

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT

OF

INDIANA STATE FAIR COMMISSION

A COMPONENT UNIT OF THE STATE OF INDIANA

January 1, 2011 to December 31, 2011



**FILED**  
06/20/2012



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OFFICIALS

Office

Official

Term

Executive Director

Cynthia C. Hoyer

01-01-09 to 12-31-12

Chairman of the  
State Fair Commission

Andre Lacy

10-12-09 to 09-30-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

TO: THE OFFICIALS OF THE INDIANA STATE FAIR COMMISSION

We have audited the accompanying Statement of Net Assets of the Indiana State Fair Commission, a component unit of the State of Indiana, as of December 31, 2011, and the related Statements of Revenues, Expenses, and Changes in Fund Net Assets and Cash Flows for the year then ended. These financial statements are the responsibility of the Commission'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. 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 Indiana State Fair Commission's internal control over financial reporting. Accordingly, we express no such opinion. 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 that 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 Indiana State Fair Commission as of December 31, 2011, and the respective changes in financial position and cash flows thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Schedule of Funding Progress, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. 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.

STATE BOARD OF ACCOUNTS

April 20, 2012

# INDIANA STATE FAIR COMMISSION

## 2011 MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Indiana State Fair Commission (Commission), we offer readers of the Commission's basic financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended December 31, 2011.

### FINANCIAL HIGHLIGHTS

- The Commission's assets exceeded its liabilities at the close of the most recent fiscal year by \$40.5 million (net assets). Of this amount, \$4.3 million (unrestricted net assets) may be used to meet any of the Commission's ongoing obligations. There is \$1.0 million (dedicated funds) set aside for two major projects: renovation of Discovery Hall (\$.7), and renovation of the Coliseum (\$.3). The funds earmarked for the Discovery Hall project represents net income from the 2007, 2008, 2009, 2010 and 2011 Indiana State Fairs; less \$3.8 million spent on the project in 2011. The Coliseum set aside is being funded through earned revenue in the form of a facility charge added to the purchase of box office tickets; a portion of the funds dedicated to the Coliseum were used for design costs for proposed renovations.
- The Commission's current assets decreased by \$1.8 million, and total liabilities decreased \$1.3 million during the current fiscal year. Cash and cash equivalents decreased \$3.4 million.
- The Commission's total net assets decreased by \$2.0 million during the current fiscal year. The decrease in total net assets is primarily due to two major factors: less than normal revenue generated by the Fair, and increased operating expenses. Both of these situations are directly related to the collapse of the temporary roof on the stage that occurred on August 13<sup>th</sup>.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The State Fair Commission was established per Indiana Code 15-1.5-2 as the trustee for and on behalf of the people of the State of Indiana to administer the State Fairgrounds as trust property of the State of Indiana. The Commission is a separate body, corporate and politic. The Commission is not a state agency. Therefore, the organization's financial activities are accounted for in a manner similar to a commercial enterprise on the accrual basis of accounting. The Commission's basic financial statements include the statement of net assets, statement of revenues, expenses and change in fund net assets, statement of cash flows, and the notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves. All information included in this analysis is presented for the two most recent fiscal years to provide the opportunity for comparison between years.

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The *statement of revenues, expenses and changes in fund net assets* presents information showing how the Commission's net assets changed during each year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

In contrast, the *statement of cash flows* is concerned solely with flows of cash and cash equivalents. Transactions are recorded when cash is received or exchanged, without concern of when the underlying event causing the transactions occurred.

These financial statements can be found within this report.

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found within this report.

## FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the Commission, assets exceeded liabilities by \$40.5 million at the close of the most recent fiscal year.

### Indiana State Fair Commission's Comparative Summary of Net Assets (In Thousands of Dollars)

	2011	December 31, 2010
Current and other assets	\$ 17,631	\$ 17,548
Capital assets	<u>35,772</u>	<u>39,089</u>
Total Assets	<u>53,403</u>	<u>56,637</u>
Current liabilities	3,181	2,790
Noncurrent liabilities	<u>9,735</u>	<u>11,386</u>
Total Liabilities	<u>12,916</u>	<u>14,176</u>
Net Assets:		
Invested in capital assets, net		
of related debt	29,874	26,960
Restricted	6,351	10,210
Unrestricted	<u>4,261</u>	<u>5,291</u>
Total Net Assets	<u>\$ 40,486</u>	<u>\$ 42,461</u>

## FINANCIAL ANALYSIS (CONTINUED)

Net assets have decreased the most recently completed fiscal year, after increasing the previous fiscal year. The decrease was primarily generated by a combination of increased operating expenses and decreased Fair revenue. This combination offset an increase in non-operating revenues due to an appropriation related to the advancement of Standardbred Racing.

Restricted net assets decreased in 2011 by \$3.9 million, predominantly due to monies dedicated for the renovations to Discovery Hall and the Pepsi Coliseum being spent on these projects.

