



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE _____ December 7, 2015

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, 2015. 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 \$6,157,482 for the year ended June 30, 2015, which included \$3,488,904 from lodging, \$1,856,310 from restaurant and banquet operations and \$637,251 from golf course operations. Operating expenses for Honey Creek Resort for the year ended June 30, 2015 totaled \$5,831,630, and included \$747,690 for lodging, \$1,533,356 for restaurant and banquet operations and \$651,277 for golf course operations. Honey Creek Resort reported operating income of \$325,852 for the year ended June 30, 2015 and net position of \$445,239 at June 30, 2015.

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/1660-5420-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, 2015

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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

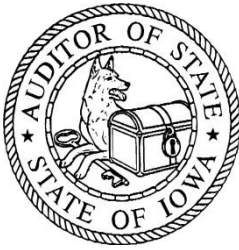
President - CEO
Vice President Finance

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:

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, 2015, 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, 2015, 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

Required Supplementary Information


Honey Creek Resort and Central Group Management, LLC has omitted Management's Discussion and Analysis which U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statement, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this omitted information.

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 six years ended June 30, 2014 (which are not presented herein) and expressed unmodified 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

November 13, 2015

Basic Financial Statements

Exhibit A

Honey Creek Resort Operations Account

Statement of Net Position

June 30, 2015

Assets	
Current assets:	
Cash and cash equivalents	\$ 858,567
Accounts receivable	138,925
Inventory	188,727
Prepaid expenses	165,682
Total current assets	<u>1,351,901</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>332,026</u>
Total assets	<u><u>1,683,927</u></u>
Liabilities	
Current liabilities:	
Accounts payable	289,512
Salaries payable	134,229
Unearned revenue	814,947
Total current liabilities	<u>1,238,688</u>
Net Position	
Net investment in capital assets	332,026
Unrestricted	<u>113,213</u>
Total net position	<u><u>\$ 445,239</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, 2015

Operating revenues:	
Lodging	\$ 3,488,904
Food and beverage	1,856,310
Golf course	637,251
Water park	121,868
Gift shop	53,149
Total operating revenues	<u>6,157,482</u>
Operating expenses:	
Lodging	747,690
Food and beverage	1,533,356
Golf course	651,277
Water park	193,204
Gift shop	39,604
General and administrative	1,710,152
Sales and marketing	541,908
Property operation/maintenance	414,439
Total operating expenses	<u>5,831,630</u>
Operating income	325,852
Net position beginning of year	<u>119,387</u>
Net position end of year	<u><u>\$ 445,239</u></u>

See notes to financial statements.

Exhibit C

Honey Creek Resort Operations Account

Statement of Cash Flows

Year ended June 30, 2015

Cash flows from operating activities:		
Guest receipts	\$ 6,139,850	
Other receipts	222,211	
Payroll disbursements	(2,762,836)	
Other operating disbursements	(2,965,241)	
Net cash provided by operating activities		\$ 633,984
Cash flows from capital and related financing activities:		
Purchase of capital assets		(202,879)
Net increase in cash and cash equivalents		431,105
Cash and cash equivalents beginning of year		427,462
Cash and cash equivalents end of year		<u>\$ 858,567</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income		\$ 325,852
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	\$ 31,853	
Changes in assets and liabilities:		
Decrease in accounts receivable	99,945	
Increase in inventory	(9,192)	
Decrease in prepaid expenses	44,005	
Increase in accounts payable	34,039	
Increase in salaries payable	2,848	
Increase in unearned revenue	104,634	
Total adjustments		<u>308,132</u>
Net cash provided by operating activities		<u>\$ 633,984</u>

See notes to financial statements.

Honey Creek Resort Operations Account

Notes to Financial Statements

June 30, 2015

(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. The revenue bonds were defeased during the year ended June 30, 2014 and will be called on June 1, 2016. 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, 2015 were entirely covered by federal depository insurance at the maximum amount allowed.

(3) Unearned Revenue

Unearned revenue at June 30, 2015 consists of the following:

Type	Amount
Deposits	\$ 590,491
Unredeemed gift cards	224,456
Total	<u>\$814,947</u>

(4) Inventory

Inventory at June 30, 2015 consists of the following:

Type	Amount
Food and beverage	\$ 58,024
Golf pro shop	66,608
Gift shop	16,491
Waterpark	2,101
Miscellaneous lodging supplies	45,503
Total	<u>\$ 188,727</u>

(5) Capital Assets

A summary of capital assets activity related to the Operations Account during the year ended June 30, 2015 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	123,245	248,714	-	371,959
Less accumulated depreciation for:				-
Equipment	8,080	31,853	-	39,933
Total capital assets being depreciated, net	115,165	216,861	-	332,026
Capital assets, net	<u>\$ 161,000</u>	<u>216,861</u>	<u>(45,835)</u>	<u>332,026</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 2015. 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, 2015, the flat management fee paid or accrued was \$217,987 and the additional management fee accrued was \$9,304.

(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, June 30, 2014 and June 30, 2015, the Resort paid Capital Hotel Management, LLC \$85,230, \$87,787 and \$89,885, respectively. Capital Hotel Management, LLC was not eligible to receive the variable fee for the years ended June 30, 2013 and June 30, 2014 or payment for additional consultation services for the year ended June 30, 2015.

