

STATE OF INDIANA

Annual Comprehensive Financial Report
For the Fiscal Year Ended June 30, 2021

Eric J. Holcomb, Governor



Prepared by:

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We acknowledge the cooperation and assistance of the State Budget Agency and all other state agencies in the preparation of this report.

Please visit our web site at www.in.gov/auditor/

Auditor of State Biography

Tera K. Klutz is the 57th Indiana Auditor of State and the first Certified Public Accountant to serve as the state's Chief Financial Officer. Appointed by Governor Eric J. Holcomb in January 2017 and elected to a four-year term in November 2018, Klutz is focused on providing accurate information, maintaining and enhancing government transparency, and delivering great customer service to ALL Hoosiers.

Prior to becoming the Auditor of State, Klutz served as the County Auditor in Allen County, the third largest county in the state by population and the largest geographically. First elected in 2010 and again in 2014, Klutz streamlined local government processes, reduced debt, and maintained a balanced budget with responsible reserves. Between 2013 and 2016, Klutz was very active in the Association of Indiana Counties' Legislative Committee serving as the Chairwoman where she oversaw and directed the Association's legislative priorities.

In 2016, Klutz was named Auditor of the Year by the Indiana Auditors' Association for her dedicated and tireless work. Before serving in the public sector, Klutz was as a Senior Accountant at Crowe and PwC in Ft. Wayne.

As State Auditor, Klutz manages the Indiana Transparency Portal to provide Hoosiers an easily accessible and in-depth look at Indiana's finances and assets. In addition, she created an Internal Controls Department to review and document the processes within the office to reduce the risk of misstatement and opportunities for fraud.

Klutz holds a bachelor's degree in accounting from Indiana University-Purdue University Fort Wayne. She is a member of the Indiana CPA Society, the American Institute of CPAs, and Cornerstone Lutheran Church. She and her husband Zach have two daughters, Alyx and Julian, along with two Goldendoodles, Margo and Leo.



**AUDITORS OF STATE
Of THE STATE OF INDIANA**

Term	Name	Politics
1816-1828	William H. Lilley	Party Unknown
1828-1829	Benjamin I. Blythe	Party Unknown
1829-1844	Morris Morris	Party Unknown
1844-1847	Horatio J. Harris	Party Unknown
1847-1850	Douglas Maguire	Whig
1850-1853	Erastus W. H. Ellis	Democrat
1853-1855	John P. Dunn	Democrat
1855-1857	Hiram E. Talbot	Fusion-"peoples"
1857-1861	John W. Dodd	Democrat
1861-1863	Albert Lange	Republican
1863-1865	Joseph Ristine	Democratic Union
1865-1869	Thomas P. McCarthy	Republican
1869-1871	John D. Evans	Republican
1871-1873	John C. Shoemaker	Democrat
1873-1875	James A. Wilder	Republican
1875-1879	Ebenezer Henderson	Democrat
1879-1881	Mahlon D. Manson	Democrat
1881-1883	Edward H. Wolfe	Republican
1885-1887	James H. Rice	Democrat
1887-1891	Bruce Carr	Republican
1891-1895	John O. Henderson	Democrat
1895-1899	Americus C. Daily	Republican
1899-1903	William H. Hart	Republican
1903-1905	David E. Sherrick	Republican
1905-1906	Warren Bigler	Republican
1906-1910	John C. Billheimer	Republican
1910-1914	William H. O'Brien	Democrat
1914-1916	Dale J. Crittenberger	Democrat
1916-1920	Otto Clauss	Republican
1920-1922	William G. Oliver	Republican
1922-1924	Robert Bracken	Democrat
1924-1928	Lewis S. Bowman	Republican
1928-1930	Arch N. Bobbit	Republican
1930-1934	Floyd E. Williamson	Democrat
1934-1938	Laurence F. Sullivan	Democrat
1938-1940	Frank G. Thompson	Democrat
1940-1944	Richard T. James	Republican
1944-1948	Alvin V. Burch	Republican
1948-1950	James M. Propst	Democrat
1950-1954	Frank T. Millis	Republican
1954-1956	Curtis E. Rardin	Republican
1956-1958	Roy T. Combs	Republican
1958-1960	Albert A. Steinwedel	Democrat
1960-1964	Dorothy Gardner	Republican
1964-1966	Mark L. France	Democrat
1966-1968	John P. Gallagher	Republican
1968-1970	Trudy Slaby Etherton	Republican
1970-1978	Mary Aikins Currie	Democrat
1978-1982	Charles D. Loos	Republican
1982-1986	Otis E. Cox	Democrat
1986-1994	Ann G. DeVore	Republican
1994-1998	Morris Wooden	Republican
1998-2006	Connie K. Nass	Republican
2006-2013	Tim Berry	Republican
2013-2013	Dwayne Sawyer	Republican
2013-2017	Suzanne Crouch	Republican
2017-	Tera Klutz	Republican

