OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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NEWS RELEASE

Contact: Andy Nielsen
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FOR RELEASE January 10, 2012

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, 2011. 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 $5,547,357 for the year ended June 30, 2011, which included $2,983,088 from lodging, $1,799,101 from restaurant and banquet operations and $584,898 from golf course operations. Operating expenses for Honey Creek Resort for the year totaled $5,543,127, and included $652,089 for lodging, $1,633,380 for restaurant and banquet operations and $636,918 for golf course operations. Honey Creek Resort reported an operating profit of $4,230 for the year ended June 30, 2011.

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/1260-5420-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, 2011

Table of Contents

Honey Creek Resort

Officials

Name	Title
State	
Governor	
Honorable Chester J. Culver (Ended during January 2011)	Honorable Terry E. Branstad (Began during January 2011)
Director, Department of Management	
Richard C. Oshlo, Jr. (Ended during January 2011)	David Roederer (Began during January 2011)
Director, Legislative Services Agency	
Glen P. Dickinson	
Central Group Management, LLC	
Roberts H. Pace, Jr.	President - CEO
Linda Caird	Vice President Finance
Iowa Department of Natural Resources	
Roger L. Lande	Director

Honey Creek Resort Operations Account

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David A. Vaudt, CPA
Auditor of State

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, 2011. 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, 2011, 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. 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 Schedules 1 and 2 have 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

December 1, 2011

Honey Creek Resort Operations Account

Basic Financial Statements

Honey Creek Resort Operations Account

Statement of Net Assets (Deficit)

June 30, 2011

Assets		
Current assets:		
Cash, cash equivalents and investments	$	200,814
Accounts receivable		102,558
Inventory		169,815
Prepaid expenses		121,645
Total current assets		594,832
Liabilities		
Current liabilities:		
Accounts payable		411,026
Salaries payable		148,638
Unearned revenue		507,449
Accrued interest payable		124,390
Total current liabilities		1,191,503
Net Assets (Deficit)		
Unrestricted	$	(596,671)

See notes to financial statements.

Honey Creek Resort Operations Account

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

Year ended June 30, 2011

Operating revenues:	
Lodging	$ 2,983,088
Food and beverage	1,799,101
Golf course	584,898
Waterpark	120,682
Gift shop	59,588
Total operating revenues	5,547,357
Operating expenses:	
Lodging	652,089
Food and beverage	1,633,380
Golf course	636,918
Waterpark	198,233
Gift shop	55,469
General and administrative	1,388,813
Sales and marketing	664,997
Property operation/maintenance	313,228
Total operating expenses	5,543,127
Operating income	4,230
Nonoperating expenses:	
Interest expense	(1,506,251)
Loss before capital contributions	(1,502,021)
Capital contributions from the Iowa Department of Natural Resources	1,585,860
Change in net assets (deficit)	83,839
Net assets (deficit) beginning of year	(680,510)
Net assets (deficit) end of year	$ (596,671)

See notes to financial statements.

Honey Creek Resort Operations Account

Statement of Cash Flows

Year ended June 30, 2011

Cash flows from operating activities:		
Guest receipts	$ 5,405,158	
Other receipts	69,753	
Payroll disbursements	(2,566,822)	
Other operating disbursements	(2,962,041)	
Net cash used by operating activities		$ (53,952)
Cash flows from capital financing activities:		
Capital contributions from the Iowa Department of Natural Resources		78,375
Net increase in cash and cash equivalents		24,423
Cash and cash equivalents beginning of period		176,391
Cash and cash equivalents end of period		$ 200,814
Reconciliation of operating income to net cash used by operating activities:		
Operating income		$ 4,230
Adjustments to reconcile operating income to net cash used by operating activities:		
Changes in assets and liabilities:		
Increase in accounts receivable	$ (6,922)	
Increase in inventory	(40,229)	
Increase in prepaid expenses	(9,291)	
Increase in accounts payable	64,179	
Decrease in salaries payable	(395)	
Decrease in unearned revenue	(65,524)	
Total adjustments		(58,182)
Net cash used by operating activities		$ (53,952)
Noncash financing activities:		
Interest expense paid by the Iowa Department of Natural Resources		$ 1,507,485

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 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. Cancelations 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 created 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 various accounts at June 30, 2011 were entirely covered by federal depository insurance at the maximum amount allowed.

(3) Unearned Revenue

Unearned revenue at June 30, 2011 consists of the following:

Type	Amount
Deposits	$ 359,616
Gift cards	147,833
Total	$ 507,449

(4) Inventory

Inventory at June 30, 2011 consists of the following:

Type	Amount
Food and beverage	$ 45,503
Golf pro shop	70,428
Gift shop	31,163
Waterpark	4,361
Miscellaneous lodging supplies	18,360
Total	$ 169,815

(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, 2011, the flat management fee paid or accrued was $221,829 and the additional management fee accrued was $4,318.

(6) 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, 2011 to cover the interest of $753,742 due on December 1, 2010 and $753,742 due on June 1, 2011. The interest was paid by DNR.

