



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE January 11, 2010

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the Honey Creek Resort operated by Central Group Management, LLC for the period from inception (September 18, 2008) to June 30, 2009. 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 \$3,104,679, which included \$1,344,054 from lodging, \$1,292,423 from restaurant operations and \$294,941 from golf course operations. Total operating expenses for Honey Creek Resort for the period totaled \$3,989,091, and included \$473,538 for lodging, \$1,346,295 for restaurant operations and \$459,996 for golf course operations. Honey Creek Resort reported an operating loss of \$884,412 for the period from September 18, 2008 to June 30, 2009.

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/index.html>.

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**HONEY CREEK RESORT
OPERATED BY
CENTRAL GROUP MANAGEMENT, LLC**

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

JUNE 30, 2009

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Honey Creek Resort

Officials

Name

Title

State

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

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

Central Group Management, LLC

Roberts H. Pace, Jr.
Lee Fundanet
Linda Caird

President - CEO
Director of Operations
Vice President Finance

Iowa Department of Natural Resources

Richard Leopold
Patricia Boddy

Director
Deputy Director

Honey Creek Resort



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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 Honey Creek Resort, Moravia, Iowa as of June 30, 2009, and for the period from inception (September 18, 2008) to June 30, 2009. These financial statements are the responsibility of Honey Creek Resort and Central Group Management, LLC, St. Cloud, Minnesota as its operations managers. 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 Honey Creek Resort as of June 30, 2009, and the respective changes in financial position and cash flows, for the period from September 18, 2008 to June 30, 2009 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 Honey Creek Resort's 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 Schedule 1 has 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 9, 2009

Honey Creek Resort

Basic Financial Statements

Exhibit A

Honey Creek Resort
Statement of Net Assets (Deficit)
June 30, 2009

Assets	
Current assets:	
Cash, cash equivalents and investments	\$ 165,924
Accounts receivable	76,527
Inventory	128,932
Prepaid expenses	108,945
Total current assets	<u>480,328</u>
Total assets	<u>480,328</u>
Liabilities	
Current liabilities:	
Accounts payable	369,534
Salaries payable	119,285
Unearned revenue	621,221
Accrued interest payable	126,293
Total current liabilities	<u>1,236,333</u>
Net Assets (Deficit)	
Unrestricted	<u>\$ (756,005)</u>

See notes to financial statements.

Honey Creek Resort

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

For the period from September 18, 2008 to June 30, 2009

Operating revenues:	
Lodging	\$ 1,344,054
Food and beverage	1,292,423
Golf course	294,941
Waterpark	132,954
Gift shop	40,307
Total operating revenues	<u>3,104,679</u>
Operating expenses:	
Lodging	473,538
Food and beverage	1,346,295
Golf course	459,996
Waterpark	197,566
Gift shop	41,281
General and administrative	841,761
Sales and marketing	443,854
Property operation/maintenance	184,800
Total operating expenses	<u>3,989,091</u>
Operating loss	(884,412)
Nonoperating expenses:	
Interest expense	<u>(836,239)</u>
Loss before capital contributions	(1,720,651)
Capital contributions from the Iowa Department of Natural Resources	<u>964,646</u>
Change in net assets	(756,005)
Net assets beginning of period	<u>-</u>
Net assets (deficit) end of period	<u>\$ (756,005)</u>

See notes to financial statements.

Exhibit C

Honey Creek Resort

Statement of Cash Flows

For the period from September 18, 2008 to June 30, 2009

Cash flows from operating activities:		
Guest receipts	\$ 3,620,277	
Other receipts	29,096	
Payroll disbursements	(1,894,307)	
Other operating disbursements	<u>(1,799,637)</u>	
Net cash used by operating activities		\$ (44,571)
Cash flows from financing activities:		
Capital contributions from the Iowa Department of Natural Resources		<u>210,495</u>
Net increase in cash and cash equivalents		165,924
Cash and cash equivalents beginning of period		<u>-</u>
Cash and cash equivalents end of period		<u><u>\$ 165,924</u></u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss		\$ (884,412)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Changes in assets and liabilities:		
(Increase) in accounts receivable	\$ (76,527)	
(Increase) in inventory	(84,727)	
(Increase) in prepaid expenses	(108,945)	
Increase in accounts payable	369,534	
Increase in salaries payable	119,285	
Increase in unearned revenue	<u>621,221</u>	
Total adjustments		<u>839,841</u>
Net cash used by operating activities		<u><u>\$ (44,571)</u></u>
Noncash financing activities:		
Inventory purchased by DNR		\$ 44,205
Interest expense paid by DNR		<u>709,946</u>
Total		<u><u>\$ 754,151</u></u>

See notes to financial statements.

