

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

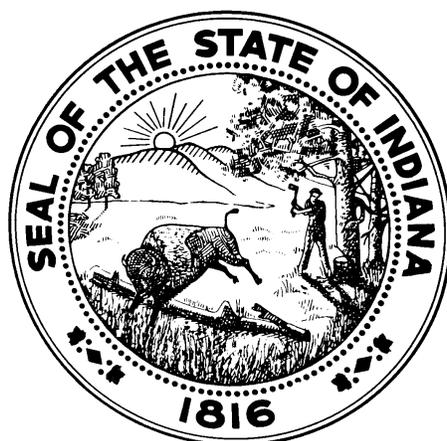
AUDIT REPORT

OF

TOWN OF MODOC

RANDOLPH COUNTY, INDIANA

January 1, 2006 to December 31, 2007



FILED
08/20/2008

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sharon Jessee	01-01-06 to 12-31-08
President of the Town Council	David Sexton	01-01-06 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE TOWN OF MODOC, RANDOLPH COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Modoc (Town), as of and for the years ended December 31, 2006 and 2007, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions 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 statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the Town prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of December 31, 2006 and 2007, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated August 6, 2008, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Town has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

August 6, 2008



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF MODOC, RANDOLPH COUNTY, INDIANA

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Modoc (Town), as of and for the years ended December 31, 2006 and 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated August 6, 2008. 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.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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.

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Town's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 6, 2008

TOWN OF MODOC
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2006

<u>Functions/Programs</u>	<u>Disbursements</u>	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Totals</u>
Primary government:						
Governmental activities:						
General government	\$ 18,278	\$ 757	\$ 2,092	\$ 804	\$ (14,625)	\$ (14,625)
Public safety	14,844	-	-	-	(14,844)	(14,844)
Highways and streets	6,726	-	7,781	1,544	2,599	2,599
Sanitation	6,921	-	-	-	(6,921)	(6,921)
Economic development	9,719	-	-	-	(9,719)	(9,719)
Culture and recreation	1,955	-	-	-	(1,955)	(1,955)
Total primary government	<u>\$ 58,443</u>	<u>\$ 757</u>	<u>\$ 9,873</u>	<u>\$ 2,348</u>	<u>(45,465)</u>	<u>(45,465)</u>
General receipts:						
Property taxes					52,951	52,951
Other local sources					170	170
Unrestricted investment earnings					<u>4,810</u>	<u>4,810</u>
Total general receipts					<u>57,931</u>	<u>57,931</u>
Change in net assets					12,466	12,466
Net assets - beginning					<u>288,481</u>	<u>288,481</u>
Net assets - ending					<u>\$ 300,947</u>	<u>\$ 300,947</u>
<u>Assets</u>						
Cash and investments					<u>\$ 300,947</u>	<u>\$ 300,947</u>
<u>Net Assets</u>						
Unrestricted					<u>\$ 300,947</u>	<u>\$ 300,947</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MODOC
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2006

	General	EDIT	Other Governmental Funds	Totals
Receipts:				
Taxes	\$ 51,627	\$ -	\$ 1,324	\$ 52,951
Intergovernmental	677	-	11,544	12,221
Charges for services	757	-	-	757
Other	998	3,982	-	4,980
Total receipts	54,059	3,982	12,868	70,909
Disbursements:				
General government	18,278	-	-	18,278
Public safety	14,819	-	25	14,844
Highways and streets	-	-	6,726	6,726
Sanitation	6,921	-	-	6,921
Culture and recreation	1,955	-	-	1,955
Economic development	-	9,719	-	9,719
Total disbursements	41,973	9,719	6,751	58,443
Excess (deficiency) of receipts over disbursements	12,086	(5,737)	6,117	12,466
Other financing sources (uses):				
Transfers in	-	-	697	697
Transfers out	(697)	-	-	(697)
Total other financing sources (uses)	(697)	-	697	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	11,389	(5,737)	6,814	12,466
Cash and investment fund balance - beginning	19,451	246,124	22,906	288,481
Cash and investment fund balance - ending	<u>\$ 30,840</u>	<u>\$ 240,387</u>	<u>\$ 29,720</u>	<u>\$ 300,947</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	<u>\$ 30,840</u>	<u>\$ 240,387</u>	<u>\$ 29,720</u>	<u>\$ 300,947</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Unrestricted	<u>\$ 30,840</u>	<u>\$ 240,387</u>	<u>\$ 29,720</u>	<u>\$ 300,947</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MODOC
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2007