(7) 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:

Year ending June 30,	Amount
2012	$101,452
2013	97,667
2014	33,136
Total	$232,255

Rental expense for the year ended June 30, 2011 for all operating leases, except those with terms of a month or less which were not renewed, totaled $104,699.

(8) 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, 2011.

Supplementary Information

Honey Creek Resort Operations Account

Schedule of Operating Revenues and Operating Expenses by Department

Year ended June 30, 2011

	Lodging	Food and Beverage	Golf Course	Water Park	Gift Shop
Operating revenues:					
Lodging	$ 2,913,335	-	-	-	-
Food and beverage	-	1,799,101	-	-	-
Golf	-	-	584,898	-	-
Water park	-	-	-	120,682	-
Gift shop	-	-	-	-	59,588
Other	69,753	-	-	-	-
Total operating revenues	2,983,088	1,799,101	584,898	120,682	59,588
Operating expenses:					
Payroll	537,233	905,000	309,535	153,574	12,269
Supplies and maintenance	66,562	56,451	102,918	14,312	630
Equipment (non-capital)	-	-	108,852	-	-
Utilities	33,237	2,450	3,075	600	-
Uniforms and laundry	7,170	31,375	937	2,834	-
Cost of goods sold	-	605,365	105,890	26,486	42,553
Other professional services	7,761	24,789	-	-	-
Management fee	-	-	-	-	-
Travel and meals	-	2,072	1,997	268	-
Personnel training and human resources	-	966	-	-	-
License and insurance	-	3,861	1,435	-	-
Commissions and bank charges	-	-	-	-	-
Advertising and promotion	-	-	-	-	-
Other	126	1,051	2,279	159	17
Total operating expenses	652,089	1,633,380	636,918	198,233	55,469
Operating income (loss)	$ 2,330,999	165,721	(52,020)	(77,551)	4,119

See accompanying independent auditor’s report.

General and Administrative	Sales and Marketing	Property Operation/ Maintenance	Total
-	-	-	2,913,335
-	-	-	1,799,101
-	-	-	584,898
-	-	-	120,682
-	-	-	59,588
-	-	-	69,753
-	-	-	5,547,357
195,418	286,853	166,545	2,566,427
66,805	16,974	101,944	426,596
-	-	10,336	119,188
489,657	5,289	59	534,367
-	-	698	43,014
-	-	-	780,294
37,814	-	32,862	103,226
226,147	-	-	226,147
27,360	21,306	765	53,768
22,080	-	-	23,046
203,140	-	-	208,436
115,516	-	-	115,516
-	318,821	-	318,821
4,876	15,754	19	24,281
1,388,813	664,997	313,228	5,543,127
(1,388,813)	(664,997)	(313,228)	4,230

Honey Creek Resort Operations Account

Schedule of Operating Revenues and Operating Expenses by Department

For the Last Three Years

	2011	2010	2009
Operating revenues:			
Lodging	$ 2,913,335	2,829,333	1,314,958
Food and beverage	1,799,101	2,017,879	1,292,423
Golf	584,898	591,774	294,941
Water park	120,682	139,718	132,954
Gift shop	59,588	59,550	40,307
Other	69,753	78,872	29,096
Total operating revenues	$ 5,547,357	5,717,126	3,104,679
Operating expenses:			
Payroll	$ 2,566,427	2,669,413	1,918,921
Supplies and maintenance	426,596	459,517	303,469
Equipment (non-capital)	119,188	114,384	110,561
Utilities	534,367	506,082	280,657
Uniforms and laundry	43,014	43,539	48,257
Cost of goods sold	780,294	843,647	622,899
Other professional services	103,226	105,278	61,331
Management fee	226,147	222,000	137,700
Travel and meals	53,768	59,283	44,134
Personnel training and human resources	23,046	36,177	18,545
License and insurance	208,436	216,595	127,310
Commissions and bank charges	115,516	110,842	58,407
Advertising and promotion	318,821	347,911	227,887
Other	24,281	28,669	29,013
Total operating expenses	$ 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
Justin A. Youngberg, Assistant Auditor
Adam B. Bartz, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State

HONEY CREEK RESORT OPERATIONS ACCOUNT
MANAGED BY
CENTRAL GROUP MANAGEMENT, LLC
INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
U.S. GENERALLY ACCEPTED AUDITING STANDARDS
JUNE 30, 2011

Honey Creek Resort

Officials

Name	Title
	State
	Governor
Honorable Chester J. Culver (Ended during January 2011)	Honorable Terry E. Branstad (Began during January 2011)
	Director, Department of Management
Richard C. Oshlo, Jr. (Ended during January 2011)	David Roederer (Began during January 2011)
	Director, Legislative Services Agency
	Glen P. Dickinson
	Central Group Management, LLC
Roberts H. Pace, Jr.	President - CEO
Linda Caird	Vice President Finance
	Iowa Department of Natural Resources
Roger Lande	Director

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Independent Auditor's Report on Internal Control over
Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with U.S. Generally Accepted Auditing Standards

To the Board Members of the Natural Resource Commission:

We have audited the financial statements of the Operations Account of Honey Creek Resort, Moravia, Iowa as of and for the year ended June 30, 2011, and have issued our report thereon dated December 1, 2011 under separate cover. We conducted our audit in accordance with U.S. generally accepted auditing standards.

