OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

Contact: Andy Nielsen
515/281-5834

FOR RELEASE December 10, 2014

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, 2014. 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 $6,095,377 for the year ended June 30, 2014, which included $3,427,574 from lodging, $1,802,133 from restaurant and banquet operations and $697,627 from golf course operations. Operating expenses for Honey Creek Resort for the year ended June 30, 2014 totaled $5,931,447, and included $728,338 for lodging, $1,575,408 for restaurant and banquet operations and $719,279 for golf course operations. Honey Creek Resort reported operating income of $163,930 for the year ended June 30, 2014 and net position of $119,387 at June 30, 2014.

During the year ended June 30, 2014, the outstanding principal of $31,950,000 of the Honey Creek Premier Destination Park Authority revenue bonds was defeased by the State of Iowa.

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/1560-5420-BC01.pdf.

# # #

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

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2014

Table of Contents

Honey Creek Resort

Officials

Name	Title
State	
Honorable Terry E. Branstad	Governor
David Roederer	Director, Department of Management
Glen P. Dickinson	Director, Legislative Services Agency
Central Group Management, LLC	
Roberts H. Pace, Jr.	President - CEO
Linda Caird	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, 2014, 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 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 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, 2014, and the respective changes in its financial position and its 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 five years ended June 30, 2013 (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

MARY MOSIMAN, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 14, 2014

Basic Financial Statements

Honey Creek Resort Operations Account

Statement of Net Position

June 30, 2014

Assets	
Current assets:	
Cash and cash equivalents	$ 427,462
Accounts receivable	238,870
Inventory	179,535
Prepaid expenses	209,687
Total current assets	1,055,554
Noncurrent assets:	
Capital assets, net of accumulated depreciation	161,000
Total assets	1,216,554
Liabilities	
Current liabilities:	
Accounts payable	255,473
Salaries payable	131,381
Unearned revenue	710,313
Total current liabilities	1,097,167
Net Position	
Net investment in capital assets	115,165
Unrestricted	4,222
Total net position	$ 119,387

See notes to financial statements.

Honey Creek Resort Operations Account

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2014

Operating revenues:		
Lodging	$	3,427,574
Food and beverage		1,802,133
Golf course		697,627
Water park		109,428
Gift shop		58,615
Total operating revenues		6,095,377
Operating expenses:		
Lodging		728,338
Food and beverage		1,575,408
Golf course		719,279
Water park		193,382
Gift shop		56,056
General and administrative		1,630,366
Sales and marketing		627,268
Property operation/maintenance		401,350
Total operating expenses		5,931,447
Operating income		163,930
Nonoperating income:		
Interest paid from escrow agent account		120,890
Change in net position		284,820
Net position beginning of year		(165,433)
Net position end of year	$	119,387

See notes to financial statements.

Honey Creek Resort Operations Account

Statement of Cash Flows

Year ended June 30, 2014

Cash flows from operating activities:		
Guest receipts	$ 5,860,211	
Other receipts	216,234	
Payroll disbursements	(3,211,422)	
Other operating disbursements	(2,783,354)	
Net cash provided by operating activities		$ 81,669
Cash flows from capital and related financing activites:		
Purchase of capital assets		(144,117)
Net decrease in cash and cash equivalents		(62,448)
Cash and cash equivalents beginning of year		489,910
Cash and cash equivalents end of year		$ 427,462
Reconciliation of operating income to net cash provided by operating activities:		
Operating income		$ 163,930
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	$ 7,396	
Changes in assets and liabilities:		
Increase in accounts receivable	(108,338)	
Increase in inventory	(384)	
Increase in prepaid expenses	(6,388)	
Decrease in accounts payable	(41,986)	
Decrease in salaries payable	(21,967)	
Increase in unearned revenue	89,406	
Total adjustments		(82,261)
Net cash provided by operating activities		$ 81,669
Noncash financing activities:		
Interest paid from escrow agent account		$ 120,890

See notes to financial statements.

(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 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 Position

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

Cash and Cash Equivalents – 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.

(2) **Cash and Cash Equivalents**

CGM deposits funds received by the Resort in several banks throughout the year. The balances in the bank accounts at June 30, 2014 were entirely covered by federal depository insurance at the maximum amount allowed.

(3) **Unearned Revenue**

Unearned revenue at June 30, 2014 consists of the following:

Type	Amount
Deposits	$ 508,524
Unredeemed gift cards	201,789
Total	$ 710,313

(4) **Inventory**

Inventory at June 30, 2014 consists of the following:

Type	Amount
Food and beverage	$ 58,800
Golf pro shop	67,400
Gift shop	11,394
Waterpark	2,854
Miscellaneous lodging supplies	84,922
Total	$ 225,370

(5) **Capital Assets**

A summary of capital assets acquired by the Operations Account for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Construction in progress	$ -	45,835	-	45,835
Capital assets being depreciated:				
Equipment	24,963	98,282	-	123,245
Less accumulated depreciation for:				
Equipment	684	7,396	-	8,080
Total capital assets being depreciated, net	24,279	90,886	-	115,165
Capital assets, net	$ 24,279	136,721	-	161,000

(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 2014. 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, 2014, the flat management fee paid or accrued was $217,987 and the additional management fee accrued was $7,267.

(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 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 $75,000 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, LLC 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, which included 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. On April 10, 2014, the Natural Resource Commission approved an extension and amendment to the contract through June 30, 2015. The amended contract includes a base fee not to exceed $89,885 and additional consultation services related to modifications to the future operating structure of the Resort, which are not to exceed $135,384, to be paid as services are rendered. During the years ended June 30, 2013 and June 30, 2014, the Resort paid Capital Hotel Management, LLC $85,230 and $87,787, respectively.