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Totals
Primary government:							
Governmental activities:							
General government	\$ 15,171	\$ 1,364	\$ 2,760	\$ 790	\$ (10,257)	\$ -	\$ (10,257)
Public safety	14,013	-	-	-	(14,013)	-	(14,013)
Highways and streets	4,798	-	10,472	-	5,674	-	5,674
Sanitation	280,583	-	-	274,000	(6,583)	-	(6,583)
Economic development	82,238	-	-	-	(82,238)	-	(82,238)
Culture and recreation	1,955	-	-	-	(1,955)	-	(1,955)
Total governmental activities	<u>398,758</u>	<u>1,364</u>	<u>13,232</u>	<u>274,790</u>	<u>(109,372)</u>	<u>-</u>	<u>(109,372)</u>
Business-type activities:							
Wastewater	<u>1,161,985</u>	<u>17,496</u>	<u>-</u>	<u>185,000</u>	<u>-</u>	<u>(959,489)</u>	<u>(959,489)</u>
Total primary government	<u>\$ 1,560,743</u>	<u>\$ 18,860</u>	<u>\$ 13,232</u>	<u>\$ 459,790</u>	<u>(109,372)</u>	<u>(959,489)</u>	<u>(1,068,861)</u>
General receipts:							
Property taxes					19,303	-	19,303
Other local sources					571	-	571
Bonds and loans					-	987,000	987,000
Unrestricted investment earnings					4,104	-	4,104
Transfers					(46,000)	46,000	-
Total general receipts					<u>(22,022)</u>	<u>1,033,000</u>	<u>1,010,978</u>
Change in net assets					(131,394)	73,511	(57,883)
Net assets - beginning					<u>300,947</u>	<u>-</u>	<u>300,947</u>
Net assets - ending					<u>\$ 169,553</u>	<u>\$ 73,511</u>	<u>\$ 243,064</u>
<u>Assets</u>							
Cash and investments					\$ 169,553	\$ 37,225	\$ 206,778
Restricted assets:							
Cash and investments					<u>-</u>	<u>36,286</u>	<u>36,286</u>
Total assets					<u>\$ 169,553</u>	<u>\$ 73,511</u>	<u>\$ 243,064</u>
<u>Net Assets</u>							
Restricted for:							
Construction					\$ -	\$ 36,286	\$ 36,286
Unrestricted					<u>169,553</u>	<u>37,225</u>	<u>206,778</u>
Total net assets					<u>\$ 169,553</u>	<u>\$ 73,511</u>	<u>\$ 243,064</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MODOC
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2007

	General	EDIT	CF-06-106	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 18,062	\$ -	\$ -	\$ 1,936	\$ 19,998
Intergovernmental	646	-	274,000	11,331	285,977
Charges for services	1,364	-	-	-	1,364
Other	889	3,786	-	1,350	6,025
	<u>20,961</u>	<u>3,786</u>	<u>274,000</u>	<u>14,617</u>	<u>313,364</u>
Total receipts					
Disbursements:					
General government	15,171	-	-	-	15,171
Public safety	14,013	-	-	-	14,013
Highways and streets	-	-	-	4,798	4,798
Sanitation	6,583	-	274,000	-	280,583
Culture and recreation	1,955	-	-	-	1,955
Economic development	-	82,238	-	-	82,238
	<u>37,722</u>	<u>82,238</u>	<u>274,000</u>	<u>4,798</u>	<u>398,758</u>
Total disbursements					
Excess (deficiency) of receipts over disbursements	<u>(16,761)</u>	<u>(78,452)</u>	<u>-</u>	<u>9,819</u>	<u>(85,394)</u>
Other financing sources (uses):					
Transfers in	697	-	-	-	697
Transfers out	-	(46,000)	-	(697)	(46,697)
	<u>697</u>	<u>(46,000)</u>	<u>-</u>	<u>(697)</u>	<u>(46,000)</u>
Total other financing sources (uses)					
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(16,064)</u>	<u>(124,452)</u>	<u>-</u>	<u>9,122</u>	<u>(131,394)</u>
Cash and investment fund balance - beginning	<u>30,840</u>	<u>240,387</u>	<u>-</u>	<u>29,720</u>	<u>300,947</u>
Cash and investment fund balance - ending	<u>\$ 14,776</u>	<u>\$ 115,935</u>	<u>\$ -</u>	<u>\$ 38,842</u>	<u>\$ 169,553</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	<u>\$ 14,776</u>	<u>\$ 115,935</u>	<u>\$ -</u>	<u>\$ 38,842</u>	<u>\$ 169,553</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Unrestricted	<u>\$ 14,776</u>	<u>\$ 115,935</u>	<u>\$ -</u>	<u>\$ 38,842</u>	<u>\$ 169,553</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MODOC
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES -
CASH AND INVESTMENT BASIS - PROPRIETARY FUND
As of and for the Year Ended December 31, 2007

