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AN EQUAL OPPORTUNITY EMPLOYER

**B39683**

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November 7, 2011

Board of Directors  
Hendricks County 4-H and Agricultural  
Fair Association  
1900 E. Main Street, P.O. Box 7  
Danville, IN 46122

We have reviewed the audit report prepared by Donovan, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Hendricks County 4-H and Agricultural Fair Association, as of December 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. The internal control report contains six comments.

STATE BOARD OF ACCOUNTS

HENDRICKS COUNTY 4-H AND AGRICULTURAL  
FAIR ASSOCIATION

FINANCIAL STATEMENTS

For The Years Ended December 31, 2008 and 2007

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**DONOVAN**  
Certified Public Accountants  
and Advisors

To the Board of Directors and Management  
Hendricks County 4-H and Agricultural Fair Association  
Danville, Indiana

We have audited the accompanying statements of financial position – modified cash basis of the Hendricks County 4-H and Agricultural Fair Association as of December 31, 2008 and 2007 and the related statements of activities and changes in net assets – modified cash basis, cash flows – modified cash basis, and statements of functional expense – modified cash basis for the years then ended, as well as the supplementary information contained in Schedule I, which is presented for supplementary analysis purposes only. These financial statements are the responsibility of the Hendricks County 4-H and Agricultural Fair Association’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 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hendricks County 4-H and Agricultural Fair Association as of December 31, 2008 and 2007 and the activities, changes in net assets and cash flows – modified cash basis for the years then ended, on the basis of accounting described in Note 2.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2009, on our consideration of Hendricks County 4-H and Agricultural Fair Association’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 the 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.

DONOVAN

*DONOVAN*

November 10, 2009

HENDRICKS COUNTY 4-H AND AGRICULTURAL FAIR ASSOCIATION  
 STATEMENTS OF FINANCIAL POSITION - MODIFIED CASH BASIS  
 December 31, 2008 and 2007

ASSETS

	2008	2007
Cash and cash equivalents	\$ 78,688	\$ 143,061
Property and equipment:		
Buildings	533,187	503,635
Machinery and equipment	644,577	556,357
Land improvements	268,589	222,839
Less accumulated depreciation	(450,619)	(284,566)
Net property and equipment	995,734	998,265
Total assets	\$ 1,074,422	\$ 1,141,326

LIABILITIES AND NET ASSETS

Current liabilities:		
Payroll liabilities	\$ 3,920	\$ 4,577
Net assets	1,070,502	1,136,749
Total liabilities and net assets	\$ 1,074,422	\$ 1,141,326

See independent auditors' report and accompanying notes to financial statements.

HENDRICKS COUNTY 4-H AND AGRICULTURAL FAIR ASSOCIATION  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS -  
MODIFIED CASH BASIS

For the Years Ended December 31, 2008 and 2007

	2008	2007
Support and Revenue:		
Support:		
Hendricks County appropriation	\$ 404,750	\$ 429,750
Hendricks County innkeepers tax	99,027	162,555
Hendricks County cumulative fund	50,000	-
Contributions and sponsorships	14,600	52,526
Total support	568,377	644,831
Revenue:		
Fair income	232,258	177,664
Conference center rental income	158,047	112,196
Miscellaneous income	16,147	13,490
Boat and storage rental fees	12,088	11,779
Gain on sale of equipment	11,896	-
Camping fees	9,010	-
Fall truck pull event	6,032	-
Shavings	4,887	-
Total revenue	450,365	315,129
Total support and revenue	1,018,742	959,960
Expenses:		
Functional expenses:		
Program services:		
Fair expense	486,357	368,947
Facilities expense	384,289	302,287
Other program	99,715	90,687
Total program services	970,360	761,922
Supporting activities:		
General and administrative	75,299	76,155
Fundraising	39,329	36,406
Total supporting activities	114,628	112,561
Total expenses	1,084,989	874,483
Changes in net assets	(66,247)	85,477
Net assets - beginning of year	1,136,749	1,051,272
Net assets - end of year	\$ 1,070,502	\$ 1,136,749

See independent auditors' report and accompanying notes to financial statements.

