



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

December 18, 2013

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the Honey Creek Resort Operations Account maintained by Central Group Management, LLC for the year ended June 30, 2013. 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's Comprehensive Annual Financial Report.

Honey Creek Resort reported operating revenues of \$6,066,364 for the year ended June 30, 2013, which included \$3,335,090 from lodging, \$1,924,877 from restaurant and banquet operations and \$623,080 from golf course operations. Operating expenses for Honey Creek Resort for the year totaled \$5,830,398, and included \$708,006 for lodging, \$1,620,941 for restaurant and banquet operations and \$666,183 for golf course operations. Honey Creek Resort reported operating income of \$235,966 for the year ended June 30, 2013.

Honey Creek Resort reported a deficit net position of \$165,433 at June 30, 2013. During the year ended June 30, 2013, the Iowa Department of Natural Resources made capital contributions of \$1,473,285 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/1460-5420-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, 2013

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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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Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report

To the Board Members of the
Natural Resource Commission:

Report on the Financial Statements

We have audited the accompanying basic financial statements, listed as exhibits in the table of contents of this report, of the Honey Creek Resort Operations Account as of and for the year ended June 30, 2013, and the related Notes to Financial Statements.

Management's Responsibility for the Financial Statements

Honey Creek Resort and Central Group Management, LLC, as its operations manager, is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Honey Creek Resort's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Honey Creek Resort's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013, and the respective changes in financial position and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Honey Creek Resort Operations Account basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2012 (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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic 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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 2, 2013

Basic Financial Statements

Exhibit A

Honey Creek Resort Operations Account

Statement of Net Position

June 30, 2013

Assets	
Current assets:	
Cash, cash equivalents and investments	\$ 489,910
Accounts receivable	130,532
Inventory	179,151
Prepaid expenses	203,299
Total current assets	<u>1,002,892</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>24,279</u>
Total assets	<u><u>1,027,171</u></u>
Liabilities	
Current liabilities:	
Accounts payable	297,459
Salaries payable	153,348
Unearned revenue	620,907
Accrued interest payable	120,890
Total current liabilities	<u>1,192,604</u>
Net Position	
Net investment in capital assets	24,279
Unrestricted	(189,712)
Total net position	<u><u>\$ (165,433)</u></u>

See notes to financial statements.

Honey Creek Resort Operations Account

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2013

Operating revenues:	
Lodging	\$ 3,335,090
Food and beverage	1,924,877
Golf course	623,080
Water park	121,133
Gift shop	62,184
Total operating revenues	<u>6,066,364</u>
Operating expenses:	
Lodging	708,006
Food and beverage	1,620,941
Golf course	666,183
Water park	199,521
Gift shop	49,960
General and administrative	1,535,643
Sales and marketing	653,831
Property operation/maintenance	396,313
Total operating expenses	<u>5,830,398</u>
Operating income	235,966
Nonoperating expenses:	
Interest expense	<u>(1,471,402)</u>
Loss before capital contributions	(1,235,436)
Capital contributions from the Iowa Department of Natural Resources	<u>1,473,285</u>
Change in net position	237,849
Net position beginning of year	<u>(403,282)</u>
Net position end of year	<u>\$ (165,433)</u>

See notes to financial statements.

Exhibit C

Honey Creek Resort Operations Account

Statement of Cash Flows

Year ended June 30, 2013

Cash flows from operating activities:		
Guest receipts	\$ 5,947,139	
Other receipts	174,640	
Payroll disbursements	(2,741,773)	
Other operating disbursements	(3,142,476)	
Net cash provided by operating activities		\$ 237,530
Cash flows from capital and related financing activities:		
Purchase of capital assets		(24,963)
Net increase in cash and cash equivalents		212,567
Cash and cash equivalents beginning of year		277,343
Cash and cash equivalents end of year		\$ 489,910
Reconciliation of operating income to net cash provided by operating activities:		
Operating income		\$ 235,966
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	\$ 684	
Changes in assets and liabilities:		
Decrease in accounts receivable	9,777	
Increase in inventory	(18,738)	
Increase in prepaid expenses	(68,678)	
Increase in accounts payable	34,143	
Decrease in salaries payable	(1,262)	
Increase in unearned revenue	45,638	
Total adjustments		1,564
Net cash provided by operating activities		\$ 237,530
Noncash financing activities:		
Interest expense paid by the Iowa Department of Natural Resources		\$ 1,473,285

See notes to financial statements.