STATE OF INDIANA
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June 30, 2021

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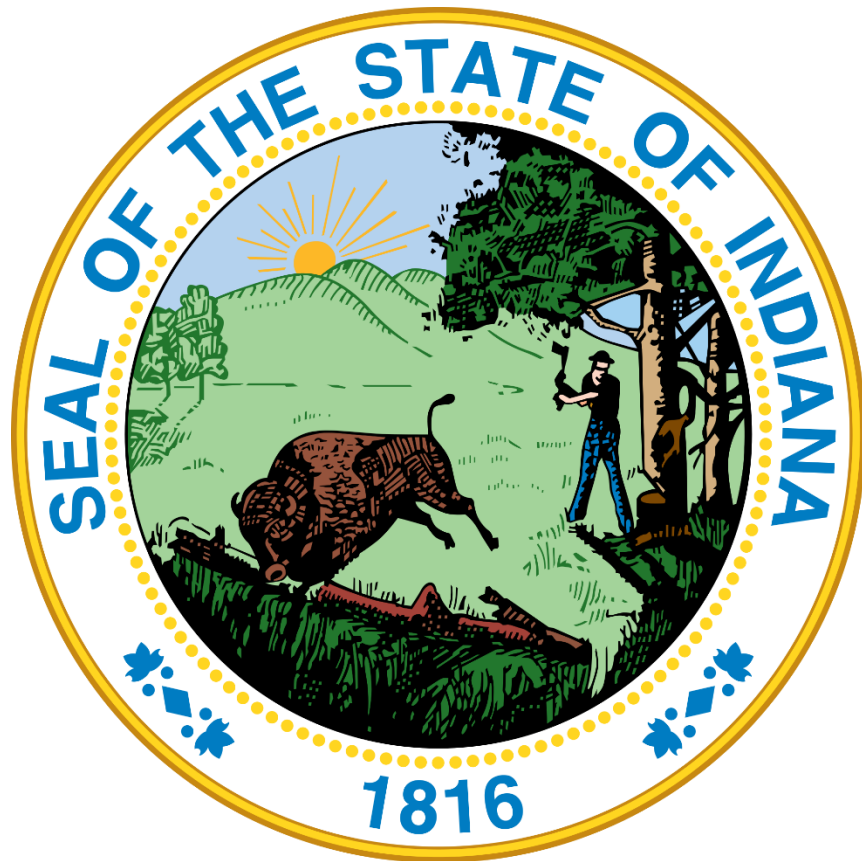
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INTRODUCTORY SECTION



Auditor of State



Tera K. Klutz, CPA

January 6, 2022

The Honorable Eric J. Holcomb, Governor,
Honorable Members of the General Assembly,
Citizens of the State of Indiana:

We are proud to present the Annual Comprehensive Financial Report (ACFR) for the State of Indiana's fiscal year ended June 30, 2021.

This Annual Comprehensive Financial Report has been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed in pronouncements by the Governmental Accounting Standards Board. While management remains primarily and ultimately responsible for the contents and presentation of this report, responsibility for both the accuracy of the data presented and completeness and fairness of the presentation rests with the State agencies that provide the data and which are obligated to verify postings. We believe the information in this report is accurate in all aspects and presents the financial position and results of operations of the State as measured by the financial activity of its various funds.

State statute requires an annual audit by the Indiana State Board of Accounts. The Board is considered by both the federal and state government to be independent auditors. The Independent Auditor's Report on the financial statements is included in the financial section of this report and in the Statewide Single Audit Report of the State of Indiana.

The State is responsible for ensuring that an adequate internal control structure is in place to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized user disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires management to make estimates and judgments.

This internal control structure is subject to periodic evaluation by management and internal audit staff of the various State agencies. As part of the Single Audit, tests are conducted to determine the adequacy of the internal control structure related to federal financial assistance programs, as well as to determine that the State of Indiana has complied with applicable laws and regulations.

