenditures were actually landfill capping costs (see findings of Golf Course Capital Project).

### **C. Project Accounting**

At the inception of the landfill capping project, a separate general ledger fund (fund 36) was established to account for all incoming funds and outgoing expenditures, and for comparison of budgeted amounts versus actual costs. This is common practice and a useful accounting tool. When the golf course capital project was approved and funding began, the same general ledger fund was used, with different account numbers used for budgeting purposes. However, as project line items became over-expended, action was not taken to mitigate the necessary funding deficiencies. Instead, surplus balances from one project were used to cover deficiencies in other line items.

Since no project monitoring process was in place, funds for the landfill and golf course projects were commingled, and some of the bond proceeds approved for the landfill project were used for construction of the golf course, which may be a violation of the Warrant Articles and Bond Agreements.

Without a project monitoring process in place, Article 12 was unnecessarily amended a fourth time in April of 1999 causing an additional \$388,000 of debt to be incurred.

### **D. Conclusion**

For the purposes of this report, we are going to allocate the \$28,491 of costs (detailed in appendix B) with inconclusive documentation as legitimate landfill capping costs. Therefore, we believe the total cost of capping the landfill was \$5,866,359. Total approved appropriations were \$6,549,516, leaving a remaining balance of \$ 683,157 (appendix D). However, these funds are not available because, in violation of statute, they were used to fund the construction of the municipal golf course.

## **II. Golf Course Capital Project**

### **A. Review Feasibility of Construction Costs**

The original estimated cost (in 1996) to construct a golf course on the landfill site was \$2,200,000. In 1999, this estimate was increased to \$2,975,000, and included a small (600 square feet) pro shop and a maintenance building to house equipment such as mowers and aerators. The capital costs were broken down into three segments: Construction (\$2,500,000), Engineering and Contingency (\$375,000) and Golf Carts (\$100,000). These estimates appear reasonable when compared to actual golf course projects completed within the past 10 to 12 years. Bids accepted by the Town fell within the appropriated costs. However, none of the contracts we reviewed addressed the pro shop construction.

### **B. Review of Original Warrant Articles and Contracts**

Original Warrant Articles appropriating funds for the golf course capital project and authorizing the borrowing of funds under Massachusetts General Laws Chapter 44 Section 8(16) were reviewed. All of the warrant articles and bond authorizations were approved by Town Meeting.

Article 13 was originally approved on October 1, 1996 authorizing the sum of \$2,200,000 "for planning and constructing a municipal golf course and other recreational facilities." On April 15, 1999, Article 13 was amended to add \$775,000. On April 11, 2002, Article 13 was amended again to add an additional \$219,120. The total approved under Article 13, including all amendments, was \$3,194,120.

Golf course construction contracts were reviewed and projected costs were compared to actual results. Change orders were also reviewed for proper approval.

### **C. Review of Golf Course Construction Expenditures**

All bond proceeds and expenditures incurred by the golf course project were recorded in general ledger fund 36. We reviewed the general ledger detail by account in fund 36, and traced expenditures to individual invoices. Each invoice was then examined for a description of goods and/or services provided, the project that they were provided for, approval for payment, warrant number, and finally the date and check number. Additionally, we verified whether the expenditure was posted to the correct capital projects fund.

Of the \$3,663,635 recorded as golf course construction costs, \$3,538,601 have proper documentation supporting the fact that the costs were incurred building the golf course. \$114,833 of expenditures appear to relate to the capping of the landfill. The remaining \$10,201 of expenditures may be golf course related, but are questionable as to whether they should have been funded by the golf course capital projects fund or the golf course enterprise fund (see appendix E). As of the date of this report, we have not been provided with sufficient documentation to determine whether or not the expenditures are properly classified.

During our review of the landfill capping expenditures, we discovered \$78,023 recorded as landfill capping costs, however, upon review of supporting documentation, the expenditures were actually golf course construction costs (see findings of Landfill Capital Project).

#### **D. Project Accounting**

At the inception of the golf course capital project, a separate general ledger fund was not established to account for all incoming funds and outgoing expenditures, and for comparison of budgeted amounts versus actual costs. As mentioned in the findings of the landfill capital project section of this report, the golf course project was accounted for in the same general ledger fund as the landfill capping project. However, as project line items became over-expended, action was not taken to mitigate the necessary funding deficiencies. Instead, surplus balances from one project were used to cover deficiencies in other line items. In addition, the Town did not use the encumbrance feature of the accounting system to encumber contracts and amendments issued. This would have highlighted over-expenditures much earlier in the project.

Since no project monitoring process was in place, funds for the landfill and golf course projects were commingled, and some of the bond proceeds approved for the landfill project were used for construction of the golf course, which may be a violation of the Warrant Articles and Bond Agreements.

#### **E. Conclusion**

For the purposes of this report, we are going to allocate the \$10,201 (detailed in appendix E) with inconclusive documentation as legitimate golf course construction costs. There is also an additional \$43,748 water bill for water provided during the grow-in period that needs to be paid by the golf course capital projects fund. Therefore, we believe the total cost to date of constructing the golf course is \$3,670,573. Total approved appropriations were \$3,194,120, resulting in a project deficit to date of (\$476,453) (see appendix F). Additionally, we have noted that the pro shop and maintenance building still need to be constructed.

Funds were available to cover this deficit because proceeds from the landfill capping and golf course construction projects were commingled, and appropriate budget versus actual monitoring was not performed. There was no clerk of the works for the project, and no process to monitor the costs of the project. According to the minutes of the January 22, 2001 meeting of the Board of Selectmen, the Assistant Town Administrator indicated "the course was on schedule and within the funding provided." However, by that point in time, the golf course was already more than \$200,000 over budget.