(8) Operating Leases

The Resort is the lessee in three operating leases contracted by DNR. The Resort is leasing golf cars and GPS systems for golf cars. The future minimum rental payments for these leases is as follows:

Year ending June 30,	Amount
2015	$ 89,922
2016	89,922
2017	89,922
2018	41,861
Total	$311,627

Rental expense for the year ended June 30, 2014 for all operating leases, except those with terms of a month or less which were not renewed, totaled $126,468.

(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, 2014. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Revenue Bonds

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, including the Series 2006 Honey Creek Premier Destination Park Bonds. On November 25, 2013, an escrow agreement was established in which the Iowa Treasurer of State defeased the remaining revenue bonds by placing proceeds from existing resources in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2006 Honey Creek Premier Destination Park Bonds. Accordingly, trust account assets and the liability for the defeased bonds are not included in the financial statements. As of June 30, 2014, bonds totaling $31,300,000 are considered defeased. In addition, as shown in the Statement of Revenues, Expenses and Changes in Net Position, the prior year accrued interest payable of $120,890 was paid from the escrow agent account.

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, 2014

	Lodging	Food and Beverage	Golf Course	Water Park	Gift Shop
Operating revenues:					
Lodging	$ 3,211,340	-	-	-	-
Food and beverage	-	1,802,133	-	-	-
Golf	-	-	697,627	-	-
Water park	-	-	-	109,428	-
Gift shop	-	-	-	-	58,615
Other	216,234	-	-	-	-
Total operating revenues	3,427,574	1,802,133	697,627	109,428	58,615
Operating expenses:					
Payroll	612,267	822,043	340,604	152,108	17,064
Supplies and maintenance	42,665	66,727	179,016	12,662	498
Equipment (non-capital)	-	-	55,373	1,142	-
Utilities	36,290	960	3,749	600	-
Uniforms and laundry	9,580	39,840	844	1,857	-
Cost of goods sold	-	617,225	134,663	23,408	38,392
Other professional services	6,716	20,325	-	-	-
Management fees	-	-	-	-	-
Travel and meals	-	2,269	1,133	698	-
Personnel training and human resources	-	-	-	-	-
License and insurance	-	4,782	338	907	-
Commissions and bank charges	20,620	-	-	-	-
Advertising and promotion	-	-	-	-	-
Other	200	1,237	3,559	-	102
Total operating expenses	728,338	1,575,408	719,279	193,382	56,056
Operating income (loss)	$ 2,699,236	226,725	(21,652)	(83,954)	2,559

See accompanying independent auditor’s report.

General and Administrative	Sales and Marketing	Property Operation/ Maintenance	Total
-	-	-	3,211,340
-	-	-	1,802,133
-	-	-	697,627
-	-	-	109,428
-	-	-	58,615
-	-	-	216,234
-	-	-	6,095,377
287,177	344,284	231,675	2,807,222
74,600	10,897	108,526	495,591
-	-	27,050	83,565
476,490	4,480	400	522,969
-	-	888	53,009
-	-	-	813,688
47,643	-	29,027	103,711
313,041	-	-	313,041
31,026	33,339	2,775	71,240
16,284	-	-	16,284
244,151	-	-	250,178
123,900	-	-	144,520
-	212,353	-	212,353
16,054	21,915	1,009	44,076
1,630,366	627,268	401,350	5,931,447
(1,630,366)	(627,268)	(401,350)	163,930

Honey Creek Resort Operations Account

Schedule of Operating Revenues and Operating Expenses by Department

For the Last Six Years

	2014	2013	2012	2011	2010	2009
Operating revenues:						
Lodging	$ 3,211,340	3,160,450	3,024,184	2,913,335	2,829,333	1,314,958
Food and beverage	1,802,133	1,924,877	1,934,166	1,799,101	2,017,879	1,292,423
Golf	697,627	623,080	645,365	584,898	591,774	294,941
Water park	109,428	121,133	108,281	120,682	139,718	132,954
Gift shop	58,615	62,184	78,742	59,588	59,550	40,307
Other	216,234	174,640	121,796	69,753	78,872	29,096
Total operating revenues	$ 6,095,377	6,066,364	5,912,534	5,547,357	5,717,126	3,104,679
Operating expenses:						
Payroll	$ 2,807,222	2,740,511	2,659,673	2,566,427	2,669,413	1,918,921
Supplies and maintenance	495,591	451,889	408,459	426,596	459,517	303,469
Equipment (non-capital)	83,565	112,890	124,437	119,188	114,384	110,561
Utilities	522,969	506,582	513,076	534,367	506,082	280,657
Uniforms and laundry	53,009	63,371	61,499	43,014	43,539	48,257
Cost of goods sold	813,688	836,498	846,608	780,294	843,647	622,899
Other professional services	103,711	84,406	95,946	103,226	105,278	61,331
Management fees	313,041	311,023	289,601	226,147	222,000	137,700
Travel and meals	71,240	71,711	57,430	53,768	59,283	44,134
Personnel training and human resources	16,284	15,812	12,864	23,046	36,177	18,545
License and insurance	250,178	242,012	222,176	208,436	216,595	127,310
Commissions and bank charges	144,520	145,540	118,829	115,516	110,842	58,407
Advertising and promotion	212,353	220,939	277,640	318,821	347,911	227,887
Other	44,076	27,214	32,524	24,281	28,669	29,013
Total operating expenses	$ 5,931,447	5,830,398	5,720,762	5,543,127	5,763,337	3,989,091

See accompanying independent auditor's report.

Honey Creek Resort Operations Account

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Ryan T. Jelsma, Senior Auditor
Anthony M. Heibult, Assistant Auditor
Kelsie K. Boyer, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State