



HONEY CREEK PREMIER DESTINATION PARK AUTHORITY
(A Component Unit of the State of Iowa)

Basic Financial Statements

June 30, 2007

(With Independent Auditors' Report Thereon)

HONEY CREEK PREMIER DESTINATION PARK AUTHORITY
(A Component Unit of the State of Iowa)

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Independent Auditors' Report

The Board
Honey Creek Premier Destination Park Authority:

We have audited the accompanying financial statements of the Honey Creek Premier Destination Park Authority (the Authority), a component unit of the State of Iowa, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Honey Creek Premier Destination Park Authority as of June 30, 2007, and the changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2008 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 and 3 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 26, 2008

HONEY CREEK PREMIER DESTINATION PARK AUTHORITY

(A Component Unit of the State of Iowa)

Management's Discussion and Analysis

June 30, 2007

The Honey Creek Premier Destination Park Authority (the Authority) provides this management's discussion and analysis of the Authority's annual financial statements. This narrative overview and analysis of the financial activities of the Authority is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the Authority's financial statements and footnotes, which follow this section.

Financial Highlights

The primary activity of the Authority was the sale of \$33,370,000 of bonds at a premium, providing \$33,639,613 in proceeds, and the advance of \$28,000,000 to the State of Iowa (the State) after providing for interest, payment of issuance costs, and establishment of a debt service reserve fund. The State will use the advance for the development of the Honey Creek Premier Destination Park (the Park). The bonds are secured by and are payable from net revenues of the Park, which have been pledged under the indenture, if any, and amounts held on the debt service reserve account, including any amounts appropriated by the State to replenish such account to its required balance. The bonds do not constitute an obligation or indebtedness of the State or any political subdivision of the State.

The Park is a resort park and recreational development being undertaken by the Iowa Department of Natural Resources at Lake Rathbun, a man-made, lake developed by the U.S. Army Corps of Engineers in southern Iowa near Moravia, Iowa. The Park is scheduled to open in Summer 2008. The Series 2006 Bonds will be payable from net revenues of the Park.

HONEY CREEK PREMIER DESTINATION PARK AUTHORITY

(A Component Unit of the State of Iowa)

Management's Discussion and Analysis

June 30, 2007

Since the most recently completed fiscal year was the first in which the Authority had financial activity, comparative financial statements are not presented. Condensed financial information as of and for the year ended June 30, 2007 is as follows:

Assets:	
Current assets	\$ 60,080
Noncurrent assets	32,821,888
Total assets	<u>32,881,968</u>
Current liabilities	125,624
Noncurrent liabilities	33,631,425
Total liabilities	<u>33,757,049</u>
Net assets (deficit)	<u>\$ (875,081)</u>
Revenues:	
General revenue:	
Interest income on investments and bank deposits	\$ 188,498
Total revenues	<u>188,498</u>
Expenses:	
Amortization expense	16,527
Bond interest	1,047,052
Total expenses	<u>1,063,579</u>
Excess (deficiency) of revenues over expenses	<u>(875,081)</u>
Net change in net assets (deficit)	(875,081)
Net assets (deficit) at beginning of year	<u>—</u>
Net assets (deficit) at end of year – unrestricted	<u>\$ (875,081)</u>

Using This Annual Report

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of a series of financial statements. The governmental fund balance sheet/statement of net assets and the statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities combine two sets of financial statements to compare information from a fund perspective with information about the activities of the Authority as a whole with a longer-term view of the Authority's finances. These basic financial statements also include the notes to financial statements that explain some of the information in the statements and provide more detail.