### Indiana State Fair Commission's Comparative Summary of Changes in Fund Net Assets (In Thousands of Dollars)

	Years Ended December 31,	
	2011	2010
Operating Revenues:		
State Fair	\$ 8,380	\$ 11,908
Rental of buildings	3,919	3,978
Parking	822	815
Concessions	757	726
Fairgrounds events	52	12
Skating	492	325
Other	<u>212</u>	<u>290</u>
Total Operating Revenues	<u>14,634</u>	<u>18,054</u>
Operating Expenses:		
State Fair	8,069	10,682
Professional services	5,909	3,975
Depreciation	3,815	3,955
Payroll	4,811	4,923
Materials & Supplies	952	781
Capital expenditures	437	89
Other	<u>395</u>	<u>422</u>
Total Operating Expenses	<u>24,388</u>	<u>24,827</u>
Loss from Operations	<u>(9,754)</u>	<u>(6,773)</u>
Nonoperating Revenues:		
Tax distributions	7,845	7,227
Contributions	445	642
Interest income	<u>36</u>	<u>40</u>
Total Nonoperating Revenues	<u>8,326</u>	<u>7,909</u>

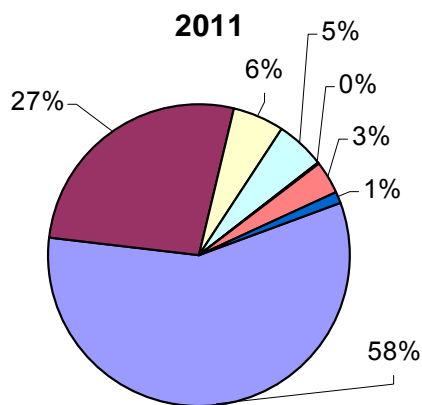
## FINANCIAL ANALYSIS (CONTINUED)

Nonoperating Expense:		
Interest Expense	<u>(547)</u>	<u>(610)</u>
Total Nonoperating Expense	<u>(547)</u>	<u>(610)</u>
Net Income (Loss)	<u>(1,975)</u>	<u>526</u>
Net Assets:		
Beginning of Year	<u>42,461</u>	<u>41,935</u>
End of Year	<u>\$ 40,486</u>	<u>\$ 42,461</u>

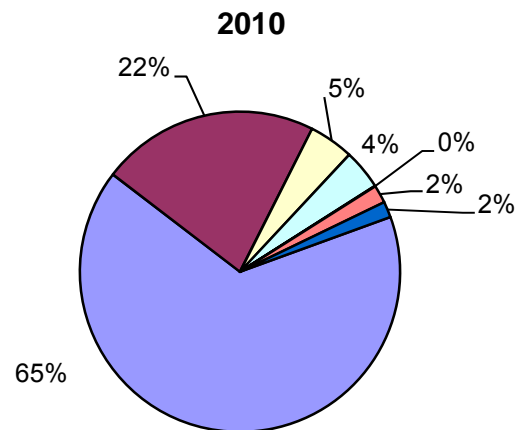
State Fair revenue decreased \$3.5 million. The decrease is primarily related to decreased entertainment revenue due to the cancellation of several concerts after the August 13<sup>th</sup> event. The corresponding expense also decreased \$2.6 million. The decrease is mainly due to decreased costs associated with cancelled grandstand entertainment.

The Commission's net assets decreased \$2.0 million during the current fiscal year, after increasing \$526 thousand during the preceding fiscal year, and increasing \$1.3 million during the fiscal year ended December 31, 2009. The decrease, as well as the preceding increases, has a notable correlation to the financial results of the fair.

## REVENUES BY SOURCE



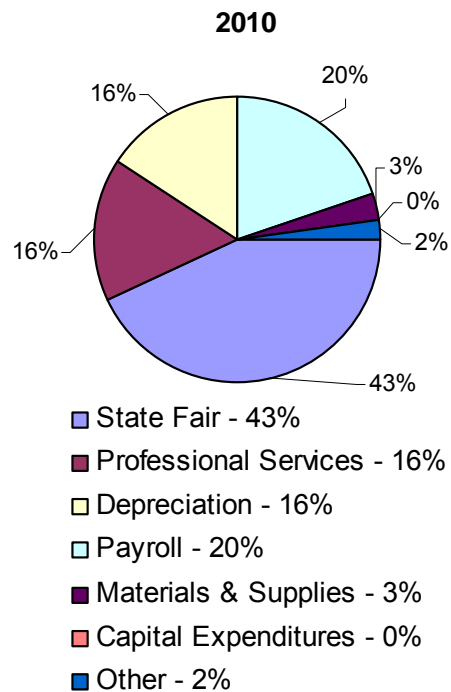
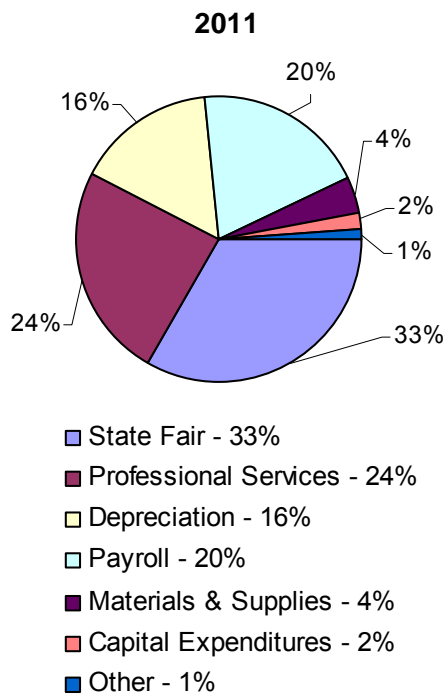
- State Fair - 58%
- Rental of Buildings - 27%
- Parking - 6%
- Concessions - 5%
- Fairgrounds Events - 0%
- Skating - 3%
- Other - 1%