In planning and performing our audit, we considered Honey Creek Resort's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Honey Creek Resort's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Honey Creek Resort's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Honey Creek Resort's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings, we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Honey Creek Resort's response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on Honey Creek Resort's response, we did not audit Honey Creek Resort's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials and employees of Honey Creek Resort and other parties to whom Honey Creek Resort may report, including the Iowa Department of Natural Resources and the officials, employees and citizens of the State of Iowa. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Honey Creek Resort during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA	WARREN G. JENKINS, CPA
Auditor of State	Chief Deputy Auditor of State

December 1, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

GM Comp Account – Central Group Management (CGM) is responsible for the operation of the Lakeshore Grille and Lounge, a part of Honey Creek Resort (Resort). During our review, we identified a GM (General Manager) Comp Account. Through discussions with CGM Corporate Management Staff and employees at the Resort, the GM Comp Account is utilized for food and beverage expenses when Corporate Management Staff are at the Resort for business, meals for managers-on-duty (MOD's), customer complaints, employee appreciation and business meals and entertainment associated with the Executive Team Members of the Resort. The Executive Team Members consist of the General Manager, Human Resource Director, Golf Pro, Executive Chef, Front Office Manager, Director of Sales, Aquatics Manager and Chief Engineer.

We identified a total of $8,840.26 in food, beverage, gratuity and tax written off to the GM Comp Account in fiscal year 2011. The retail price of the meals was $14,506.39 and $5,666.13 in discounts were applied prior to the meals being written off.

We selected various transactions from the GM Comp Account for testing. Based on the review of the transactions, we noted numerous instances where CGM Corporate Management Staff and Executive Team Members of the Resort incurred meals written off to the GM Comp Account. Of the transactions tested, all contained various amounts of alcoholic beverages.

For example:

- On Monday, August 23, 2010, $134.52 was written off to the GM Comp Account. The retail price was $222.81 prior to discounts and tax. Three CGM Corporate Management Staff and three Executive Team Members incurred the charges, which included fourteen alcoholic drinks.
- On Friday, October 1, 2010, $115.56 was written off to the GM Comp Account. The General Manager and an unknown individual incurred the charges, which included five alcoholic beverages.
- On Friday, December 31, 2010, $140.77 was written off to the GM Comp Account. The retail price was $232.32 prior to discounts and tax. The General Manager and his family incurred the charges, which included ten alcoholic drinks.
- On Wednesday, April 13, 2011, $110.27 was written off to the GM Comp Account. The retail price was $181.98 prior to discounts and tax. Documentation was not available to determine who incurred the charges. However, per discussion with the Bartender Supervisor, there was a meet and greet with Executive Team Members and the Iowa Department of Natural Resources. The charges included 38 alcoholic drinks and 3 non-alcoholic drinks.

Adequate documentation was not always available to determine who attended the meals and the business purpose of the meals.

Pursuant to the contract between the Iowa Department of Natural Resources (DNR) and CGM, "Operator's (CGM) Corporate Management Staff may reside and dine at the Hotel when at the Hotel on Owner's (DNR) business, and such reasonable lodging and reasonable dining expenses shall be paid by the Owner, but shall be accounted for by the Operator on a monthly basis." No additional clarification is provided documenting what is considered reasonable regarding dining expenses.

Recommendation – CGM and DNR should consult legal counsel and consider including additional clarification in the contract between CGM and DNR regarding reasonable dining expenses, including maximum amounts. Adequate documentation should be maintained to support who ate the meals and the business purpose of the meals.

Response – CGM has had an employee alcohol consumption policy in place since February 27, 2009. CGM has also had a written employee discount policy for meals, a manager on duty (MOD) meal and beverage policy while on and off duty, general manager meal and beverage policy while dining with guests for regular evaluation of our restaurant and lounge service, and for other business purposes and meal and beverage policy for other managers as directed by the GM. The policy has been in effect since January 30, 2010.

CGM is also tracking the GM accounts for the current fiscal year (including who participants were) as they include meals and beverage for:

- Manager on Duty
- General Manager
- Guest satisfaction/resolution costs
- Sales and Marketing personnel dining with prospects
- Central Group Management corporate personnel
- Sales and Marketing directed meals and beverages for guests and prospects
- Executive team members
- Employee recognition meals and beverage

CGM has language in its Management Contract with the DNR allowing for consumption of meals and beverage, according to CGM's policies, while on the resort premises, for CGM's corporate staff. It should be noted that meals are consumed at the property's cost, not at retail, while meals consumed off premises while on resort business are reimbursed at 100% of retail. This is standard operating procedure in the full service hotel and resort industry.

Conclusion – Response acknowledged. Although a CGM policy allows the General Manager and others to consume alcohol as part of meals, CGM and DNR should consult legal counsel and consider including additional clarification in the contract between CGM and DNR regarding reasonable dining expenses, including maximum amounts and adequate documentation to support who ate the meals and the business purpose for the meals.