Honey Creek Resort

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The 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 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 is operated by the President and CEO along with a Chief Operating Officer. CGM has been in business 20 years providing 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 financial activities 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 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 Honey Creek 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, 2009 were entirely covered by federal depository insurance at the maximum amount allowed.

(3) Unearned Revenue

Unearned revenue at June 30, 2009 is as follows:

Type	Amount
Deposits	\$ 505,457
Gift cards	115,764
Total	<u>\$ 621,221</u>

(4) Inventory

Inventory at June 30, 2009 is as follows:

Type	Amount
Food and beverage	\$ 56,839
Golf pro shop	57,724
Gift shop	12,218
Waterpark	2,151
Total	<u>\$ 128,932</u>

(5) Management Contract

The Iowa 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, 2009, the management fee paid or accrued was \$137,700.

(6) Revenue Bonds Payable

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

Pursuant to an Indenture of Trust among the Authority, the Iowa Department of Natural Resources, the Treasurer of the State of Iowa and Bankers Trust Company, N.A. (the "Trustee") the State of Iowa 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 Honey Creek Resort, if any.

Honey Creek Resort operations began on September 18, 2008. Pledged (net) revenue was not sufficient during the period ended June 30, 2009 to cover the interest expense of \$709,946 due on June 1, 2009.

(7) 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 period ended June 30, 2009.

Honey Creek Resort

Supplementary Information

Honey Creek Resort

Schedule of Revenue and Expenses by Department

For the period from September 18, 2008 to June 30, 2009

	Lodging	Food and Beverage	Golf Course	Water Park
Operating revenues:				
Lodging	\$ 1,314,958	-	-	-
Food and beverage	-	1,292,423	-	-
Golf	-	-	294,941	-
Water park	-	-	-	132,954
Gift shop	-	-	-	-
Other	29,096	-	-	-
Total operating revenues	<u>1,344,054</u>	<u>1,292,423</u>	<u>294,941</u>	<u>132,954</u>
Operating expenses:				
Payroll	379,603	716,356	246,722	142,086
Supplies and maintenance	47,687	63,666	60,148	12,636
Equipment (non-capital)	-	-	99,432	1,329
Utilities	15,981	6,884	2,811	450
Uniforms and laundry	3,965	40,457	1,309	1,321
Cost of goods sold	18,976	496,519	43,773	38,867
Other professional services	7,326	14,772	-	-
Management fee	-	-	-	-
Travel and meals	-	3,661	4,691	737
Personnel training and human resources	-	1,880	-	-
Insurance	-	2,100	35	-
Commissions and bank charges	-	-	-	-
Advertising and promotion	-	-	-	-
Other	-	-	1,075	140
Total operating expenses	<u>473,538</u>	<u>1,346,295</u>	<u>459,996</u>	<u>197,566</u>
Operating income (loss)	<u>\$ 870,516</u>	<u>(53,872)</u>	<u>(165,055)</u>	<u>(64,612)</u>

See notes to financial statements.


Gift Shop	General and Administrative	Sales and Marketing	Property Operation/ Maintenance	Total
-	-	-	-	1,314,958
-	-	-	-	1,292,423
-	-	-	-	294,941
-	-	-	-	132,954
40,307	-	-	-	40,307
-	-	-	-	29,096
40,307	-	-	-	3,104,679
16,517	151,872	141,946	123,819	1,918,921
-	67,397	31,596	20,339	303,469
-	-	-	9,800	110,561
-	250,105	4,076	350	280,657
-	-	-	1,205	48,257
24,764	-	-	-	622,899
-	10,884	-	28,349	61,331
-	137,700	-	-	137,700
-	19,572	14,937	536	44,134
-	16,665	-	-	18,545
-	125,175	-	-	127,310
-	58,407	-	-	58,407
-	-	227,887	-	227,887
-	3,984	23,412	402	29,013
41,281	841,761	443,854	184,800	3,989,091
(974)	(841,761)	(443,854)	(184,800)	(884,412)

Honey Creek Resort

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
James S. Cunningham, CPA, Senior Auditor II
Joshua B. Ludwig, Staff Auditor
Casey L. Johnson, 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