HONEY CREEK PREMIER DESTINATION PARK AUTHORITY
(A Component Unit of the State of Iowa)

Governmental Fund Balance Sheet/Statement of Net Assets (Deficit)

June 30, 2007

	Governmental fund balance sheet	Adjustments	Statement of net assets (deficit)
Assets:			
Current assets:			
Interest receivable	\$ 43,553	—	43,553
Deferred charges	—	16,527	16,527
Total current assets	43,553	16,527	60,080
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	2,079,380	—	2,079,380
Investments	2,279,746	—	2,279,746
Deferred charges, net of current portion	—	462,762	462,762
Due from State of Iowa	28,000,000	—	28,000,000
Total noncurrent assets	32,359,126	462,762	32,821,888
Total assets	32,402,679	479,289	32,881,968
Liabilities:			
Current liabilities:			
Accrued interest payable	—	125,624	125,624
Total current liabilities	—	125,624	125,624
Noncurrent liabilities:			
Bond premium, net	—	261,425	261,425
Bonds payable	—	33,370,000	33,370,000
Total liabilities	—	33,757,049	33,757,049
Fund balance/net assets (deficit):			
Fund balance:			
Reserved for advances	28,000,000	(28,000,000)	—
Reserved for debt service	4,402,679	(4,402,679)	—
Total liabilities and fund balance	\$ 32,402,679	1,354,370	
Net assets (deficit):			
Unrestricted		(875,081)	(875,081)
Total net assets (deficit)		\$ (875,081)	\$ (875,081)

See accompanying notes to financial statements.

HONEY CREEK PREMIER DESTINATION PARK AUTHORITY

(A Component Unit of the State of Iowa)

Statement of Governmental Fund Revenues,
Expenditures, and Changes in Fund Balance/Statement of Activities

Year ended June 30, 2007

	Governmental fund statement of revenues, expenditures, and, changes in fund balance	Adjustments	Statement of activities
Revenues:			
General revenue:			
Interest income on investments and bank deposits	\$ 188,498	—	188,498
Total revenues	188,498	—	188,498
Expenditures/expenses:			
Amortization expense	—	16,527	16,527
Debt service:			
Bond interest	929,616	117,436	1,047,052
Total expenditures/expenses	929,616	133,963	1,063,579
Excess (deficiency) of revenues over expenditures/expenses	(741,118)	(133,963)	(875,081)
Other financing sources (uses):			
Proceeds from bonds issued	33,370,000	(33,370,000)	—
Premium on bonds issued	269,613	(269,613)	—
Bond issuance costs	(495,816)	495,816	—
Total other financing sources (uses)	33,143,797	(33,143,797)	—
Net change in fund balance/net assets (deficit)	32,402,679	(33,277,760)	(875,081)
Fund balance/net assets (deficit) at beginning of year	—	—	—
Fund balance/net assets (deficit) at end of year	\$ 32,402,679	(33,277,760)	(875,081)

See accompanying notes to financial statements.

HONEY CREEK PREMIER DESTINATION PARK AUTHORITY

(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies and Related Matters

(a) *Organization*

The Honey Creek Premier Destination Park Authority (the Authority) was authorized by the provisions of Chapter 463C.11 of the Code of Iowa on June 15, 2005. The purposes of the Authority include: (a) to implement and administer the Honey Creek premier destination park bond program and to establish a stable source of revenue to be used for the purposes designated, (b) to issue bonds and enter into funding options, including refunding and refinancing its debt and obligations, (c) to provide for and secure the issuance and repayment of its bonds, (d) to invest funds available to provide for a source of revenue in accordance with the program plan, (e) to refund and refinance the Authority's debts and obligations, and to manage its funds, obligations, and investments as necessary, and (f) to implement the purposes of Chapter 463C.11 of the Code of Iowa.

The Authority's board consists of the Treasurer of State, Auditor of State and the Director of the Department of Management of the State.

(b) *Reporting Entity*

The Authority is a component unit of the State of Iowa (State). The financial statements of the Authority are included in the State's comprehensive annual financial report.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Authority. The Authority has no component units that meet the GASB criteria.

(c) *Authority-Wide and Fund Financial Statements*

The financial statements combine both an Authority-wide perspective and governmental perspective.

The Authority is classified as a special revenue fund in the State's comprehensive annual financial report. Special revenue funds account for the proceeds of specific revenue sources (other than permanent or capital projects) that are legally restricted to expenditures for a specified purpose. The difference between assets and liabilities are referred to as "fund balance."