- State Fair - 65%
- Rental of Buildings - 22%
- Parking - 5%
- Concessions - 4%
- Fairgrounds Events - 0%
- Skating - 2%
- Other - 2%

## FINANCIAL ANALYSIS (CONTINUED)

### EXPENSES BY TYPE



### CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: The Commission's investment in capital assets as of December 31, 2011, amounts to \$35.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and office furniture and fixtures. There was an additional \$5.3 million in construction in progress as of that date bringing the total capital assets to \$41.1 million. A portion of the capital assets were funded through a bond issued in 2002, with a total principal of \$23.2 million. As of December 31, 2011, there was \$1.7 million in short term and \$9.6 million in long term debt that remained outstanding. Investment in Capital Assets, Net of Related Debt at December 31, 2011 was \$29.9. The total increase in the Commission's investment in capital assets, net of related debt, for the current fiscal year was \$2.9 million.

Major capital asset events during the current fiscal year included the following:

- A major investment was made in 2011 in the Discovery Hall Project; although that project was not completed as of the end of the fiscal year. The project included tenant improvements for space that was leased as of January 1, 2012. The project contributed \$3.8 million to capital assets as of year end.
- There were costs associated with engineering and design for the Coliseum Project. The combined cost for the project was \$535 thousand in 2011. This project is expected to continue for a few years.
- There were three roof repair projects started in 2010 that were completed or continued in 2011. The roof projects combined for \$1.1 million in added capital assets in 2011.

**CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)**

**Indiana State Fair Commission's Capital Assets  
(Net of Depreciation)  
(In Thousands of Dollars)**

	<b>2011</b>	<b>2010</b>
Land	\$ 1,334	\$ 1,334
Land Improvements	5,718	6,455
Buildings	28,414	31,007
Equipment	192	233
Furnishings & Fixtures	114	60
Construction in Progress	<u>5,337</u>	<u>732</u>
Total	<u>\$ 41,109</u>	<u>\$ 39,821</u>

Additional information on the Commission's capital assets can be found in the notes to the financial statements.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the Commission's finances. Questions concerning any of this information should be addressed to Indiana State Fair Commission, 1202 East 38<sup>th</sup> Street, Indianapolis, IN 46205.



INDIANA STATE FAIR COMMISSION  
STATEMENT OF NET ASSETS  
December 31, 2011  
(Continued)

Liabilities and Fund Equity

Current Liabilities Payable From Unrestricted Funds:	
Accounts Payable	\$ 712,918
Salaries Payable	41,808
Payroll Withholdings Payable	78,375
Revenue Bonds Payable - Current	1,670,000
Revenue Bond Interest Payable	239,403
Taxes Payable	8,038
Deferred Revenue	253,675
Compensated Absences Payable - Current	<u>177,374</u>
Total Current Liabilities Payable From Unrestricted Funds	<u>3,181,591</u>
Noncurrent Liabilities:	
Revenue Bonds Payable - Long-Term	9,565,000
Unamortized Bond Discount	(12,595)
Unamortized Loss on Sale of Bonds	(16,371)
Compensated Absences - Long-Term Payable	<u>199,111</u>
Total Noncurrent Liabilities	<u>9,735,145</u>
Total Liabilities	<u>12,916,736</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	29,874,120
Restricted - Expendable:	
Dedicated Funds	989,584
Future Debt Service	4,163,865
Indiana State Fair Foundation	186,918
Restricted Pension Asset	10,629
Other Purposes	1,000,000
Unrestricted (Deficit)	<u>4,260,966</u>
Total Net Assets	<u>\$ 40,486,082</u>

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
For The Year Ended December 31, 2011