	Wastewater Utility
Operating receipts:	
Unmetered receipts	\$ 17,496
Operating disbursements:	
Equipment and capital improvements	1,097,594
Contractual services	63,620
Miscellaneous disbursements	771
Total operating disbursements	1,161,985
Deficiency of operating receipts over operating disbursements	(1,144,489)
Nonoperating receipts:	
Bond proceeds	987,000
Deficiency of receipts over disbursements and nonoperating receipts	(157,489)
Capital contributions	185,000
Transfers in	46,000
Excess of receipts, contributions and transfers in over disbursements and transfers out	73,511
Cash and investment fund balance - beginning	-
Cash and investment fund balance - ending	\$ 73,511
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 37,225
Restricted assets:	
Cash and investments	36,286
Total cash and investment assets - December 31	\$ 73,511
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Construction	\$ 36,286
Unrestricted	37,225
Total cash and investment fund balance - December 31	\$ 73,511

The notes to the financial statements are an integral part of this statement.

TOWN OF MODOC
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Council-Mayor Town Council form of government and provides the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, general administrative services, and wastewater treatment. The wastewater utility construction started in April 2007 with the first billing to customers in June 2007.

The Town's financial reporting entity is composed of the following:

Primary Government: Town of Modoc and Wastewater Utility

In determining the financial reporting entity, the Town complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Town reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The economic development income tax (EDIT) fund is used to account for economic development income tax receipts and disbursements.

The CF-06-106 fund is used to account for grant funds received and spent for construction of the Town's new wastewater utility.

TOWN OF MODOC
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Town reports the following major proprietary fund:

The wastewater utility fund accounts for the operation of the wastewater treatment plant, pumping stations, and collection systems.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, and proprietary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

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 Town has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the town and wastewater utility. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government. The Town does not have any internal service funds.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

TOWN OF MODOC
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and in December. State statute (Indiana Code 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the Town on or prior to December 31 of the year collected.

3. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

4. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

5. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the Town's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

TOWN OF MODOC
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

TOWN OF MODOC
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the Town submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the Town receives approval of the Indiana Department of Local Government Finance.

The Town's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

III. Detailed Notes on All Funds

A. 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. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Town does not have a deposit policy for custodial credit risk. At December 31, 2007, the Town had deposit balances in the amount of \$243,064. Of this amount, none was exposed to custodial credit risk:

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

TOWN OF MODOC
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

Interfund transfers for the years ended December 31, 2006 and 2007, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2006</u>	<u>2007</u>
General Fund	All others	\$ 697	\$ -
EDIT Fund	Wastewater Utility Fund	-	46,000
All others	General Fund	-	697
		<u>697</u>	<u>46,697</u>
Totals		<u>\$ 697</u>	<u>\$ 46,697</u>

The Town typically uses transfers for cash flow purposes as provided by various statutory provisions.

IV. Other Information

A. Risk Management

The Town is exposed to various 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.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Job Related Illnesses or Injuries to Employees

During 1991, the Town joined with other governmental entities in the Indiana Public Employees' Plan, a public entity risk pool currently operating as a common risk management and insurance program for various member governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The Town pays an annual premium to the risk pool for its coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event. The risk pool obtains independent coverage for insured events in excess of the \$1,000,000 limit.

B. Rate Structure – Enterprise Funds

Wastewater Utility

The current rate structure was approved by the Town Council on March 20, 2007.

TOWN OF MODOC
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006

	Motor Vehicle Highway	Local Road and Street	Cumulative Capital Improvement	Law Enforcement Continuing Education	Riverboat	Rainy Day	Excess Levy	Totals
Receipts:								
Taxes	\$ -	\$ 1,324	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,324
Intergovernmental	6,680	1,101	804	-	1,415	1,544	-	11,544
Total receipts	6,680	2,425	804	-	1,415	1,544	-	12,868
Disbursements:								
Public safety	-	-	-	25	-	-	-	25
Highways and streets	2,720	4,006	-	-	-	-	-	6,726
Total disbursements	2,720	4,006	-	25	-	-	-	6,751
Excess (deficiency) of receipts over (under) disbursements	3,960	(1,581)	804	(25)	1,415	1,544	-	6,117
Other financing sources:								
Transfers in	-	-	-	-	-	-	697	697
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	3,960	(1,581)	804	(25)	1,415	1,544	697	6,814
Cash and investment fund balance - beginning	3,623	10,643	3,798	196	2,842	1,804	-	22,906
Cash and investment fund balance - ending	\$ 7,583	\$ 9,062	\$ 4,602	\$ 171	\$ 4,257	\$ 3,348	\$ 697	\$ 29,720
<u>Cash and Investment Assets - December 31</u>								
Cash and investments	\$ 7,583	\$ 9,062	\$ 4,602	\$ 171	\$ 4,257	\$ 3,348	\$ 697	\$ 29,720
<u>Cash and Investment Fund Balance - December 31</u>								
Unrestricted	\$ 7,583	\$ 9,062	\$ 4,602	\$ 171	\$ 4,257	\$ 3,348	\$ 697	\$ 29,720

