



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE

January 7, 2011

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the Honey Creek Resort Operations Account maintained by Central Group Management, LLC for the year ended June 30, 2010. The financial statements related to the operations of Honey Creek Resort are included as a part of an enterprise fund in the State of Iowa Comprehensive Annual Financial Report.

Honey Creek Resort reported operating revenues of \$5,717,126 for the year ended June 30, 2010, which included \$2,908,205 from lodging, \$2,017,879 from restaurant operations and \$591,774 from golf course operations. Operating expenses for Honey Creek Resort for the year totaled \$5,763,337, and included \$692,767 for lodging, \$1,793,540 for restaurant operations and \$662,291 for golf course operations. Honey Creek Resort reported an operating loss of \$46,211 for the year ended June 30, 2010.

A copy of the audit report is available for review in the Iowa Department of Natural Resources, in the Office of Auditor of State and on the Auditor of State's website at <http://auditor.iowa.gov/reports/1160-5420-BC01.pdf>.

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**HONEY CREEK RESORT OPERATIONS ACCOUNT
MANAGED BY
CENTRAL GROUP MANAGEMENT, LLC**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2010

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Honey Creek Resort

Officials

Name

Title

State

Honorable Chester J. Culver
Honorable Michael L. Fitzgerald
Richard C. Oshlo, Jr.
Glen P. Dickinson

Governor
Treasurer of State
Director, Department of Management
Director, Legislative Services Agency

Central Group Management, LLC

Roberts H. Pace, Jr.
Linda Caird

President - CEO
Vice President Finance

Iowa Department of Natural Resources

Patricia Boddy

Interim Director

Honey Creek Resort Operations Account



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Independent Auditor's Report

To the Board Members of the
Natural Resource Commission:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the Operations Account of Honey Creek Resort, Moravia, Iowa as of and for the year ended June 30, 2010. These financial statements are the responsibility of Honey Creek Resort and Central Group Management, LLC as its operations manager. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Honey Creek Resort Operations Account as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Honey Creek Resort Operations Account financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information included in Schedules 1 and 2 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 29, 2010

Honey Creek Resort Operations Account

Basic Financial Statements

Exhibit A

Honey Creek Resort Operations Account

Statement of Net Assets (Deficit)

June 30, 2010

Assets

Current assets:

Cash, cash equivalents and investments	\$ 176,391
Accounts receivable	95,636
Inventory	129,586
Prepaid expenses	112,354
Total current assets	<u>513,967</u>

Liabilities

Current liabilities:

Accounts payable	346,847
Salaries payable	149,033
Unearned revenue	572,973
Accrued interest payable	125,624
Total current liabilities	<u>1,194,477</u>

Net Assets (Deficit)

Unrestricted	<u><u>\$ (680,510)</u></u>
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See notes to financial statements.

Honey Creek Resort Operations Account

Statement of Revenues, Expenses and Changes in Net Assets (Deficit)

Year ended June 30, 2010

Operating revenues:	
Lodging	\$ 2,908,205
Food and beverage	2,017,879
Golf course	591,774
Waterpark	139,718
Gift shop	59,550
Total operating revenues	<u>5,717,126</u>
Operating expenses:	
Lodging	692,767
Food and beverage	1,793,540
Golf course	662,291
Waterpark	227,223
Gift shop	56,386
General and administrative	1,391,733
Sales and marketing	659,900
Property operation/maintenance	279,497
Total operating expenses	<u>5,763,337</u>
Operating loss	(46,211)
Nonoperating expenses:	
Interest expense	<u>(1,506,816)</u>
Loss before capital contributions	(1,553,027)
Capital contributions from the Iowa Department of Natural Resources	<u>1,628,522</u>
Change in net assets	75,495
Net assets (deficit) beginning of year	<u>(756,005)</u>
Net assets (deficit) end of year	<u>\$ (680,510)</u>

See notes to financial statements.