Operating Revenues:	
Fair Operations:	
Gates	\$ 2,489,533
Concessions/Midway	2,160,935
Entertainment	383,100
Sponsorship	1,527,136
Department	144,848
Sport/Events	107,055
Livestock	421,603
Shuttle Bus	205,182
Parking	376,621
Other	<u>563,750</u>
 Total Fair Operations	 <u>8,379,763</u>
Non-Fair Operations:	
Concessions	757,222
Rentals of Buildings, Grounds, and Equipment	2,374,254
Expense Reimbursement	1,544,710
Fairground Events	51,973
Ice Skating and Skate Shop	491,659
Parking	822,161
Sponsorships	145,500
Royalty Revenue	42,503
Other	<u>24,056</u>
 Total Non-Fair Operations	 <u>6,254,038</u>
 Total Operating Revenue	 <u>14,633,801</u>
Operating Expenses:	
Fair Operations:	
Personal Services	2,046,793
Services Other Than Personal	440,216
Services by Contract	4,112,585
Materials, Parts and Supplies	849,623
Equipment	2,550
Grants/Subsidies/Refunds/Awards	577,779
Travel	<u>39,264</u>
 Total Fair Operations	 <u>8,068,810</u>

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
For The Year Ended December 31, 2011  
(Continued)

Operating Expenses (continued):	
Non-Fair Operations:	
Personal Services	4,810,494
Services Other Than Personal	2,007,342
Services by Contract	3,902,082
Materials, Parts and Supplies	951,780
Equipment	33,912
Lands/Structures	402,814
Depreciation	3,815,334
Grants/Subsidies/Refunds/Awards	391,501
Travel	<u>3,270</u>
Total Non-Fair Operations	<u>16,318,529</u>
Total Operating Expenses	<u>24,387,339</u>
Operating Income (Loss)	<u>(9,753,538)</u>
Nonoperating Revenues (Expenses):	
Property Tax Distribution	13,599
State General Fund Appropriations	692,924
Riverboat Distribution	6,123,316
Pari-Mutual, Off Track Betting Distribution	264,492
Standardbred Racing Fund Distribution	750,000
Interest Income	35,938
Interest Expense 2002 Bond (Bond Debt Service)	(547,266)
Grants and Contributions	<u>445,361</u>
Total Nonoperating Revenues (Expenses)	<u>7,778,364</u>
Net Income (Loss)	<u>(1,975,174)</u>
Total Net Assets, January 1	<u>42,461,256</u>
Total Net Assets, December 31	<u><u>\$ 40,486,082</u></u>

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2011

Cash Flows from Operating Activities:	
Receipts from Customers and Users	\$ 14,722,533
Payments to Suppliers	(13,389,201)
Payments to Employees	<u>(6,727,184)</u>
Net Cash Used by Operating Activities	<u>(5,393,852)</u>
Cash Flows from Noncapital Financing Activities:	
Tax Distributions from State	7,151,407
State Appropriations	992,924
Grants and Contributions	<u>393,831</u>
Net Cash Provided by Noncapital Financing Activities:	<u>8,538,162</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition/Construction of Capital Assets	(5,104,148)
Principal Paid on Capital Debt	(1,625,000)
Interest Paid on Capital Debt	(510,084)
Grants and Contributions	<u>51,530</u>
Net Cash Used by Capital and Related Financing Activities	<u>(7,187,702)</u>
Cash Flows From Investing Activities:	
Purchase of Investments	-
Sale of Investments	665,631
Interest Income Received	<u>36,973</u>
Net Cash Used in Investing Activities	<u>702,604</u>
Net Increase in Cash and Cash Equivalents	(3,340,788)
Cash and Cash Equivalents, January 1	<u>9,137,825</u>
Cash and Cash Equivalents, December 31	<u>\$ 5,797,037</u>
Reconciliation of Cash and Cash Equivalents:	
Cash and Cash Equivalents, Current, per Statement of Net Assets	\$ 3,542,577
Cash and Cash Equivalents, Noncurrent, per Statement of Net Assets	<u>2,254,460</u>
Cash and Cash Equivalents, per Statement of Net Assets	<u>\$ 5,797,037</u>
Cash Flows from Operating Activities:	
Operating Loss	<u>\$ (9,753,538)</u>
Adjustments to Reconcile Operating Loss to	
Net Cash Used by Operating Activities:	
Depreciation Expense	3,815,334
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	37,757
(Increase) Decrease in Inventory	32,339
(Increase) Decrease in Prepaid Expenses	9,866
(Increase) Decrease in Net Pension Asset	73,138
Increase (Decrease) in Accounts Payable	280,879
Increase (Decrease) in Salaries and Payroll Withholding Payables	32,035
Increase (Decrease) in Deferred Revenue	50,975
Increase (Decrease) in Accrued Compensated Absences	24,930
Increase (Decrease) in Taxes Payable	<u>2,433</u>
Total Adjustments	<u>4,359,686</u>
Net Cash Used by Operating Activities	<u>\$ (5,393,852)</u>

The accompanying notes are an integral part of the financial statements.