Generally Accepted Accounting Principles provides for two types of statements, government-wide and fund statements. The government-wide statements are very similar to the private sector's statements, using the full accrual basis of accounting and the economic resources measurement focus. The governmental funds financial statements use the modified accrual basis of accounting

and the current financial resources measurement focus. In the government-wide statements, infrastructure (roads, bridges, dams) is capitalized. Capital assets, except for infrastructure using the modified approach, are depreciated like the private sector.

Management's Discussion and Analysis (MD&A) in the Financial Section introduces the basic financial statements and provides an analytical overview of the government's financial activities. It is presented before the basic financial statements and provides an in-depth analysis of the State of Indiana's finances.

Profile of the Government

Located in America's heartland in the Midwest, Indiana is a leading manufacturing state and a major agricultural producer. According to the 2020 Census results that were published in 2021, Indiana's population is approximately 6.8 million, which makes Indiana the nation's 17th largest State. The 2020 Census results show a 4.7% growth in residents since the 2010 Census. The five largest cities are Indianapolis (the capital), Fort Wayne, Evansville, South Bend, and Carmel.

Indiana became the 19th State of the Union on December 11, 1816. The State Constitution establishes the government in three separate departments: legislative, executive including administrative, and judicial. The legislative power of the State is vested in the Indiana General Assembly, which consists of a 100-member House of Representatives and a 50-member Senate. The Indiana General Assembly has the power to enact laws which are authorized and not prohibited by the State Constitution and not in conflict with the U.S. Constitution and laws made in pursuance thereof. The executive power of the State is vested with the Governor. The State Constitution and legislation establish the following Statewide elected administrative officials: Lieutenant Governor, Auditor of State, Secretary of State, Treasurer of State, and Attorney General. The judicial power of the State is vested in one Supreme Court consisting of five justices, one Court of Appeals consisting of 15 judges, 313 Trial Courts (including Circuit Courts), and one Tax Court.

The State government provides a wide range of services to the citizens of Indiana, including education, transportation, public health, public safety, welfare, conservation, and economic development.

This report includes the financial activities and balances of the State of Indiana and its component units. The component units are legally separate entities for which the State of Indiana has financial responsibility and include State funded colleges and universities, and other legally separate entities that provide services and benefits to local governments and the citizens of the State of Indiana. More information on the financial reporting entity can be found in Note I(A) in the notes to the financial statements.

The Indiana General Assembly meets every year. In odd years, it adopts a biennial budget which has been submitted by the Governor. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated funding sources. Budgetary control is exercised in that agencies of the State may only expend appropriations as allotted by the Budget Agency or other statutory authority. The State Board of Finance, which consists of the Governor, Auditor of State, and Treasurer of State, is empowered to transfer appropriations from one agency of the State to another, with the exception of trust funds. The State Budget Agency may transfer, assign, and reassign appropriations made for one specific purpose to another use or purpose within the same agency.

Factors Affecting Economic and Financial Conditions

The information presented in the financial statements is better understood within the context of the specific environment within which the State of Indiana operates. The following describes that environment.

Local Economy

Early in calendar year 2020, a respiratory disease named “coronavirus disease 2019” (“COVID-19”) began to spread to many parts of the world, including Indiana and elsewhere in the United States. On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization, and on March 13, 2020, the President of the United States declared a national emergency. On March 6, 2020, Indiana Governor Eric J. Holcomb declared that a public health emergency existed in the State through Executive Order 20-02. The economic impacts of restrictions imposed on business, travel, and entertainment to limit the spread of COVID-19 is evident in Indiana’s economic output decline during the first two calendar quarters of 2020. With the latest annual data released by Bureau of Economic Analysis (BEA) on March 26, 2021, Indiana’s 2020 real Gross Domestic Product (GDP) was \$385.3 billion and declined in real value by 3.1% compared to 2019. However, all of that decline occurred in the first two quarters of 2020. Industries most acutely impacted from the early months of the pandemic were food services, arts, recreation, entertainment, manufacturing, and transportation. The second half of calendar year 2020 saw quarterly growth in GDP. Based on BEA quarterly releases, the first half of calendar year 2021 also saw substantial growth in GDP. Indiana’s GDP in Q1 of 2021 grew 9.4% in real value which was the 7th highest growth rate in the country, and Q2 of 2021 realized a growth rate of 6.1%.