HENDRICKS COUNTY 4-H AND AGRICULTURAL FAIR ASSOCIATION  
 STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS  
 For the Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Excess of revenues over expenses	\$ (66,247)	\$ 85,477
Adjustments to reconcile excess revenues to net cash provided by operating activities:		
Depreciation expense	166,053	158,410
Changes in certain assets and liabilities:		
Payroll liabilities	(657)	(3,723)
Net cash provided by operating activities	99,149	240,164
Cash flows used by investing activities:		
Purchases of fixed assets	(163,522)	(173,703)
Net change in cash and cash equivalents	(64,373)	66,461
Cash and cash equivalents at beginning of year	143,061	76,600
Cash and cash equivalents at end of year	\$ 78,688	\$ 143,061

See independent auditors' report and accompanying notes to financial statements.

HENDRICKS COUNTY 4-H AND AGRICULTURAL FAIR ASSOCIATION  
STATEMENT OF FUNCTIONAL EXPENSE - MODIFIED CASH BASIS

For the Year Ended December 31, 2008

	Program Expense				Support Expense			Total 2009
	Fair Expense	Facilities Expense	Other Program	Subtotal Program	General and Administrative	Fundraising		
Fair expense	\$ 267,800	\$ -	\$ -	\$ 267,800	\$ -	\$ -	\$	\$ 267,800
Salaries and wages	54,815	78,308	23,492	156,615	18,425	9,213		184,253
Utilities	50,438	72,055	21,616	144,110	16,954	8,477		169,541
Depreciation expense	49,401	70,573	21,172	141,145	16,605	8,303		166,053
Insurance expense	25,494	36,420	10,926	72,840	8,569	4,285		85,694
Equipment and rental	14,989	21,413	6,424	42,826	5,038	2,519		50,384
Janitorial and supplies	-	39,236	-	39,236	-	-		39,236
Grounds	-	24,628	-	24,628	-	-		24,628
Repairs and maintenance	6,116	8,737	2,621	17,474	-	-		17,474
Payroll taxes	4,194	5,991	1,797	11,982	1,410	705		14,096
Miscellaneous	3,257	4,653	1,396	9,306	1,095	547		10,948
Legal and professional	3,045	4,349	1,305	8,699	1,023	512		10,234
Employee benefits	2,894	4,135	1,240	8,270	973	486		9,729
Innkeepers tax	-	8,201	-	8,201	-	-		8,201
Board expense	-	-	-	-	3,924	3,924		7,848
Operations	2,131	3,045	913	6,089	716	359		7,164
Truck pull	-	-	6,048	6,048	-	-		6,048
Telephone	1,782	2,546	764	5,092	566	-		5,658
<b>Totals</b>	<b>\$ 486,357</b>	<b>\$ 384,289</b>	<b>\$ 99,715</b>	<b>\$ 970,360</b>	<b>\$ 75,299</b>	<b>\$ 39,329</b>		<b>\$ 1,084,989</b>

See independent auditors' report and accompanying notes to financial statements.

HENDRICKS COUNTY 4-H AND AGRICULTURAL FAIR ASSOCIATION  
STATEMENT OF FUNCTIONAL EXPENSE - MODIFIED CASH BASIS

For the Year Ended December 31, 2007

	Program Expense				Support Expense			Total 2009
	Fair Expense	Facilities Expenses	Other Program	Subtotal Program	General and Administrative	Fundraising		
Depreciation expense	\$ 47,127	\$ 67,324	\$ 20,197	\$ 134,649	\$ 15,841	\$ 7,921	\$ 158,410	
Fair expense	157,348	-	-	157,348	-	-	157,348	
Utilities	45,480	64,972	19,492	129,944	15,288	7,644	152,875	
Salaries and wages	38,029	54,327	16,298	108,655	12,783	6,391	127,829	
Insurance expense	23,088	32,983	9,895	65,965	7,761	3,880	77,606	
Repairs and maintenance	26,882	38,403	11,521	76,805	-	-	76,805	
Operations	16,144	23,063	6,919	46,126	5,427	2,713	54,266	
Payroll taxes	4,027	5,753	1,726	11,506	1,354	677	13,536	
Employee benefits	3,362	4,803	1,441	9,605	1,130	565	11,300	
Board expense	-	-	-	-	4,878	4,878	9,756	
Marketing and advertising	-	-	-	-	9,186	483	9,669	
Equipment and rental	2,514	3,592	1,078	7,183	845	423	8,451	
Miscellaneous	1,722	2,460	739	4,920	579	289	5,788	
Telephone	1,691	2,416	725	4,831	568	284	5,683	
Legal and professional	1,533	2,193	658	4,387	516	258	5,161	
Totals	\$ 368,947	\$ 302,287	\$ 90,687	\$ 761,923	\$ 76,155	\$ 36,406	\$ 874,483	

See independent auditors' report and accompanying notes to financial statements.