INDIANA STATE FAIR COMMISSION  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The State Fair Commission, a component unit of the State of Indiana, was established per Indiana Code 15-1.5-2 as the trustee for and on behalf of the people of the State of Indiana to administer the State Fairgrounds as trust property of the State of Indiana. The Commission is a separate body, corporate and politic and is not a state agency. The Commission shall maintain and develop the Fairgrounds and other properties owned by the Commission.

The State Fair Commission is a component unit to be included in the State of Indiana's Comprehensive Annual Financial Report (CAFR) because of it being established a separate body, corporate and politic (not a state agency), by Indiana Code 15-13-2. A component unit is defined as a legally separate organization for which the elected officials of the primary government are financially accountable.

The accompanying financial statements include a blended component unit of the State Fair Commission.

Effective July 1, 2011, SEA 478 (2011) authorized the Indiana State Fair Commission to establish a nonprofit subsidiary corporation to solicit and accept private funding. Using this authority, the Indiana State Fair Foundation, an Internal Revenue Service approved 501(c)(3), was established. The Foundation is a financially responsible organization that helps create legacies to: enrich the lives of all Hoosiers, provide resources for youth development, communicate the traditions and technology of Indiana Agriculture, preserve and enhance the campus of the Indiana State Fairgrounds in perpetuity.

The Foundation is a public charity, qualified to accept tax deductible bequests, devises, transfers and gifts dedicated to support the year-round youth development, education and campus stewardship projects of the Indiana State Fair Commission, and is governed by the Commission.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Commission has chosen to follow subsequent private-sector guidance.

INDIANA STATE FAIR COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The Commission distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Bond issue accounts established by the bond covenants are invested in short-term United States Treasury and government securities and are maintained by a custodian financial institution.

Short-term investments are investments with remaining maturities of up to 90 days. State statute (IC 5-13-10.5) authorizes the Commission to invest in interest-bearing accounts, passbook savings accounts, certificates of deposit, money-market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit and obligations of the U.S. Treasury, a federal agency, a federal instrumentality, a federal government sponsored enterprise, and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Debt securities are reported at fair value. Debt securities held by the Commission are backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Investment income is reported as nonoperating revenues in the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of enterprise funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. 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 disclosures 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.

INDIANA STATE FAIR COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

4. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Funds dedicated to specific capital projects are classified as restricted assets on the statement of net assets.

5. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 25,000	Straight-line	15 Years
Tunnels	25,000	Straight-line	30 Years
Buildings	25,000	Straight-line	20 Years (40 Years Prior to 1981)
Building improvements	25,000	Straight-line	4-20 Years
Machinery and equipment	25,000	Straight-line	3-10 Years
Electrical upgrades	25,000	Straight-line	12-15 Years
Furniture and equipment	25,000	Straight-line	5-10 Years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. There was no interest expense capitalized by the State Fair Commission during 2011.

6. Accounts Payable

Operating payables and contracts payable have been combined on the Statement of Net Assets. Contracts payable make up \$557,225 of the combined accounts payable.

INDIANA STATE FAIR COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

7. Compensated Absences

- a. Sick Leave – Commission employees earn sick leave at the rate of 9 days per year. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is not paid to employees.
- b. Vacation Leave – Commission employees earn vacation leave at rates from 12 days to 25 days per year based upon the number of years of service. Vacation leave may be accumulated indefinitely. Accumulated vacation leave is paid to employees in good standing, through cash payments for up to a maximum of 30 days vacation upon separation of service.
- c. Personal Leave – Commission employees earn personal leave at the rate of 3 days per year. Unused personal leave may be accumulated to a maximum of 3 days. Any personal leave accumulated in excess of 3 days automatically becomes part of the sick leave balance. Accumulated personal leave is not paid to employees.

Vacation leave is accrued when incurred and reported as a liability. No liability is reported for sick or personal leave.

8. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

9. Net Assets

Net assets of the Commission are classified in three components:

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable net assets are generally noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the State Fair Commission. Restricted expendable net assets include amounts deposited with trustees as required by revenue bond indentures, funds dedicated to specific capital projects, and over funding of pension requirements, and funds set aside for youth development. All of the restricted expendable net assets are discussed in Note II-F. The financial statements report \$6,350,996 of restricted net assets, of which \$10,629 is restricted by enabling legislation.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

E. Grants and Contributions

From time to time, the Commission receives grants from the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements,

INDIANA STATE FAIR COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

The Commission received \$445,361 in grants and contributions in 2011. The grants include: \$51,530 from Purdue Agriculture Alumni to offset costs associated with a new building located in Pioneer Village. The contributions include: \$341,940 from the State of Indiana Horse Racing Commission to offset premiums and administrative expenses related to harness races held at the Fairgrounds, \$30,533 was contributed to the Youth Development Fund primarily attributed to proceeds from the Sale of Champions, \$2,500 each Indiana Soybean Alliance and Indiana Corn Marketing Counsel for a food drive held during the Fair, and \$11,200 in individual donations to the Buyers' Club; with the remaining contributions received primarily from individual donations totaling \$2,808, and \$2,350 from local merchants to support the cost of hosting the "Safe Night" for Halloween.

II. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Indiana State Fair Commission does not have a deposit policy for custodial credit risk. At December 31, 2011, the Indiana State Fair Commission had deposit balances in the amount of \$8,539,262. Of this amount, the following was exposed to custodial credit risk:

	2011
Uninsured and uncollateralized deposits	\$ -
Uninsured deposits collateralized with securities held by the pledging financial institution	-
Uninsured deposits collateralized with securities held by the pledging financial institution's trust department or agent, but not in the depositor-government's name	4,163,865
Total	\$ 4,163,865

2. Investments

As of December 31, 2011, the Commission had the following investments:

Investment Type	Market Value
U.S. agencies	\$ 3,001,599

INDIANA STATE FAIR COMMISSION  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

Statutory Authorization for Investments

Indiana Code 15-13-8 provides that the Treasurer of State shall invest the money in the State Fair Fund not currently needed to meet the obligations of the Fund in the same manner as other public funds may be invested.

Effective April 2011, the Commission adopted an investment policy which states that the Indiana Treasurer of State has full authority to invest the Commission's funds in a manner in which the Treasurer determines is in the best interest of the Commission, and in accordance with Indiana Code 5-13-10.5, limited only by the Commission's cash flow needs. The policy also states that all non-excess funds on deposit with the Commission are invested in repurchase sweep accounts in accordance with Indiana Code 5-13-10.5, or in short-term certificates of deposit.

Indiana Code 5-13-9 and 5-13-10.5 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; securities issued by any U.S. government agency; AAA money market mutual funds with a portfolio limited to direct obligations of the U.S., obligations of any federal agency, and/or repurchase agreements fully collateralized with U.S. government obligations or U.S. agency obligations; AAA rated commercial paper, and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

Indiana Code 5-13-10.5 authorizes the Commission to invest in interest-bearing accounts, passbook savings accounts, certificates of deposit, money-market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit and obligations of the U.S. Treasury, a federal agency, a federal instrumentality, a federal government sponsored enterprise, and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Commission does not have a formal investment policy for custodial credit risk for investments. The Commission's investments are held in the name of the Commission or the State of Indiana of which the Commission is a component unit.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission does not have a formal investment policy for interest rate risk for investments.

Investment Type	Investment Maturities (in Years)		
	Less Than 1	1-2	More Than 2
U.S. agencies	\$ 2,499,180	\$ -	\$ 502,419

INDIANA STATE FAIR COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below. The Commission does not have a formal investment policy in regards to credit risk.

Standard & Poor's Rating	Moody's Rating	Fair Value
AAA	Aaa	<u>\$ 3,001,599</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Commission does not have a formal policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Commission does not have a formal policy in regards to foreign currency risk. At December 31, 2011, the Commission had no foreign currency risk.

B. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

<u>2011</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,333,821	\$ -	\$ -	\$ 1,333,821
Construction in progress	<u>731,647</u>	<u>5,051,564</u>	<u>446,522</u>	<u>5,336,689</u>
Total capital assets, not being depreciated	<u>2,065,468</u>	<u>5,051,564</u>	<u>446,522</u>	<u>6,670,510</u>
Capital assets, being depreciated:				
Land improvements	13,505,309	65,742	-	13,571,051
Buildings and improvements	70,045,884	294,667	-	70,340,551
Machinery and equipment	3,942,924	52,581	-	3,995,505
Office furniture	<u>732,543</u>	<u>86,116</u>	<u>-</u>	<u>818,659</u>
Totals	<u>88,226,660</u>	<u>499,106</u>	<u>-</u>	<u>88,725,766</u>

INDIANA STATE FAIR COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>2011</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated (continued):				
Less accumulated depreciation for:				
Land improvements	(7,050,161)	(802,651)	-	(7,852,812)
Buildings and improvements	(39,038,887)	(2,887,688)	-	(41,926,575)
Machinery and equipment	(3,710,055)	(93,264)	-	(3,803,319)
Office furniture	(672,719)	(31,731)	-	(704,450)
Totals	<u>(50,471,822)</u>	<u>(3,815,334)</u>	-	<u>(54,287,156)</u>
Total capital assets, being depreciated, net	<u>37,754,838</u>	<u>(3,316,228)</u>	-	<u>34,438,610</u>
Total capital assets, net	<u>\$ 39,820,306</u>	<u>\$ 1,735,336</u>	<u>\$ 446,522</u>	<u>\$ 41,109,120</u>

Depreciation expense for the year ended December 31, 2011, was charged to non-fair operations-in the amount of \$3,815,334.