Exhibit C

Honey Creek Resort Operations Account

Statement of Cash Flows

Year ended June 30, 2010

Cash flows from operating activities:		
Guest receipts	\$ 5,570,897	
Other receipts	78,872	
Payroll disbursements	(2,639,665)	
Other operating disbursements	<u>(3,120,674)</u>	
Net cash used by operating activities		\$ (110,570)
Cash flows from financing activities:		
Capital contributions from the Iowa Department of Natural Resources		<u>121,037</u>
Net increase in cash and cash equivalents		10,467
Cash and cash equivalents beginning of period		<u>165,924</u>
Cash and cash equivalents end of period		<u><u>\$ 176,391</u></u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss		\$ (46,211)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Changes in assets and liabilities:		
Increase in accounts receivable	\$ (19,109)	
Increase in inventory	(654)	
Increase in prepaid expenses	(3,409)	
Decrease in accounts payable	(22,687)	
Increase in salaries payable	29,748	
Decrease in unearned revenue	<u>(48,248)</u>	
Total adjustments		<u>(64,359)</u>
Net cash used by operating activities		<u><u>\$ (110,570)</u></u>
Noncash financing activities:		
Interest expense paid by the Iowa Department of Natural Resources		<u><u>\$ 1,507,485</u></u>

See notes to financial statements.

Honey Creek Resort Operations Account

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Iowa Department of Natural Resources (DNR) began construction of Honey Creek Resort (Resort) during fiscal year 2006. On January 28, 2008, DNR contracted with Central Group Management, LLC to manage Honey Creek Resort. On September 18, 2008, Honey Creek Resort opened to the general public as a destination resort. The Resort consists of an 850-acre park which features a great lodge/hotel, conference center, restaurant, indoor water park, cottages and 18-hole golf course on the shores of Rathbun Lake. Other amenities include a boat ramp and 40-slip boat dock, multi-purpose trail system, picnic shelter, RV campground and natural playground for children.

Central Group Management, LLC (CGM) is a limited liability corporation located in St. Cloud, Minnesota. CGM provides hospitality management and development services to its clients. These services include recruiting, training and hiring resort staff, management of food and beverage services, golf course management, water park management, conferences and guest services, including reservations, lodging and housekeeping. In addition, CGM handles all day to day administration and maintenance of the resort facilities. CGM is also responsible for preparing the financial statements related to the operations of Honey Creek Resort.

These financial statements include only the Operations Account of the Resort, over which Central Group Management, LLC has discretionary control to use in carrying out the operations of Honey Creek Resort in accordance with the limitations of its charter, bylaws and contract with DNR.

Accordingly, these financial statements do not include capital assets and related depreciation expense. Also, the financial statements do not include the revenue bonds issued by the Honey Creek Premier Destination Park Authority (Honey Creek Authority). However, the financial statements do include the interest expense related to the revenue bonds.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when a liability is incurred.

C. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the basic financial statements:

Cash, Cash Equivalents and Investments – The cash balance of the Resort consists of deposits in various bank accounts established by CGM for the Resort. All accounts are held under the name of the Iowa Department of Natural Resources. The Resort maintains no investments outside of these bank accounts.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Inventory – Inventory is valued at cost which approximates market. The first-in/first-out (FIFO) cost flow method is used. Inventory consists of items purchased and held for resale or used in the preparation of food and beverages. The cost is recorded as inventory at the time individual inventory items are purchased. The inventory balance is adjusted monthly based on the perpetual inventory system and physical counts performed at month end to correlate with the consumption method.

Unearned Revenue – The Resort requires a deposit be paid at the time a reservation is made or a conference room is reserved. These deposits are accounted for as unearned revenue until the services are provided. When the services are provided, revenue is recognized. If an individual cancels at least 14 days prior to the event, the deposit will be returned. Cancellations within 14 days of the event will result in the deposit being forfeited and revenue being recognized unless the event is rebooked for a later time.

The Resort issues gift cards which are loaded with a cash value at the time of purchase. The value of the card is the amount paid by the individual purchasing the card. When a gift card is sold, the collections are reported as unearned revenue. When gift cards are redeemed, the amount redeemed is recognized as revenue.

Accrued Interest Payable – Honey Creek Authority was created to issue revenue bonds to provide financing for the development of Honey Creek Resort. Interest on the revenue bonds is due on June 1 and December 1 and is payable from the pledged net revenues of the Resort.

(2) Cash, Cash Equivalents and Investments

CGM deposits funds received by the Resort in several banks throughout the year. The balances in the various accounts at June 30, 2010 were entirely covered by federal depository insurance at the maximum amount allowed.