In comparison to other states, Indiana’s economy ranked 18th largest in the U.S. in terms of value of goods and services in calendar year 2020. Indiana’s largest contributor to real GDP has been and continues to be the manufacturing sector. As of January 2021, the manufacturing sector accounted for over 17% of the non-farm jobs in Indiana.

Indiana began calendar year 2020 with a per capita personal income of \$48,980 and a seasonally adjusted unemployment rate of just 3.2%. By July 2020, after a few months into the global coronavirus pandemic, Indiana’s unemployment rate stood at 8.6%. One year later in June 2021, the unemployment rate had dropped to 4.1%. Estimated per capita personal income for Indiana in 2020 had grown to \$51,340. Contributing industries to personal income growth were farming, construction, retail, transportation, real estate, professional/technical fields, and health care.

Cash Management and Investments

Cash temporarily idle during the year was invested in deposit accounts, obligations of the U.S. Treasury and U.S. Agencies, money market mutual funds, and repurchase agreements. The pension trust funds' portfolios include other investments as outlined in Note I(E)(1) in the notes to the financial statements. The average yield on the General Fund investments was 0.32% for the fiscal year (FY) ended June 30, 2021. The average yield on the total investment of all funds, except for pension trust funds, was 0.64% for the FY ended June 30, 2021. The State's investment policy is to minimize credit and market risks while maintaining sufficient liquidity and earning a competitive yield on its portfolio. Deposits held by the Treasurer of State are insured by federal and state depository insurance.

Debt Administration

The commissions and authorities, some of which are included as component units in the financial reporting entity of the State of Indiana, issue bonds for some of the State's capital needs. All of the bond issues are revenue bonds associated with specific State component units. The total of long-term revenue bonds and notes outstanding, net of amortized discounts, is \$9.7 billion at June 30, 2021

Financial Policies

The Office of Management and Budget (“OMB”) directs the fiscal management and budget policy of the State. The Director of the OMB is the chief financial officer of the State and reports directly to the Governor. The Director is responsible for and has authority over all functions performed by the Budget Agency, the Department of Revenue, the Indiana Finance Authority, the Management Performance Hub, and the Department of Local Government Finance, as well as all budgeting, accounting and spending functions within the various agencies, departments and programs of State government.

On April 15, 2021, a week before the end of the 2021 legislative budget session, the Revenue Forecast Technical Committee presented an updated FY 2021 General Fund forecast to the State Budget Committee. This update added \$462.9 million to the FY 2021 forecast that was presented at the December 2020 meeting. Less than three months later, as FY 2021 closed, Indiana exceeded that April 15th forecast by an additional \$1,222.1 million. Indiana employment, income, and business activity along with federal assistance measures led a sharper economic return than was forecasted. FY 2021 finished with collections of \$19,407.4 million. This historic level of revenue growth (14% growth compared to FY 2020 after adjusting for a deferral of \$886.3 million in tax revenue from FY 2020 to FY 2021) along with state agency fiscal discipline (agencies reverted over \$257 million in appropriations back to the General Fund), boosted combined General Fund reserve balances over \$3,922.7 million. The highest nominal combined balances prior to FY 2021 were in FY 2019 at \$2,270.1 million.

For the first time since FY 2012, the statutory, end-of-the-biennium calculation resulted in the determination of excess reserves. A total of \$1,090.8 million will be evenly divided for two purposes in FY 2022: reducing statutorily directed pension liabilities and to pay for taxpayer income tax credits.

In addition to healthy General Fund reserve balances in FY 2021, the Indiana General Assembly passed a biennium budget in April 2021 that leaves at least \$500 million in projected annual surpluses for FY 2022 – FY 2023.

Long-Term Financial Planning

The Indiana Finance Authority is charged with developing, implementing, maintaining and monitoring a debt management plan for all non-conduit debt or debt-related obligations issued by the State. This plan is intended to provide guidance in the structuring, sale, monitoring, and post-issuance compliance for all State-related debt.

Indiana continues to position itself as one of the lowest debt-level states in the country. Net tax supported debt (NTSD) represents just \$233 per capita, the 6th lowest in the country (Moody's Debt Median Report, June 14, 2021). During the 2021 legislative session, Indiana continued its low-debt discipline by appropriating \$302 million for the defeasance of state-related bonds.