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>2011</u>	
	<u>Expended to December 31,</u>	<u>Committed</u>
South Pavilion Roof	\$ 734,023	\$ 775,000
Our Land Pavilion Roof	304,184	323,000
Discovery Hall	3,659,035	4,000,000
Pepsi Coliseum Renovation	535,249	600,000
Soy Bean Alliance Project	41,698	42,000
Comm. Building HVAC	<u>62,500</u>	<u>156,250</u>
Totals	<u>\$ 5,336,689</u>	<u>\$ 5,896,250</u>

D. Operating Lease

The Commission, as lessee, entered into an operating lease having initial or remaining non-cancelable terms exceeding one year with Van Ausdall & Farrar on May 25, 2010, for the lease of a Ricoh MPC 5000 copier. The lease agreement also includes terms related to maintenance costs. The lease expires in May 2015. The total lease expense for the year ending December 31, 2011, was \$11,864.

The Commission, as lessee, entered into an operating lease having initial or remaining non-cancelable terms exceeding one year with Konica Minolta on March 7, 2011, for the lease of three BIZHUB model copiers. The lease agreement also includes terms related to maintenance costs. The lease expires in March 2015. The total lease expense for the year ending December 31, 2011, was \$9,624.

INDIANA STATE FAIR COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Future minimum lease payments under operating leases are as follows:

		<u>Business-Type Activities</u>
2012	\$	14,672
2013		14,672
2014		14,672
2015		5,079
Total	\$	<u>49,095</u>

E. Long-Term Liabilities

1. Revenue Bonds

On August 7, 2002, the Indiana State Fair Commission issued \$23,190,000 of general revenue bonds. The interest rate on these bonds starts at 2 percent and gradually increases to 4.50%. These bonds were issued to refund the January 20, 2001, bond issue of \$3,750,000 and for construction purposes. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Balance at December 31</u>	<u>Less: Unamortized (Premium) Discount</u>	<u>Less: Deferral on Refunding</u>	<u>Amount</u>
Construction of Facilities	2.0% to 4.5%	\$ 11,235,000	\$ 12,595	\$ 16,371	<u>\$ 11,206,034</u>

Revenue bonds debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,670,000	\$ 445,405
2013	1,780,000	375,515
2014	1,790,000	301,435
2015	1,950,000	221,920
2016	2,030,000	135,335
2017	<u>2,015,000</u>	<u>45,338</u>
Totals	<u>\$11,235,000</u>	<u>\$ 1,524,948</u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

INDIANA STATE FAIR COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>2011</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable	\$ 12,860,000	\$ -	\$ 1,625,000	\$ 11,235,000	\$ 1,670,000
Compensated absences	351,555	24,930	-	376,485	177,374
Total Long-term liabilities	<u>\$ 13,211,555</u>	<u>\$ 24,930</u>	<u>\$ 1,625,000</u>	<u>\$ 11,611,485</u>	<u>\$ 1,847,374</u>

F. Restricted Assets

Cash and investments restricted include the following:

1. Repair and Replacement Fund – The Bond Covenants require the Commission to maintain a balance of \$1,000,000 in the Repair and Replacement Fund. This account is funded by cash held by the Indiana State Treasurer, and is considered as restricted, current and noncurrent investments.
2. Bond Debt Service Account – Required by the Bond Covenants. These funds are a reserve required in an amount equal to the maximum annual debt service over the life of the bond. The DSR requirement is \$2,254,460. These funds are considered restricted, noncurrent cash and cash equivalents.
3. Bond Funding Account – Required by the Bond Covenants. These are funds deposited monthly, 10 months a year, as monthly payments to be applied to the semiannual bond payment of interest and/or principle. These funds are considered restricted current cash and cash equivalents.
4. Dedicated Funds – The Commission has \$989,584 consisting of remaining funds set aside to be used for two specific projects: renovation of Discovery Hall and major repairs needed on the Coliseum. These funds are considered restricted current investments.
5. Indiana State Fair Foundation – Funds previously restricted for the ISF Youth Development Fund were given, in the form of an unrestricted contribution, to the Indiana State Fair Foundation. The Indiana State Fair Foundation was established in July 2011 with goals consistent with the ISF Youth Development Fund. The funds previously designated as ISF Youth Development Fund are now listed as Indiana State Fair Foundation.

The balances of restricted asset accounts are as follows:

<u>Year Ended December 31</u>	<u>Principle</u>
Bond DSR Fund	\$ 2,254,460
Bond Funding Account	1,909,405
Repair and Replacement Fund	1,000,000
Restricted Pension Asset	10,629
Indiana State Fair Foundation	186,918
Dedicated Funds	<u>989,584</u>
Total restricted assets	<u>\$ 6,350,996</u>

INDIANA STATE FAIR COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

G. Operating Revenue – Expense Reimbursement

The Indiana State Fair Commission receives revenue from the rental of buildings, grounds, and equipment. The contracts related to rental revenue contain allowances for expenses paid by the Commission on behalf of the client. These expenses can include, but are not limited to, utilities, set-up, tear-down, and clean-up. The costs of these expenses are passed along to the client. In many cases, the amount billed to the client is not a dollar to dollar pass through. Therefore, the revenue received for these services is recorded as Expense Reimbursement on the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The corresponding expense is recorded under operating expenses.