The Authority-wide financial statements, the statement of net assets and the statement of activities, report information on all the activities of the Authority. Governmental activities generally are those normally financed through taxes, intergovernmental revenues, and other nonexchange revenues.

HONEY CREEK PREMIER DESTINATION PARK AUTHORITY

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Notes to Financial Statements

June 30, 2007

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable within a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

(d) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The Authority-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payments are due.

(e) *Honey Creek Premier Destination Park Authority Bonds, Series 2006*

The Authority issued Honey Creek Premier Destination Park Authority Bonds, (Series 2006 Bonds), dated October 19, 2006, in the amount of \$33,370,000. These bonds are secured by the net revenues of the Honey Creek Premier Destination Park Project (the Park).

(f) *Due From the State of Iowa*

Upon issuance of the Series 2006 Bonds, the Authority advanced \$28,000,000 to the Honey Creek Park Fund (the Fund), an enterprise of the State of Iowa. The Fund is used to account for the development and operations of the Park. The advance will be reduced by the principal amount paid each year, which will be funded by the net revenues of the Park.

(g) *Significant Accounting Policies*

The financial statements of the Authority have been prepared in conformity with U.S. generally accepted accounting principles as applied to government units. The more significant of the Authority's accounting policies are described below.

Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. Investments not meeting the definition of cash equivalents at June 30, 2007 include U.S. agency bonds and notes totaling \$2,279,746.

HONEY CREEK PREMIER DESTINATION PARK AUTHORITY

(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2007

Investments

Investments in debt and equity securities are recorded at fair value in the balance sheet/statement of net assets (deficit) with the change in fair value of investments recorded in the statement of revenues, expenditures, and changes in fund balance/statement of activities.

Deferred Charges

Deferred charges represent bond issuance costs that are deferred and amortized over the life of the related bond issue using the straight-line method.

Bond Premium

Bond premium is deferred and amortized as an adjustment to interest expense over the life of the related bond issue using the effective interest method.

Use of Estimates

Management of the Authority has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues, and expenses and the disclosure of contingent assets or liabilities to prepare these financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

HONEY CREEK PREMIER DESTINATION PARK AUTHORITY

(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2007

(2) Deposits and Investments

At June 30, 2007, the Authority's bank balance of \$10,825 was covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. Cash equivalents at June 30, 2007 included \$2,068,555 invested in a treasury obligation fund. Investments are as follows for the year ended June 30, 2007:

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities (in years)</u>			<u>Concentration</u>
		<u>Less than 1</u>	<u>1 – 2</u>	<u>3 – 5</u>	
Debt securities:					
Federal Home Loan Mortgage Series MTN 4.33% 06/29/2009-2007	\$ 491,685	—	491,685	—	21.6%
Federal Home Loan Mortgage Series MTN 3% 03/28/2008-2006	491,560	491,560	—	—	21.6
Federal Home Loan Bank Series 4% 07/23/2009-2007	348,796	—	348,796	—	15.3
Federal Home Loan Series 4% 07/23/2008-2007	248,985	—	248,985	—	10.9
Federal Home Loan Bank Series N808 STEP UP 4% 08/20/2008-2007	497,500	—	497,500	—	21.8
Federal Home Loan Bank 4.35% 10/21/2009-2007	201,220	—	201,220	—	8.8
	<u>\$ 2,279,746</u>	<u>491,560</u>	<u>1,788,186</u>	<u>—</u>	<u>100.0%</u>

(a) Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(b) Credit Risk

Under bond resolutions of the Official Statement of the Honey Creek Destination Bonds, Series 2006, the Authority is authorized to invest in defeasance collateral; noncancelable senior debt obligations of U.S. government-sponsored agencies that are not backed by the full faith and credit of the U.S. government; demand and time deposits in or certificates of, or banker's acceptances issued by, any bank or trust company, savings and loan association or savings bank; municipal obligations of any state of the United States or the State or any political subdivision thereof; commercial or finance company paper; repurchase obligations; securities bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States or any state, municipality or political subdivision thereof; units of taxable money market funds; investment agreements, forward delivery agreements, or guaranteed investment contracts rated, or with any financial institution or corporation; other obligations, securities, agreements or contracts that are noncancelable and are acceptable to each nationally recognized rating service agency.