Indiana is one of thirteen states that has the highest credit rating assigned by all three independent credit rating agencies: Fitch, Moody's, and Standard & Poor's Ratings Service (S&P). From the April 2021 report, S&P cited four areas in issuing the AAA credit rating: modest economic growth across all sectors, maintenance of strong budgetary reserves, active budget management, and low overall debt levels. Fitch's November 2020 rating report issued AAA due to "the state's low long-term liability burden and exceptionally strong operating profile, including prudent budget management during the long economic expansion that further strengthened the state's robust financial resilience as it enters the current coronavirus-driven downturn."

Major Initiatives

K-12 Education – Funding for elementary and secondary education is the State's largest operating expense. Prior to January 1, 2003, the State provided approximately 66% of school corporations' general fund budgets. As part of the property tax reform legislation enacted by P.L. 146-2008, the State assumed responsibility for the local share of tuition support and provides 100% of the tuition support for school corporation general funds since January 2009.

For FY 2021, the K-12 tuition support appropriation was \$7,514.4 million. This appropriation funds a statutory formula distribution to local schools. Of the appropriation, \$196.8 million was left remaining at the end of FY 2021. The Budget Director authorized a transfer of this surplus to the Tuition Reserve Account which is part of the State's combined General Fund reserves. The FY 2022 appropriation for K-12 tuition support was increased in the 2021 budget bill to \$7,860.0 million.

In addition to the \$946.6 million appropriated in FY 2021 for teachers' pre-1996 retirement account, the Indiana General Assembly appropriated a one-time \$600 million from the General Fund for transfer to the pre-1996 teachers' retirement account, further reducing that pension fund's liability.

Higher Education – Through the General Fund, the State supports seven higher education institutions: Ball State University, Indiana University, Indiana State University, Ivy Tech Community College of Indiana, Purdue University, University of Southern Indiana, and Vincennes University. Higher education expenditures from the General Fund for FY 2021 totaled \$1,955.5 million, which includes funding for university operating, fee-replaced debt service, line items, university repair and rehabilitation, and State student aid.

Since FY 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding student fee and building facilities fee bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the Indiana Constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the policy will continue for outstanding bonds and notes. Estimated amount of debt outstanding at public universities at the end of FY 2021 was \$1,348.0 million.

Public Safety – Appropriations for the Department of Correction, payable almost entirely from the General Fund, include funds for incarceration and rehabilitation of adult and juvenile offenders, as well as parole programs. General Fund expenditures for FY 2021 totaled \$762.5 million.

Offender population is the most significant driver of corrections expenditures. The total offender population, including those in contracted jail beds, decreased from 25,884 at the end of FY 2020 to 24,086 at the end of FY 2021. This represents a significant 7% drop year over year.

Transportation – As a result of the funding changes in HEA 1002-2017, the Indiana Department of Transportation (INDOT) plans on investing more than \$3 billion annually in the State transportation network. These funds are being used for the operation, construction, preservation, and maintenance of all modes of transportation under INDOT.

Further, since 2016 and through December 2020, INDOT has partnered with cities, towns, and counties to provide more than \$840.4 million in state funds to support local road and bridge projects. This was made possible through the Community Crossings Matching Grant Program funded with existing gasoline use taxes.

During the 2019 legislative session, the General Assembly created the Next Level Connections Fund under INDOT to provide: \$90 million to local units of government for the funding of trails across the State, \$20 million to the Indiana Economic Development Corporation, \$100 million to the Rural Broadband Fund, up to \$205 million to the Northern Indiana Commuter Rail Account and \$585 million to INDOT for the accelerated completion of INDOT road projects across the State.

Conservation and Environment – In FY 2019, the Governor announced the Next Level Trail program. As of June 30, 2021, the Next Level Trails program has awarded grants to 35 projects, investing \$54.3 million of state funds that are leveraging \$34.4 million in local match to develop 112 miles of trails in 28 counties.

The Bicentennial Nature Trust (BNT) was launched in FY 2012 as a statewide land conservation initiative to celebrate Indiana's 200th anniversary in much the same way as the first 100 years of statehood were marked in 1916 with establishment of the state park system. The state committed \$20 million to help fund BNT and added an additional \$10 million in contributions from individuals, businesses and communities around the state. Through FY 2020, 198 BNT projects had been approved of which 173 have been closed protecting over 14,400 acres. DNR expects this program to be completed by the end of 2021.

