



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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Des Moines, Iowa 50319-0004

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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ December 6, 2012

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, 2012. 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 \$5,912,534 for the year ended June 30, 2012, which included \$3,145,980 from lodging, \$1,934,166 from restaurant and banquet operations and \$645,365 from golf course operations. Operating expenses for Honey Creek Resort for the year totaled \$5,720,762, and included \$662,465 for lodging, \$1,585,022 for restaurant and banquet operations and \$713,315 for golf course operations. Honey Creek Resort reported operating income of \$191,772 for the year ended June 30, 2012.

Honey Creek Resort reported deficit net assets of \$403,282 at June 30, 2012. During the year ended June 30, 2012, the Iowa Department of Natural Resources made capital contributions of \$1,492,684 to the Honey Creek Resort Operations Account to pay the interest expense on the Honey Creek Premier Destination Park Authority revenue bonds.

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/1360-5420-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, 2012

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Honey Creek Resort

Officials

Name

Title

State

Honorable Terry E. Branstad
David Roederer
Glen P. Dickinson

Governor
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

Chuck Gipp

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, 2012. 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, 2012, 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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information 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 14, 2012

Honey Creek Resort Operations Account

Basic Financial Statements

Exhibit A

Honey Creek Resort Operations Account

Statement of Net Assets (Deficit)

June 30, 2012

Assets

Current assets:

Cash, cash equivalents and investments	\$ 277,343
Accounts receivable	140,309
Inventory	160,413
Prepaid expenses	134,621
Total current assets	<u>712,686</u>

Liabilities

Current liabilities:

Accounts payable	263,316
Salaries payable	154,610
Unearned revenue	575,269
Accrued interest payable	122,773
Total current liabilities	<u>1,115,968</u>

Net Assets (Deficit)

Unrestricted	<u>\$ (403,282)</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, 2012

Operating revenues:	
Lodging	\$ 3,145,980
Food and beverage	1,934,166
Golf course	645,365
Water park	108,281
Gift shop	78,742
Total operating revenues	<u>5,912,534</u>
Operating expenses:	
Lodging	662,465
Food and beverage	1,585,022
Golf course	713,315
Water park	197,594
Gift shop	66,850
General and administrative	1,473,327
Sales and marketing	680,167
Property operation/maintenance	342,022
Total operating expenses	<u>5,720,762</u>
Operating income	191,772
Nonoperating expenses:	
Interest expense	<u>(1,491,067)</u>
Loss before capital contributions	(1,299,295)
Capital contributions from the Iowa Department of Natural Resources	<u>1,492,684</u>
Change in net assets (deficit)	193,389
Net assets (deficit) beginning of year	<u>(596,671)</u>
Net assets (deficit) end of year	<u>\$ (403,282)</u>

See notes to financial statements.

Exhibit C

Honey Creek Resort Operations Account

Statement of Cash Flows

Year ended June 30, 2012

Cash flows from operating activities:		
Guest receipts	\$ 5,820,807	
Other receipts	121,796	
Payroll disbursements	(2,653,701)	
Other operating disbursements	<u>(3,212,373)</u>	
Net cash provided by operating activities		\$ 76,529
Cash and cash equivalents beginning of year		<u>200,814</u>
Cash and cash equivalents end of year		<u>\$ 277,343</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income		\$ 191,772
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Increase in accounts receivable	\$ (37,751)	
Decrease in inventory	9,402	
Increase in prepaid expenses	(12,976)	
Decrease in accounts payable	(147,710)	
Increase in salaries payable	5,972	
Increase in unearned revenue	<u>67,820</u>	
Total adjustments		<u>(115,243)</u>
Net cash provided by operating activities		<u>\$ 76,529</u>
Noncash financing activities:		
Interest expense paid by the Iowa Department of Natural Resources		<u>\$ 1,492,684</u>

See notes to financial statements.