(3) Unearned Revenue

Unearned revenue at June 30, 2010 consists of the following:

<u>Type</u>	<u>Amount</u>
Deposits	\$ 433,633
Gift cards	139,340
Total	<u>\$ 572,973</u>

(4) Inventory

Inventory at June 30, 2010 consists of the following:

<u>Type</u>	<u>Amount</u>
Food and beverage	\$ 51,798
Golf pro shop	59,360
Gift shop	15,549
Waterpark	<u>2,879</u>
Total	<u>\$ 129,586</u>

(5) Management Contract

The Department of Natural Resources entered into a contract with Central Group Management, LLC for the operation of the Resort. The contract requires a flat management fee be paid by the Resort for these services through June 2013. In addition, for all fiscal years after 2010, the contract requires an additional management fee of 1% of income before management fees and fixed expenses up to an amount equal to the fixed portion. The management fee will not exceed an amount equal to two times the fixed portion for the fiscal year. During the period ended June 30, 2010, the flat management fee paid or accrued was \$222,000.

(6) Revenue Bonds Payable

The Honey Creek Authority issued Destination Park revenue bonds to provide financing for the development of the Resort by the State of Iowa.

Pursuant to an Indenture of Trust among the Authority, the Department of Natural Resources, the Treasurer of the State of Iowa and Bankers Trust Company, N.A. (the "Trustee"), the State has pledged, as security for the revenue bonds issued by the Authority, amounts sufficient to cover the principal and interest requirements on the Authority's debt consisting of net revenues from the Resort, if any.

Pledged net revenue was not sufficient during the year ended June 30, 2010 to cover the interest expense of \$753,742 due on December 1, 2009 and \$753,742 due on June 1, 2010.

(7) Operating Leases

CGM is the lessee in two operating leases contracted by DNR. CGM is leasing golf cars for The Preserve Golf Course and GPS systems for golf cars. The future minimum rental payments for these leases is as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2011	\$104,291
2012	97,667
2013	97,667
2014	<u>33,136</u>
Total	<u>\$332,761</u>

Rental expense for the year ended June 30, 2010 for all operating leases, except those with terms of a month or less which were not renewed, totaled \$100,505.

(8) Risk Management

CGM has purchased insurance through commercial insurers to cover workers' compensation, motor vehicle fleet, property damage and torts. There were no settlements during the year ended June 30, 2010.

Supplementary Information

Honey Creek Resort Operations Account

Schedule of Operating Revenues and Operating Expenses by Department

Year ended June 30, 2010

	Lodging	Food and Beverage	Golf Course	Water Park
Operating revenues:				
Lodging	\$ 2,829,333	-	-	-
Food and beverage	-	2,017,879	-	-
Golf	-	-	591,774	-
Water park	-	-	-	139,718
Gift shop	-	-	-	-
Other	78,872	-	-	-
Total operating revenues	2,908,205	2,017,879	591,774	139,718
Operating expenses:				
Payroll	570,233	963,168	340,524	169,237
Supplies and maintenance	74,918	81,911	101,793	19,344
Equipment (non-capital)	-	-	110,941	-
Utilities	33,514	7,309	3,578	600
Uniforms and laundry	2,546	38,612	479	676
Cost of goods sold	-	664,174	99,530	37,012
Other professional services	10,858	25,336	-	-
Management fee	-	-	-	-
Travel and meals	-	6,883	1,506	214
Personnel training and human resources	-	965	-	-
License and insurance	-	4,469	799	140
Commissions and bank charges	28	-	-	-
Advertising and promotion	-	-	-	-
Other	670	713	3,141	-
Total operating expenses	692,767	1,793,540	662,291	227,223
Operating income (loss)	\$ 2,215,438	224,339	(70,517)	(87,505)

See accompanying independent auditor's report.

Gift Shop	General and Administrative	Sales and Marketing	Property Operation/ Maintenance	Total
-	-	-	-	2,829,333
-	-	-	-	2,017,879
-	-	-	-	591,774
-	-	-	-	139,718
59,550	-	-	-	59,550
-	-	-	-	78,872
59,550	-	-	-	5,717,126
13,037	193,900	232,903	186,411	2,669,413
418	97,274	26,785	57,074	459,517
-	-	-	3,443	114,384
-	453,880	4,802	2,399	506,082
-	-	-	1,226	43,539
42,931	-	-	-	843,647
-	40,829	-	28,255	105,278
-	222,000	-	-	222,000
-	26,637	23,354	689	59,283
-	35,212	-	-	36,177
-	211,187	-	-	216,595
-	110,814	-	-	110,842
-	-	347,911	-	347,911
-	-	24,145	-	28,669
56,386	1,391,733	659,900	279,497	5,763,337
3,164	(1,391,733)	(659,900)	(279,497)	(46,211)