TOWN OF MODOC
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2007

	Motor Vehicle Highway	Local Road and Street	Cumulative Capital Improvement	Law Enforcement Continuing Education	Riverboat	Rainy Day	Excess Levy	Totals
Receipts:								
Taxes	\$ -	\$ 1,241	\$ -	\$ -	\$ -	\$ 695	\$ -	\$ 1,936
Intergovernmental	8,047	1,075	790	-	1,419	-	-	11,331
Other	-	1,350	-	-	-	-	-	1,350
Total receipts	8,047	3,666	790	-	1,419	695	-	14,617
Disbursements:								
Highways and streets	4,619	179	-	-	-	-	-	4,798
Excess of receipts over disbursements	3,428	3,487	790	-	1,419	695	-	9,819
Other financing sources (uses):								
Transfers out	-	-	-	-	-	-	(697)	(697)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	3,428	3,487	790	-	1,419	695	(697)	9,122
Cash and investment fund balance - beginning	7,583	9,062	4,602	171	4,257	3,348	697	29,720
Cash and investment fund balance - ending	\$ 11,011	\$ 12,549	\$ 5,392	\$ 171	\$ 5,676	\$ 4,043	\$ -	\$ 38,842
<u>Cash and Investment Assets - December 31</u>								
Cash and investments	\$ 11,011	\$ 12,549	\$ 5,392	\$ 171	\$ 5,676	\$ 4,043	\$ -	\$ 38,842
<u>Cash and Investment Fund Balance - December 31</u>								
Unrestricted	\$ 11,011	\$ 12,549	\$ 5,392	\$ 171	\$ 5,676	\$ 4,043	\$ -	\$ 38,842

TOWN OF MODOC
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2007

Capital assets are reported at actual 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.

General infrastructure assets are included if acquired (purchased, constructed, or donated) after July 1, 1980, or if they received major renovations, restorations, or improvements after that date. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 6,500
Buildings	8,000
Machinery and equipment	<u>5,700</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 20,200</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 7,500
Construction in progress	<u>1,435,214</u>
 Total Wastewater Utility capital assets	 <u>\$ 1,442,714</u>

TOWN OF MODOC
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The Wastewater Utility has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type Activities:		
Wastewater Utility		
Revenue bonds:		
Wastewater Utility	\$ 987,000	\$ 44,418
 Total Wastewater Utility	 \$ 987,000	 \$ 44,418

TOWN OF MODOC
AUDIT RESULTS AND COMMENTS

ANNUAL REPORT

Annual reports for 2006 and 2007 were not presented for audit.

Indiana Code 5-3-1-3(a) states in part: "Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city and town in Indiana shall publish an annual report of the receipts and expenditures of the city or town . . ."

DEPOSITS

The property tax distribution of December 2007 from the County Auditor was not deposited until January 2008.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF MODOC, RANDOLPH COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Modoc (Town) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended December 31, 2006 and 2007. The Town's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended December 31, 2006 and 2007.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A control deficiency in a Town's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the Town's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

August 6, 2008

TOWN OF MODOC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2006 and 2007

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-06	Total Federal Awards Expended 12-31-07
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Waste Disposal Systems for Rural Communities	10.760			
Modoc Sanitary Sewers and Plant		Loan 01	\$ -	\$ 310,000
Modoc Sanitary Sewers and Plant		Loan 03	-	677,000
Modoc Sanitary Sewers and Plant		Grant 02	-	174,214
			-----	-----
Total for federal grantor agency			-	1,161,214
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass Through Indiana Office of Community & Rural Affairs				
Community Development Block Grant/State's Program	14.228	CF-06-106	-	274,000
			-----	-----
Total for federal grantor agency			-	274,000
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Pass Through Indiana Department of Homeland Security				
Disaster Grants - Public Assistance	97.036			
EM 3197		EM-3274	-	1,350
			-----	-----
Total for federal grantor agency			-	1,350
Total federal awards expended			\$ -	\$ 1,436,564
			-----	-----

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF MODOC
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Modoc (Town) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (Indiana Code 5-11-1 et seq.), audits of towns with populations less than 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Loans Outstanding

The Town had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2007. This loan balance outstanding is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2007
USDA Rural Development	10.760	\$ <u>987,000</u>

TOWN OF MODOC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no
--	----

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
----------------	------------------------------------

10.760	Water and Waste Disposal Systems for Rural Communities
--------	--

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
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Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF MODOC
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

TOWN OF MODOC
EXIT CONFERENCE

The contents of this report were discussed on August 6, 2008, with Sharon Jessee, Clerk-Treasurer; and David Sexton, President of the Town Council. The officials concurred with our audit findings.