Honey Creek Resort Operations Account

Notes to Financial Statements

June 30, 2012

(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 the Resort. On September 18, 2008, the 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 the Resort.

These financial statements include only the Operations Account of the Resort, over which CGM has discretionary control to use in carrying out the operations of the 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 DNR. 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 is returned. Cancellations within 14 days of the event 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 authorized to issue revenue bonds to provide financing for the development of the 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 bank accounts at June 30, 2012 were entirely covered by federal depository insurance at the maximum amount allowed.

(3) Unearned Revenue

Unearned revenue at June 30, 2012 consists of the following:

Type	Amount
Deposits	\$ 408,326
Gift cards	166,943
Total	<u>\$ 575,269</u>

(4) Inventory

Inventory at June 30, 2012 consists of the following:

Type	Amount
Food and beverage	\$ 45,614
Golf pro shop	57,530
Gift shop	35,888
Waterpark	3,021
Miscellaneous lodging supplies	18,360
Total	<u>\$ 160,413</u>

(5) Management Contract

DNR entered into a contract with CGM for 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, 2012, the flat management fee paid or accrued was \$207,036 and the additional management fee accrued was \$6,965.

(6) Asset Management Contract

On July 22, 2010, the Natural Resource Commission approved a one-year contract between the Iowa Department of Natural Resources and Capital Hotel Management, LLC for the purpose of performing the duties of an Asset Manager for the Resort. The Asset Manager is to manage the Resort in a manner that will control expenses, maximize revenues and help the Department ensure the Resort fulfills its mission of providing quality outdoor experiences in a resort setting. The asset management fee of \$99,950 for fiscal year 2011 was funded by state appropriation. The contract contained an option to extend the contract for up to six additional years.

On June 9, 2011, the Natural Resource Commission exercised its option to extend the contract for an additional year on an incentive basis to be paid from the Operations Account. Payment for the contract consisted of a base fee of \$75,600 and a variable fee of \$64,336, not to exceed \$139,936 for fiscal year 2012. During the year ended June 30, 2012, the Resort paid the base fee of \$75,600. Capital Hotel Management was not eligible for the variable fee.

On June 14, 2012, the Natural Resource Commission approved a two-year extension to the contract through June 30, 2014. The extended contract is also to be funded out of the Operations Account of the Resort. The extended contract includes a base fee of \$85,230 and \$87,787 for fiscal years 2013 and 2014, respectively, and a variable fee of up to \$60,027 for each of the two fiscal years.

(7) Revenue Bonds Payable

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

Pursuant to an Indenture of Trust among the Honey Creek Authority, DNR, 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 Honey Creek Authority, net revenues from the Resort, if any, sufficient to cover the principal and interest requirements on the Honey Creek Authority's debt.

Pledged net revenues were not sufficient during the year ended June 30, 2012 to cover the interest of \$746,342 due on December 1, 2011 and \$746,342 due on June 1, 2012. The interest was paid by DNR.

(8) Operating Leases

CGM is the lessee in three operating leases contracted by DNR. CGM is leasing golf cars 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>
2013	\$ 101,452
2014	<u>33,136</u>
Total	<u>\$ 134,588</u>

Rental expense for the year ended June 30, 2012 for all operating leases, except those with terms of a month or less which were not renewed, totaled \$104,290.

(9) Risk Management

CGM has purchased insurance through commercial insurers to cover workers' compensation, motor vehicle fleet, general liability, property damage and torts. There were no settlements during the year ended June 30, 2012.