Schedule 2

Honey Creek Resort Operations Account

Schedule of Operating Revenues and Operating Expenses by Department

For the Last Two Years

	2010	2009
Operating revenues:		
Lodging	\$ 2,829,333	1,314,958
Food and beverage	2,017,879	1,292,423
Golf	591,774	294,941
Water park	139,718	132,954
Gift shop	59,550	40,307
Other	78,872	29,096
	<u>\$ 5,717,126</u>	<u>3,104,679</u>
Operating expenses:		
Payroll	\$ 2,669,413	1,918,921
Supplies and maintenance	459,517	303,469
Equipment (non-capital)	114,384	110,561
Utilities	506,082	280,657
Uniforms and laundry	43,539	48,257
Cost of goods sold	843,647	622,899
Other professional services	105,278	61,331
Management fee	222,000	137,700
Travel and meals	59,283	44,134
Personnel training and human resources	36,177	18,545
License and insurance	216,595	127,310
Commissions and bank charges	110,842	58,407
Advertising and promotion	347,911	227,887
Other	28,669	29,013
	<u>\$ 5,763,337</u>	<u>3,989,091</u>

See accompanying independent auditor's report.

Honey Creek Resort

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Joshua B. Ludwig, CPA, Staff Auditor
Michael R. Field, Staff Auditor
Alicia K. Kane, Auditor Intern

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State

**HONEY CREEK RESORT OPERATIONS ACCOUNT
MANAGED BY
CENTRAL GROUP MANAGEMENT, LLC
INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
U.S. GENERALLY ACCEPTED AUDITING STANDARDS
JUNE 30, 2010**

Honey Creek Resort

Officials

Name

Title

State

Honorable Chester J. Culver

Governor

Honorable Michael L. Fitzgerald

Treasurer of State

Richard C. Oshlo, Jr.

Director, Department of Management

Glen P. Dickinson

Director, Legislative Services Agency

Central Group Management, LLC

Roberts H. Pace, Jr.

President - CEO

Linda Caird

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Interim Director



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Auditor of State

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Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control over
Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with U.S. Generally Accepted Auditing Standards

To the Board Members of the Natural Resource Commission:

We have audited the financial statements of the Operations Account of Honey Creek Resort, Moravia, Iowa as of and for the year ended June 30, 2010 and have issued our report thereon dated November 29, 2010 under separate cover. We conducted our audit in accordance with U.S. generally accepted auditing standards.

In planning and performing our audit, we considered Honey Creek Resort's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Honey Creek Resort's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Honey Creek Resort's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Honey Creek Resort's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings as items (A) and (B), we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Honey Creek Resort's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on Honey Creek Resort's responses, we did not audit Honey Creek Resort's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of Honey Creek Resort and other parties to whom Honey Creek Resort may report, including the Iowa Department of Natural Resources and the officials, employees and citizens of the State of Iowa. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Honey Creek Resort during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 29, 2010

Honey Creek Resort

Schedule of Findings

Year ended June 30, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Payroll – Segregation of Duties - Payroll information is entered by the personnel supervisor at Honey Creek Resort (Resort) for processing by a third party. The personnel supervisor has the ability to create a new employee, create and approve timesheets and process all payments to employees.

Recommendation – To strengthen controls, the Resort should develop and implement procedures to segregate the duties of the personnel supervisor.

Response – Payroll procedures were updated during the past fiscal year, with the addition of Andrew Woodrick as General Manager.

Payroll change forms are signed by the General Manager prior to any changes/additions/terminations being entered into the payroll system. Payroll changes forms are signed and maintained in the employee files.

Department heads review their payroll reports for their area of responsibility each pay period using a labor distribution report detailing all staff members.

The General Manager will review the payroll report for each pay period. All executive team staff payroll changes/additions are approved by the Central Group Management, LLC (CGM) officers.

CGM reviews the new hires and changes reports from the payroll system and tests the system on a quarterly basis.

CGM provides background screening on all new hires, reviews the labor distribution on a monthly basis and audits the employee files for accuracy.

Conclusion – Response accepted.

- (B) Bank Reconciliation – Segregation of Duties - During our review of the internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the financial statements. One individual has access to the accounting systems and also prepares the bank reconciliations with no evidence of an independent review.

Recommendation – Bank reconciliations should be reviewed periodically by an independent person for propriety.

Response – The bank reconciliations will be reviewed on a monthly basis by a Central Group Management LLC staff person who is not entering the revenue and expenses into the accounting system. Bank reconciliations will be initialed.

Conclusion – Response accepted.