Honey Creek Resort Operations Account

Notes to Financial Statements

June 30, 2013

(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 an 18-hole golf course on the shores of Rathbun Lake. Other amenities include a boat ramp and a 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. 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.

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

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.

Capital Assets – Only capital assets acquired by the Operations Account are included in these financial statements. Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Resort as assets with initial, individual costs in excess of \$5,000 and an estimated useful life in excess of two years. Depreciation is computed for equipment using the straight-line method over 5 – 20 years.

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 also 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 – The Honey Creek Premier Destination Park 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, 2013 were entirely covered by federal depository insurance at the maximum amount allowed.

(3) Unearned Revenue

Unearned revenue at June 30, 2013 consists of the following:

Type	Amount
Deposits	\$ 431,377
Unredeemed gift cards	189,530
Total	<u>\$ 620,907</u>

(4) Inventory

Inventory at June 30, 2013 consists of the following:

Type	Amount
Food and beverage	\$ 49,973
Golf pro shop	75,001
Gift shop	29,389
Waterpark	3,431
Miscellaneous lodging supplies	21,357
Total	<u>\$ 179,151</u>

(5) Capital Assets

A summary of capital assets acquired by the Operations Account for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets:				
Equipment	\$ -	24,963	-	24,963
Less accumulated depreciation for:				
Equipment	-	684	-	684
Capital assets, net	<u>\$ -</u>	<u>24,279</u>	<u>-</u>	<u>24,279</u>

6) 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, 2013, the flat management fee paid or accrued was \$217,987 and the additional management fee accrued was \$7,806.

(7) 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 a 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 a total of \$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 to receive 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 from 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. During the year ended June 30, 2013, the Resort paid the base fee of \$85,230. Capital Hotel Management was not eligible to receive the variable fee.

(8) Revenue Bonds Payable

The Honey Creek Premier Destination Park Authority (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 Authority, DNR, the Treasurer of the State of Iowa and Bankers Trust Company, N.A. (the "Trustee"), the State has pledged net revenues from the Resort, if any, sufficient to cover the principal and interest requirements on the Authority's debt as security for the revenue bonds issued by the Authority.

Pledged net revenues were not sufficient during the year ended June 30, 2013 to cover the interest of \$736,642 due on December 1, 2012 and \$736,643 due on June 1, 2013. The interest was paid by DNR.

(9) 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>
2014	\$ 123,022
2015	89,922
2016	89,922
2017	89,922
2018	41,861
Total	<u>\$ 434,649</u>

Rental expense for the year ended June 30, 2013 for all operating leases, except those with terms of a month or less which were not renewed, totaled \$99,804.

(10) 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, 2013. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Subsequent Event

During the 2013 session of the General Assembly of the State of Iowa, the Legislature and the Governor approved House File 648, which established the State Bond Repayment Fund to defease certain outstanding revenue bonds. In November 2013, the outstanding principal of \$31,950,000 of the Honey Creek Premier Destination Park Bonds, Series 2006, was defeased.