Health and Human Services – Medicaid is a state/federal shared fiscal responsibility with the State supporting roughly one-third of the total program through a combination of State General Fund and dedicated funds over the biennium. Federal funding accounts for the remaining two-thirds. Average monthly enrollment has risen substantially over the last two years. This is driven primarily from the economic impacts from COVID-19 pandemic responses along with federal maintenance of effort requirements that prevent eligibility redeterminations throughout the time period of the federally determined public health emergency. In FY 2019, average monthly enrollment in Indiana's Medicaid program was 1,455,999. In FY 2020, average enrollment increased to 1,513,102. Average monthly enrollment for FY 2021 was 1,753,522. Indiana's base federal reimbursement rate equaled 65.84% for Federal Fiscal Year 2020 and 65.83% for Federal Fiscal Year 2021. However, in response to the Coronavirus pandemic, Congress approved a 6.2% base Federal Medical Assistance Percentage (FMAP) increase effective January 1, 2020 until the end of the quarter in which the public health emergency ends. This FMAP increase was applied to the final two quarters of State Fiscal Year 2020. The federal government extended the public health emergency for another 90 days starting on October 18, 2021. It is uncertain whether the federal government will continue declaring a public health emergency beyond this most recent extension. The Medicaid forecast and appropriations were based on a continuation of the

enhanced FMAP through September 2021. The State General Fund Medicaid appropriations for FY 2022 total \$2,707.4 million.

Beginning in 2015, Indiana replaced the traditional Medicaid program for non-disabled adults by expanding the Healthy Indiana Plan (HIP). HIP has been designed to improve healthcare utilization and promote personal responsibility and is funded by a combination of enhanced federal funding, hospital assessment fees, and cigarette tax revenues. Indiana became the first state to receive a 10-year extension for the program following approval in October 2020 by the federal government.

The Department of Child Services (DCS) continued the implementation of its practice to place children in the least restrictive, most family-like setting. This trending is important because research among child-advocate experts has shown that placing children in the least restrictive, most family-like setting produces the best outcomes for children and families and, consequently, is more cost effective.

FY 2021 reflected a continued downward trend in the number of cases handled by DCS. At the end of the year, DCS had a total of 18,533 open cases (figure includes informal adjustments and collaborative care for older youth), compared to 21,200 open cases at the close of FY 2020. FY 2020 was the first year DCS operated under new caseload standards for family case managers. Similar to caseload trends, DCS expenditures decreased from \$1,305.1 million in FY 2020 to \$1,281.6 million in FY 2021.

On March 6, 2020, Governor Holcomb declared a public health emergency for the Coronavirus outbreak. As a result of federal legislation, the Indiana Department of Health (IDOH) received over \$1 billion in grants from the U.S. Department of Health and Human Services, \$23.5 million from the U.S. Department of Agriculture, \$11 million from the U.S. Department of Homeland Security, and an additional \$316 million sub-state grant from the Coronavirus Relief Fund administered by State Budget Agency. These grants to IDOH cover public health emergency response activities, including testing and lab supplies, personal protective equipment (PPE), sanitation, phone bank and contact tracing, grants to hospitals, additional staffing, and other direct response activities.

Economic Development – The Indiana Economic Development Corporation (IEDC) is the State of Indiana’s chief economic development agency. The IEDC seeks to bring new job creation and capital investment opportunities to Indiana through competitive company attractions, expansions and consolidations. Indiana has received several accolades for its business environment. This includes favorable rankings of 5th in the nation in Chief Executive Magazine’s annual “Best States for Business” survey (April 2021), top 10 best states for business tax climate according to the Tax Foundation 2021 index, and 1st in Business Facilities’ Annual Rankings Report of best states for manufacturing output (August 2021).

Awards and Acknowledgements

Certificate of Achievement Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Indiana for its

annual comprehensive financial report for the fiscal year ended June 30, 2020. This was the twenty-eighth consecutive year that the State of Indiana has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current annual comprehensive financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

We acknowledge the cooperation and assistance of all State agencies in the preparation of this report.

Sincerely,



Tera Klutz
Auditor of State
State of Indiana



Cristopher Johnston
Director
Office of Management and Budget



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

State of Indiana

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2020

Christopher P. Morrill

Executive Director/CEO

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