(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:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 86,916
2017	86,916
2018	57,976
2019	38,865
2020	12,955
Total	<u>\$283,628</u>

Rental expense for the year ended June 30, 2015 for all operating leases, except those with terms of a month or less which were not renewed, totaled \$102,450.

(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, 2015. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Supplementary Information

Honey Creek Resort Operations Account

Schedule of Operating Revenues and Operating Expenses by Department

Year ended June 30, 2015

	Lodging	Food and Beverage	Golf Course	Water Park	Gift Shop
Operating revenues:					
Lodging	\$ 3,266,693	-	-	-	-
Food and beverage	-	1,856,310	-	-	-
Golf	-	-	637,251	-	-
Water park	-	-	-	121,868	-
Gift shop	-	-	-	-	53,149
Other	222,211	-	-	-	-
Total operating revenues	3,488,904	1,856,310	637,251	121,868	53,149
Operating expenses:					
Payroll	622,040	779,257	328,721	151,801	4,853
Supplies and maintenance	46,534	71,489	130,465	11,079	105
Equipment (non-capital)	-	-	54,257	88	-
Utilities	37,263	930	3,665	600	-
Uniforms and laundry	15,950	37,274	628	1,753	-
Cost of goods sold	-	629,204	129,356	25,349	34,646
Other professional services	10,443	7,648	-	-	-
Management fees	-	-	-	-	-
Travel and meals	-	2,090	1,115	1,627	-
Personnel training and human resources	-	-	-	-	-
License and insurance	-	4,954	236	907	-
Commissions and bank charges	15,460	-	-	-	-
Advertising and promotion	-	-	-	-	-
Other	-	510	2,834	-	-
Total operating expenses	747,690	1,533,356	651,277	193,204	39,604
Operating income (loss)	\$ 2,741,214	322,954	(14,026)	(71,336)	13,545

See accompanying independent auditor's report.

General and Administrative	Sales and Marketing	Property Operation/ Maintenance	Total
-	-	-	3,266,693
-	-	-	1,856,310
-	-	-	637,251
-	-	-	121,868
-	-	-	53,149
-	-	-	222,211
-	-	-	6,157,482
312,606	340,740	225,665	2,765,683
98,107	10,809	123,943	492,531
-	-	31,158	85,503
467,510	3,890	600	514,458
-	-	612	56,217
-	-	-	818,555
37,866	-	26,702	82,659
317,176	-	-	317,176
28,125	33,211	4,750	70,918
22,731	-	-	22,731
256,625	-	-	262,722
132,196	-	-	147,656
-	138,479	-	138,479
37,210	14,779	1,009	56,342
1,710,152	541,908	414,439	5,831,630
(1,710,152)	(541,908)	(414,439)	325,852

Honey Creek Resort Operations Account

Schedule of Operating Revenues and Operating Expenses by Department

For the Last Seven Years

	2015	2014	2013	2012
Operating revenues:				
Lodging	\$ 3,266,693	3,211,340	3,160,450	3,024,184
Food and beverage	1,856,310	1,802,133	1,924,877	1,934,166
Golf	637,251	697,627	623,080	645,365
Water park	121,868	109,428	121,133	108,281
Gift shop	53,149	58,615	62,184	78,742
Other	222,211	216,234	174,640	121,796
Total operating revenues	6,157,482	6,095,377	6,066,364	5,912,534
Operating expenses:				
Payroll	\$ 2,765,683	2,807,222	2,740,511	2,659,673
Supplies and maintenance	492,531	495,591	451,889	408,459
Equipment (non-capital)	85,503	83,565	112,890	124,437
Utilities	514,458	522,969	506,582	513,076
Uniforms and laundry	56,217	53,009	63,371	61,499
Cost of goods sold	818,555	813,688	836,498	846,608
Other professional services	82,659	103,711	84,406	95,946
Management fees	317,176	313,041	311,023	289,601
Travel and meals	70,918	71,240	71,711	57,430
Personnel training and human resources	22,731	16,284	15,812	12,864
License and insurance	262,722	250,178	242,012	222,176
Commissions and bank charges	147,656	144,520	145,540	118,829
Advertising and promotion	138,479	212,353	220,939	277,640
Other	56,342	44,076	27,214	32,524
Total operating expenses	5,831,630	5,931,447	5,830,398	5,720,762
Operating income (loss)	\$ 325,852	163,930	235,966	191,772

See accompanying independent auditor's report.

2011	2010	2009
2,913,335	2,829,333	1,314,958
1,799,101	2,017,879	1,292,423
584,898	591,774	294,941
120,682	139,718	132,954
59,588	59,550	40,307
69,753	78,872	29,096
5,547,357	5,717,126	3,104,679
2,566,427	2,669,413	1,918,921
426,596	459,517	303,469
119,188	114,384	110,561
534,367	506,082	280,657
43,014	43,539	48,257
780,294	843,647	622,899
103,226	105,278	61,331
226,147	222,000	137,700
53,768	59,283	44,134
23,046	36,177	18,545
208,436	216,595	127,310
115,516	110,842	58,407
318,821	347,911	227,887
24,281	28,669	29,013
5,543,127	5,763,337	3,989,091
4,230	(46,211)	(884,412)

Honey Creek Resort Operations Account

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Ryan T. Jelsma, Senior Auditor II
Anthony M. Heibult, Staff Auditor
Jonathan M. Mader, Assistant Auditor
Brett S. Gillen, Auditor Intern



Andrew E. Nielsen, CPA
Deputy Auditor of State