Honey Creek Resort Operations Account

Supplementary Information

Honey Creek Resort Operations Account

Schedule of Operating Revenues and Operating Expenses by Department

Year ended June 30, 2013

	Lodging	Food and Beverage	Golf Course	Water Park	Gift Shop
Operating revenues:					
Lodging	\$ 3,160,450	-	-	-	-
Food and beverage	-	1,924,877	-	-	-
Golf	-	-	623,080	-	-
Water park	-	-	-	121,133	-
Gift shop	-	-	-	-	62,184
Other	174,640	-	-	-	-
Total operating revenues	3,335,090	1,924,877	623,080	121,133	62,184
Operating expenses:					
Payroll	581,403	830,925	320,643	157,810	14,440
Supplies and maintenance	51,752	64,253	125,501	9,005	1,116
Equipment (non-capital)	-	-	89,587	1,312	-
Utilities	35,378	895	3,568	617	-
Uniforms and laundry	16,356	42,547	1,241	2,596	-
Cost of goods sold	-	655,346	120,065	26,734	34,353
Other professional services	4,895	19,152	-	-	-
Management fees	-	-	-	-	-
Travel and meals	-	1,796	2,062	655	-
Personnel training and human resources	-	-	-	-	-
License and insurance	-	4,709	1,207	792	-
Commissions and bank charges	18,204	-	-	-	-
Advertising and promotion	-	-	-	-	-
Other	18	1,318	2,309	-	51
Total operating expenses	708,006	1,620,941	666,183	199,521	49,960
Operating income (loss)	\$ 2,627,084	303,936	(43,103)	(78,388)	12,224

See accompanying independent auditor's report.

General and Administrative	Sales and Marketing	Property Operation/ Maintenance	Total
-	-	-	3,160,450
-	-	-	1,924,877
-	-	-	623,080
-	-	-	121,133
-	-	-	62,184
-	-	-	174,640
-	-	-	6,066,364
244,793	362,643	227,854	2,740,511
72,673	11,563	116,026	451,889
-	-	21,991	112,890
461,845	4,279	-	506,582
-	-	631	63,371
-	-	-	836,498
33,365	-	26,994	84,406
311,023	-	-	311,023
28,098	37,544	1,556	71,711
15,812	-	-	15,812
235,304	-	-	242,012
127,336	-	-	145,540
-	220,939	-	220,939
5,394	16,863	1,261	27,214
1,535,643	653,831	396,313	5,830,398
(1,535,643)	(653,831)	(396,313)	235,966

Honey Creek Resort Operations Account

Schedule of Operating Revenues and Operating Expenses by Department

For the Last Five Years

	2013	2012	2011	2010	2009
Operating revenues:					
Lodging	\$ 3,160,450	3,024,184	2,913,335	2,829,333	1,314,958
Food and beverage	1,924,877	1,934,166	1,799,101	2,017,879	1,292,423
Golf	623,080	645,365	584,898	591,774	294,941
Water park	121,133	108,281	120,682	139,718	132,954
Gift shop	62,184	78,742	59,588	59,550	40,307
Other	174,640	121,796	69,753	78,872	29,096
Total operating revenues	\$ 6,066,364	5,912,534	5,547,357	5,717,126	3,104,679
Operating expenses:					
Payroll	\$ 2,740,511	2,659,673	2,566,427	2,669,413	1,918,921
Supplies and maintenance	451,889	408,459	426,596	459,517	303,469
Equipment (non-capital)	112,890	124,437	119,188	114,384	110,561
Utilities	506,582	513,076	534,367	506,082	280,657
Uniforms and laundry	63,371	61,499	43,014	43,539	48,257
Cost of goods sold	836,498	846,608	780,294	843,647	622,899
Other professional services	84,406	95,946	103,226	105,278	61,331
Management fees	311,023	289,601	226,147	222,000	137,700
Travel and meals	71,711	57,430	53,768	59,283	44,134
Personnel training and human resources	15,812	12,864	23,046	36,177	18,545
License and insurance	242,012	222,176	208,436	216,595	127,310
Commissions and bank charges	145,540	118,829	115,516	110,842	58,407
Advertising and promotion	220,939	277,640	318,821	347,911	227,887
Other	27,214	32,524	24,281	28,669	29,013
Total operating expenses	\$ 5,830,398	5,720,762	5,543,127	5,763,337	3,989,091

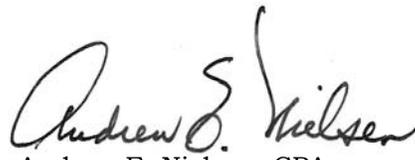
See accompanying independent auditor's report.

Honey Creek Resort

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Andi J. Kaufman, CPA, Staff Auditor
Thomas S. Hebert, Staff Auditor
Ramona E. Daly, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State