HENDRICKS COUNTY 4-H AND AGRICULTURAL FAIR ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2008 and 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – The Hendricks County 4-H and Agricultural Fair Association (the Association) was formed in 1938 as a non-profit organization in Hendricks County, Indiana. The Association sponsors an annual fair and other activities in which youth may learn agricultural, consumer, family and home industries and other life skills.

Basis of Accounting – The financial statements are prepared on the modified cash method of accounting in accordance with generally accepted accounting principles. Under the modified cash method of accounting, donations and grants are recognized as revenue when they are received and expenses are recognized when they are paid.

Basis of Presentation – The Association reports financial position and activities according to three classes of net assets: Unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Association. Temporarily restricted net assets represent resources restricted by donors for specific purposes for which restrictions have not yet been met. Permanently restricted net assets represent donated resources with stipulations that they be used for specific purpose, be preserved, or be invested to provide a permanent source of income. The Association has no permanently restricted net assets.

Cash Equivalents – The Association considers all demand deposit accounts, money market funds and securities with original maturities of three months or less to be cash equivalents for the statement of cash flows.

Cash Deposits in Excess of Insured Limits – The Association maintains cash balances at three financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2008 and 2007, the Association had no uninsured cash balances.

Property and Equipment – Property and equipment is valued at historical cost and depreciated over the estimated useful lives of the related assets. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 40 years. It is the Association's policy to capitalize purchases of property and equipment that benefits future periods and exceeds \$1,000. The Association is in possession of certain assets owned by Hendricks County. These assets are not reflected in the financial statements.

Income Taxes – Hendricks County 4-H and Agricultural Fair Association qualifies as a not-for-profit organization and is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for federal or state income tax has been made.

Contributed Goods and Services – The Association does not recognize any support, revenue, or expense from goods and services contributed by volunteers. If any support, revenue or expense were recorded, it would be based on the fair market value of the goods and services at the date of contribution.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

See independent auditors' report.

HENDRICKS COUNTY 4-H AND AGRICULTURAL FAIR ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2008 and 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications – Certain amounts in the 2007 financial statements have been reclassified to conform with the 2008 presentation with no effect on previously reported change in net assets.

NOTE 2 - PROPERTY LEASE

The Association leases the fairgrounds property from Hendricks County. The lease is a 50 year lease expiring on August 31, 2055. The lease terms require an annual payment of \$1.00 every January.

NOTE 3 - FUNCTIONAL ALLOCATION OF EXPENSE

Expenses are classified according to the functional purpose for which the costs are incurred. The cost of providing program and management & general services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

NOTE 4 - SUPPORT AND REVENUE

The Association derives its support and revenue from several sources. Over 50% of support and revenue is obtained from Hendricks County through appropriations, innkeepers tax allocations, and County cumulative fund distributions. Revenue is earned through various events including the annual fair, rental of the conference center, boat and storage rental fees and camping fees.

NOTE 5 - SICK DAYS

The Association offers a certain number of benefit days (sick days) to each of its employees. Employees receive sick time at the rate of 9 days per year. The employee can carry over sick days each year until a maximum accumulation of 36 days has been reached. Employees that resign due to permanent disability or retirement and have greater than 10 years of service shall be granted pay for accrued sick time at a rate that is calculated based upon the years of service. No sick day payout is currently accrued.

See independent auditors' report.

SUPPLEMENTARY INFORMATION

HENDRICKS COUNTY 4-H AND AGRICULTURAL FAIR ASSOCIATION

SCHEDULE I - EXPENDITURES OF GOVERNMENT AWARDS

For the Year Ended December 31, 2008

Fair expense:	
Livestock auction	\$ 71,022
Entertainment	34,692
Other	33,692
Advertising	21,644
Contract labor - barn	16,810
Rentals	14,750
Supplies	12,262
Truck and tractor pull	11,755
Trophies	10,259
Restrooms	8,250
Judges	6,968
Ribbons	6,595
Queen contest	6,516
Parking	6,308
Arenas	6,277
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Total fair expense	267,800
Facilities expense:	
Janitorial and supplies	39,236
Grounds	24,628
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Total facilities expense	63,864
Allocation of direct expenditures to program services	222,113
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Total expenditures of government awards	<u>\$ 553,777</u>

See independent auditors' report and accompanying notes to financial statements.