### III. Golf Course Enterprise Fund

#### A. Review of Grow-in Period Costs

The final phase of the construction of a golf course is referred to as the grow-in period. The grow-in period takes a rough golf course and prepares it for play. Typical projects of the grow-in period would be initial seeding of the course; shrubbery planting; watering and fertilizing of fairways, greens and shrubbery; irrigation and drainage upgrades; erosion repair; erecting markers and barricades; second seeding; etc.

The Town of Natick entered into a management contract with Sterling Golf Management, Inc. to manage the Natick Municipal Golf Course from January 1, 2001 through December 31, 2003. The contract anticipated a grow-in period of six to seven-and-one-half months; with the course ready for public access play sometime between July 1, 2001 and August 15, 2001. According to the contract, Sterling Golf Management, Inc. was to be paid \$125,000 to manage the course during the grow-in period, and oversee the projects associated with it. Beginning in January 2001, the Town paid Sterling monthly in accordance with the contract. All management fees paid to Sterling prior to the course opening were recorded as golf course capital project costs, and were not booked in the Golf Course Enterprise Fund. In our opinion, the treatment of these costs is consistent with normal golf course industry practice.

In addition to the management fees, all other costs associated with the grow-in period should be allocated to the Golf Course Capital Project Fund. These costs include, but are not limited to, utilities, land lease costs, and environmental monitoring.

#### B. Conclusion

Fees paid to Sterling Golf Management, Inc. were consistent with the contract agreement executed by Town of Natick on December 19, 2000. Fees paid prior to the course opening were correctly booked to the Golf Course Capital Project Fund, as is industry practice. Utility bills incurred during the grow-in period, such as the water bill referred to in the Golf Course Capital Project section of this report, should be allocated to the Golf Course Capital Project Fund.

## IV. Town of Natick Golf Facility Study

### A. Review of Town of Natick Golf Facility Study

In March 1996, Golf Resource Associates submitted a golf facility study to the Town of Natick to help determine the feasibility of constructing a nine-hole municipal golf course on the landfill site located in the towns of Natick and Sherborn. The study consisted of *Golf Market Evaluation* that provided an evaluation of the probable public golf market within the market area, and a *Facility Operating Estimate* that used the findings of probable market opportunity to prepare a fee schedule and operating costs estimate. The study concluded that the course "could accommodate approximately 30,600 nine and 18-hole rounds of play during its first full year of operations." It is further estimated that the facility could reach operational stabilization--in terms of annual rounds of play accommodated--in the fourth year of operation at approximately 36,000 nine and eighteen-hole rounds." Revenue projections were based on these numbers.

In August 2001, John LaPoint, senior consultant for the 1996 Golf Resource Associates' initial facility study, presented an updated study to the Town. His update concluded that the course could accommodate 29,750 rounds in year one, and 35,000 rounds by year four.

In our opinion, the estimated number of rounds was significantly overstated; relying heavily on golf participation studies, demographics, growth trends, potential demands and *estimated* annual golf rounds of nearby facilities, rather than on actual numbers of rounds of play sold. The Golf Resource Associates study indicated the Fresh Pond Golf Course (nine-holes) in Cambridge sells 50,000 rounds per year. Golfcourse.com lists the actual number of annual rounds at approximately 30,000. With new courses opening each year, competition has increased, and the average number of rounds sold each year since 1997 has decreased. In our experience with 14 golf courses from Cape Cod to Portland, Maine, this trend has been across the board. An 18-hole course in this region now considers 35,000 annual rounds a successful year. One nine-hole course we work with has seen play drop from a high in 1997 of 25,800 rounds to 21,000 rounds in 2002.

The revenue and expense projections in Mr. LaPoint's studies are based upon the number of rounds the course could accommodate. This number is much larger than a basic nine-hole municipal golf course can expect. As mentioned above, the Fresh Pond Golf Course (a Donald Ross design) in Cambridge sells approximately 30,000 rounds per year. First year revenue projections for the Natick municipal course were based upon 29,750 rounds, and totaled \$725,397 (or \$24.38 per round). With a management contract and land lease totaling \$475,000 per year, and debt service of approximately \$300,000, the golf course needs to sell almost 31,800 rounds per year just to cover these three costs. The course has yet to sell 25,000 rounds per year.

## **B. Conclusion**

The revenue projections relied upon by the Town when deciding to construct a golf course were overly optimistic and based upon market potential rather than actual results of comparable golf courses. With the current debt commitment, lease agreement, and management contract, it is very unlikely that the Natick municipal golf course will operate at the profit the facility study projected.

## V. Recommended Actions

As a result of our work we have developed the following recommended actions:

### A. Inform the Department of Revenue

As outlined in this report, the Town has a \$ 476,453 deficit in the golf course capital project. Fund deficits are required to be reported to the Department of Revenue (DOR) at year-end, and we understand that this deficit has not been communicated. We recommend that the Town notify the DOR. We also recommend that the Town be aware of the DOR's practice of reducing a community's "certified free cash" by deficits.

### B. Inform Bond Counsel

We recommend that the Town notify Bond Counsel to identify actions, if any, needed to remedy the use of landfill proceeds for golf course construction.

### C. Improve Monitoring of Appropriation Reports

As outlined in this report, the Town combined the landfill and golf course construction projects into one general ledger fund. However, accounts or line items of the two projects exist in the ledger. A detailed review of the Town's ledger indicates that the golf course construction project is overexpended, even prior to any adjustments proposed by this report.

We recommend that the Town improve the monitoring of its appropriation (budget vs. actual) reports and consider establishing separate funds for each Town Meeting authorization.