HONEY CREEK PREMIER DESTINATION PARK AUTHORITY

(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2007

As of June 30, 2007, the Authority's investments in U.S. agency bonds and notes listed above, were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

(c) Concentration of Credit Risk

The Authority places no limit on the amount that may be invested in any one issuer. Concentration percentages by investment type are included in the above table.

(d) Custodial Credit Risk

The Authority's deposits in financial institutions were covered by the Federal Deposit Insurance Corporation, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. The Authority's investments are all held by the State of Iowa or held by the State of Iowa's agent in the name of the Authority.

(3) Bonds Payable

The Honey Creek Destination Bonds (Series 2006) bear interest at rates of 4% to 5% and mature in varying annual amounts ranging from \$370,000 to \$2,210,000, with the final term maturity due in the year ending June 30, 2036. The balance outstanding on June 30, 2007 was \$33,370,000.

The bond documents include the following provisions:

- (a) The Series 2006 Bonds are limited special obligations of the Authority. The Series 2006 Bonds do not constitute an indebtedness of the State. The Series 2006 Bonds are payable solely and only out of the moneys, assets or revenues of the Honey Creek Fund pledged by the Authority to the payment of the Series 2006 Bonds and are not an indebtedness of the State or a charge against the general credit or general fund of the State, and the State shall not be liable for the Series 2006 Bonds except from amounts on deposit in the funds pledged to payment of the Series 2006 Bonds. The Series 2006 Bonds are not an obligation of the State or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation. Neither the credit nor taxing power of the State or any political subdivision of the State is pledged to the payment of the Series 2006 Bonds.
- (b) The proceeds of the Series 2006 Bonds, except as deposited in the debt service reserve account, are not pledged to the payment of, and therefore not available to the holders of, the Series 2006 bonds.

HONEY CREEK PREMIER DESTINATION PARK AUTHORITY

(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2007

- (c) A bond fund is established with the bond indenture trustee and money will be deposited in the fund as provided in the bond indenture. The money will be held in trust and, except as otherwise provided in the bond indenture, will be applied solely to the payment of debt service. The bond fund includes the debt service account, the debt service reserve account, and such other accounts as deemed necessary.

	Series 2006 Bonds		Total
	Principal	Interest	
Years ending June 30:			
2008	\$ —	1,507,485	1,507,485
2009	—	1,507,485	1,507,485
2010	—	1,507,485	1,507,485
2011	370,000	1,507,485	1,877,485
2012	485,000	1,519,260	2,004,260
2013 – 2017	3,740,000	7,238,100	10,978,100
2018 – 2022	5,330,000	6,338,945	11,668,945
2023 – 2027	6,685,000	4,977,750	11,662,750
2028 – 2032	8,480,000	3,156,800	11,636,800
2033 – 2036	8,280,000	902,475	9,182,475
Total	\$ <u>33,370,000</u>	<u>30,163,270</u>	<u>63,533,270</u>

The following summarizes the bond payable activity of the Authority for the year ended June 30, 2007:

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Bonds payable:					
Series 2006 bonds	\$ —	33,370,000	—	33,370,000	—
Total bonds payable	\$ —	<u>33,370,000</u>	<u>—</u>	<u>33,370,000</u>	<u>—</u>



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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board
Honey Creek Premier Destination Park Authority:

We have audited the financial statements of the Honey Creek Premier Destination Park Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2007, and have issued our report thereon dated March 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Honey Creek Premier Destination Park Authority's, a component unit of the State of Iowa, financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, and

other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the Honey Creek Premier Destination Park Authority, a component unit of the State of Iowa, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 26, 2008