To the Board of Directors and Management  
Hendricks County 4-H and Agricultural Fair Association  
Danville, IN 46122

In planning and performing our audit of the financial statements – modified cash basis of Hendricks County 4-H and Agricultural Fair Association (the Association) as of and for the years ended December 31, 2008 and 2007 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, we considered the Association’s internal control over financial reporting (internal control) 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 an opinion on the effectiveness of the Association’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Association’s internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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 entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’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 entity’s internal control.

We noted no deficiencies in internal control that we consider to be significant deficiencies or other deficiencies that we consider to be material weaknesses.

**Other Comments and Recommendations:**

Process to Prepare Financial Statements

Statement on Auditing Standards No. 112 “Communication of Internal Control Related Matters Identified in an Audit” requires consideration of whether an organization has effective controls over the preparation of financial statements in cases where the independent public account prepares the financial statements.

The purpose of an audit is to express an opinion on the financial statements. In addition, the Association relies on Donovan to prepare the financial statements for the Association from the trial balance provided, in accordance with the modified-cash basis of accounting. The trial balance requires adjustments each year to be in accordance with the modified-cash basis of accounting, which are proposed by Donovan and approved by management. Donovan also prepares all footnotes required by the cash basis of accounting. Finally, the Association does not have a process in place to review current accounting standards to ensure the accounting policies of the Association are appropriate under the accrual basis of accounting and that all required disclosures are made.

#### Bank Statement Review

We suggest that an individual who is not directly involved in purchasing or invoice approval, such as the Board President, receive the bank statements directly from the bank. This individual would review the bank statements and cancelled checks for any strange or unusual items and investigate these items should any be found. Documentation of their review should be made on the face of the bank statement. We feel that this suggestion will further enhance the checks and balances necessary for strong controls over cash.

#### Allocation of Indirect Expense

The Association currently relies on the annual audit to allocate indirect expenses between the functions of program, supporting, and fundraising. A subjective approach is used to estimate the allocation by account. Financial standards recommend a more objective approach, using time sheets. Each employee should maintain a time sheet of where time is spent. Accounts would be established to track all the functions of the Association by each type of expense. Using this time sheet method, expenses specifically related to one of the functions will be charged directly to the function. All other expenses will be allocated based on the overall totals from the time sheets for the year. This method would provide supporting documentation for the allocation calculation and give a more accurate presentation of the Association.

#### Check Signing

During our audit procedures, we noted that for all checks written by the Association, regardless of dollar amount, only one signature is required. This practice weakens the internal controls over cash by vesting complete disbursement authority in one person. We suggest the Association consider developing a policy whereby checks written over a predetermined amount require two signatures. Allowances within this policy could be made for normal and recurring disbursements that exceed the established dollar limit.

#### Expense Approval

We suggest that an approval process be implemented for the payment of invoices and reimbursement of expenses. Invoices should be formally approved with signature by someone charged with governance not the same individual writing the checks. Expense reimbursements should be listed on expense reports with receipts attached and also reviewed and approved by an individual charged with governance not the same individual writing the checks. This practice will strengthen internal controls over cash by implementing a dual control over expense approval.

Monthly Financial Statement Presentation

The Board of Directors oversight of financial statements is an integral control over the Association in many aspects. The Board of Directors should be receiving timely and accurate reports of financial information. We suggest the Board receive these statements monthly for review and formal approval during Board meetings.

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The aforementioned comments were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the 2008 and 2007 financial statements, and this communication does not affect our report on those financial statements dated November 10, 2009. We have not considered internal controls since the date of our report.

This communication is intended solely for the information and use of management, Hendricks County 4-H and Agricultural Fair Association's Board of Directors, and others within Hendricks County 4-H and Agricultural Fair Association and is not intended to be and should not be used by anyone other than these specified parties.

DONOVAN



November 10, 2009