III. Other Information

A. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters. The Commission is subject to the protection offered by the Indiana Tort Claims Act. Tort claims shall be paid from the Indiana Tort Claims Fund established at Indiana Code 34-13-3-24.

The State Fair Commission generally does not purchase commercial insurance for the risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters. However, the Commission has acquired property insurance for specific buildings to guard against the destruction of assets, which covers up to \$158,660,500, and possible loss of business revenue related to such destruction of assets, which covers up to \$2,949,000. Currently, the Commission records, as an expenditure, any loss not covered by property insurance as the liability is incurred or replacement items are purchased. The State Fair Commission does have a faithful performance bond, as required by statute (IC 15-13-2-15), which covers up to \$50,000 for each of the following: Executive Director, Deputy Executive Director, Director of Finance, Commission Chair, and each Commission member.

B. Contingencies and Commitments

Litigation

In, 2011, *William Carter, et al v. Indiana State Fair Commission* was filed in the United States District Court, Indianapolis Division. Plaintiffs are seeking an FLSA Overtime Class (Collective) Action against the Indiana State Fair Commission seeking unpaid premium overtime wages. Answer to the Amended Complaint has been filed. Response in Opposition to Motion for Collective Action has been filed and is under advisement. No trial date has been set.

The State of Indiana Office of the Attorney General has determined there is a reasonable possibility that the State Fair Commission may be subject to a financial obligation based on the outcome of William Carter case. No liability for such a loss is listed on the financial statements of the Commission.

INDIANA STATE FAIR COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Retirement Medical Benefits Account

SEA 501 (2007) established a retirement medical benefits account as a health reimbursement arrangement for eligible state government retirees. Full-time benefited employees of the Indiana State Fair Commission are eligible participants to receive this benefit as outlined in SEA 501. Contributions on behalf of the eligible Indiana State Fair Commission participants are made by the State of Indiana. Therefore, no actuarial information is included in this report. Actuarial information concerning the retirement medical benefits account can be found in the 2011 State of Indiana Comprehensive Annual Financial Report.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Indiana State Fair Commission contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries.

All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Commission authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
One N. Capitol, Suite 001  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy

PERF members are required to contribute three percent of their annual covered salary. The Commission is required to contribute at an actuarially determined rate; the current rate is 7 percent of annual covered payroll. The contribution requirements of plan members and the Commission are established and may be amended by the PERF Board of Trustees.

Annual Pension Cost

For 2011, the Commission's annual pension cost of \$263,853 for PERF was greater than the Commission's required and actual contributions of \$190,715.

INDIANA STATE FAIR COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 262,966
Interest on net pension obligation	(5,864)
Adjustment to annual required contribution	6,751
Annual pension cost	263,853
Contributions made	190,715
Increase (decrease) in net pension obligation	73,138
Net pension obligation, beginning of year	(83,767)
Net pension obligation, end of year	\$ (10,629)
Contribution rates:	
State Fair Commission	7.00%
Plan members	3%
Actuarial valuation date	06-30-11
Actuarial cost method	Entry age normal cost
Amortization method	Level dollar, closed amortization period
Amortization period	30 years
Amortization period (from date)	07-01-07
Asset valuation method	75% of expected actuarial value plus 25% of market value
Amortization period	30 years
Amortization period (from date)	07-01-07
Asset valuation method	Level dollar, closed amortization period
Actuarial Assumptions	PERF
Investment rate of return	7.00%
Projected future salary increases:	
Total	4.50%
Cost-of-living adjustments	1.00%

INDIANA STATE FAIR COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-09	\$ 219,084	105%	\$ (99,706)
	06-30-10	231,023	93%	(83,767)
	06-30-11	263,853	72%	(10,629)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL or (Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL or (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
06-30-11	\$ 2,119,635	\$ 3,126,583	\$ 1,006,948	67.79%	\$ 2,707,438	37.19%

Funded Status and Funding Progress for the Above Plan

The Schedule of Funding Progress, presented as RSI for the above plan following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

INDIANA STATE FAIR COMMISSION  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employee's Retirement Fund

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL or (Funding Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL or (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c)
06-30-09	\$ 3,344,018	\$ 3,618,619	\$ 274,601	92.41%	\$ 3,463,490	7.93%
06-30-10	2,890,638	3,679,924	789,286	78.55%	3,074,043	25.68%
06-30-11	2,119,635	3,126,583	1,006,948	67.79%	2,707,438	37.19%

INDIANA STATE FAIR COMMISSION  
EXIT CONFERENCE

The contents of this report were discussed on June 13, 2012, with Cynthia C. Hoye, Executive Director; Andre Lacy, Chairman of the State Fair Commission; David Ellis, Director of Finance; and David J. Shaw, Chief Operating Officer. Our report disclosed no material items that warrant comment at this time.