Supplementary Information

Honey Creek Resort Operations Account
Schedule of Operating Revenues and Operating Expenses by Department
Year ended June 30, 2012

	Lodging	Food and Beverage	Golf Course	Water Park	Gift Shop
Operating revenues:					
Lodging	\$ 3,024,184	-	-	-	-
Food and beverage	-	1,934,166	-	-	-
Golf	-	-	645,365	-	-
Water park	-	-	-	108,281	-
Gift shop	-	-	-	-	78,742
Other	121,796	-	-	-	-
Total operating revenues	3,145,980	1,934,166	645,365	108,281	78,742
Operating expenses:					
Payroll	556,034	801,023	341,490	157,088	12,058
Supplies and maintenance	57,260	66,100	127,586	8,353	475
Equipment (non-capital)	-	-	107,788	684	-
Utilities	34,495	1,400	3,638	600	-
Uniforms and laundry	7,483	49,164	984	2,973	-
Cost of goods sold	-	638,864	126,934	26,518	54,292
Other professional services	4,998	21,434	-	-	-
Management fees	-	-	-	-	-
Travel and meals	-	843	1,877	518	-
Personnel training and human resources	-	188	-	-	-
License and insurance	-	4,570	610	860	-
Commissions and bank charges	2,195	-	-	-	-
Advertising and promotion	-	-	-	-	-
Other	-	1,436	2,408	-	25
Total operating expenses	662,465	1,585,022	713,315	197,594	66,850
Operating income (loss)	\$ 2,483,515	349,144	(67,950)	(89,313)	11,892

See accompanying independent auditor's report.

General and Administrative	Sales and Marketing	Property Operation/ Maintenance	Total
-	-	-	3,024,184
-	-	-	1,934,166
-	-	-	645,365
-	-	-	108,281
-	-	-	78,742
-	-	-	121,796
-	-	-	5,912,534
234,331	340,655	216,994	2,659,673
60,795	9,268	78,622	408,459
-	-	15,965	124,437
468,442	4,501	-	513,076
-	-	895	61,499
-	-	-	846,608
42,683	-	26,831	95,946
289,601	-	-	289,601
26,463	25,771	1,958	57,430
12,676	-	-	12,864
216,136	-	-	222,176
116,634	-	-	118,829
-	277,640	-	277,640
5,566	22,332	757	32,524
1,473,327	680,167	342,022	5,720,762
(1,473,327)	(680,167)	(342,022)	191,772

Schedule 2

Honey Creek Resort Operations Account

Schedule of Operating Revenues and Operating Expenses by Department

For the Last Four Years

	2012	2011	2010	2009
Operating revenues:				
Lodging	\$ 3,024,184	2,913,335	2,829,333	1,314,958
Food and beverage	1,934,166	1,799,101	2,017,879	1,292,423
Golf	645,365	584,898	591,774	294,941
Water park	108,281	120,682	139,718	132,954
Gift shop	78,742	59,588	59,550	40,307
Other	121,796	69,753	78,872	29,096
Total operating revenues	\$ 5,912,534	5,547,357	5,717,126	3,104,679
Operating expenses:				
Payroll	\$ 2,659,673	2,566,427	2,669,413	1,918,921
Supplies and maintenance	408,459	426,596	459,517	303,469
Equipment (non-capital)	124,437	119,188	114,384	110,561
Utilities	513,076	534,367	506,082	280,657
Uniforms and laundry	61,499	43,014	43,539	48,257
Cost of goods sold	846,608	780,294	843,647	622,899
Other professional services	95,946	103,226	105,278	61,331
Management fees	289,601	226,147	222,000	137,700
Travel and meals	57,430	53,768	59,283	44,134
Personnel training and human resources	12,864	23,046	36,177	18,545
License and insurance	222,176	208,436	216,595	127,310
Commissions and bank charges	118,829	115,516	110,842	58,407
Advertising and promotion	277,640	318,821	347,911	227,887
Other	32,524	24,281	28,669	29,013
Total operating expenses	\$ 5,720,762	5,543,127	5,763,337	3,989,091

See accompanying independent auditor's report.

Honey Creek Resort

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
James R. Wittenwyler, Senior Auditor
Brett A. Hoffman, Staff Auditor
Adam B. Bartz, Assistant Auditor
Thomas S. Hebert, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State