

B37406

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, 2008 to December 31, 2009



FILED
08/18/2010

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sharon Lankford Eva Farmer	01-01-08 to 04-30-10 05-01-10 to 12-31-10
President of the Town Council	David Sexton	01-01-08 to 12-31-10



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, 2008 and 2009, 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, 2008 and 2009, 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 2, 2010, 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 2, 2010



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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, 2008 and 2009, which collectively comprise the Town's basic financial statements and have issued our report thereon dated August 2, 2010. 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 2, 2010

TOWN OF MODOC
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2008

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	\$ 22,594	\$ 2,387	\$ 16,245	\$ -	\$ (3,962)	\$ -	\$ (3,962)
Public safety	18,829	-	-	-	(18,829)	-	(18,829)
Highways and streets	3,903	-	9,287	-	5,384	-	5,384
Sanitation	223,839	-	-	216,000	(7,839)	-	(7,839)
Economic development	83,287	-	-	-	(83,287)	-	(83,287)
Culture and recreation	1,610	-	-	-	(1,610)	-	(1,610)
Total governmental activities	<u>354,062</u>	<u>2,387</u>	<u>25,532</u>	<u>216,000</u>	<u>(110,143)</u>	<u>-</u>	<u>(110,143)</u>
Business-type activities:							
Wastewater	972,418	70,012	-	875,000	-	(27,406)	(27,406)
Total business-type activities	<u>972,418</u>	<u>70,012</u>	<u>-</u>	<u>875,000</u>	<u>-</u>	<u>(27,406)</u>	<u>(27,406)</u>
Total primary government	<u>\$ 1,326,480</u>	<u>\$ 72,399</u>	<u>\$ 25,532</u>	<u>\$ 1,091,000</u>	<u>(110,143)</u>	<u>(27,406)</u>	<u>(137,549)</u>
General receipts:							
Property taxes					35,857	-	35,857
Other local sources					13,645	-	13,645
Total general receipts					<u>49,502</u>	<u>-</u>	<u>49,502</u>
Change in net assets					(60,641)	(27,406)	(88,047)
Net assets - beginning					169,553	73,511	243,064
Net assets - ending					<u>\$ 108,912</u>	<u>\$ 46,105</u>	<u>\$ 155,017</u>
<u>Assets</u>							
Cash and investments					\$ 95,208	\$ 45,575	\$ 140,783
Restricted assets:							
Cash and investments					13,704	530	14,234
Total assets					<u>\$ 108,912</u>	<u>\$ 46,105</u>	<u>\$ 155,017</u>
<u>Net Assets</u>							
Restricted for:							
Streets					\$ 13,704	\$ -	\$ 13,704
Construction					-	530	530
Unrestricted					95,208	45,575	140,783
Total net assets					<u>\$ 108,912</u>	<u>\$ 46,105</u>	<u>\$ 155,017</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, 2008

	General	EDIT	CF-06-106	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 35,857	\$ -	\$ -	\$ -	\$ 35,857
Intergovernmental	16,245	-	216,000	9,287	241,532
Charges for services	2,387	-	-	-	2,387
Other	146	12,298	-	1,201	13,645
	<u>54,635</u>	<u>12,298</u>	<u>216,000</u>	<u>10,488</u>	<u>293,421</u>
Total receipts					
Disbursements:					
General government	22,594	-	-	-	22,594
Public safety	18,829	-	-	-	18,829
Highways and streets	-	-	-	3,903	3,903
Sanitation	7,839	-	216,000	-	223,839
Culture and recreation	1,610	-	-	-	1,610
Economic development	-	83,287	-	-	83,287
	<u>50,872</u>	<u>83,287</u>	<u>216,000</u>	<u>3,903</u>	<u>354,062</u>
Total disbursements					
Excess (deficiency) of revenue over disbursements	<u>3,763</u>	<u>(70,989)</u>	<u>-</u>	<u>6,585</u>	<u>(60,641)</u>
Cash and investment fund balance - beginning	<u>14,776</u>	<u>115,935</u>	<u>-</u>	<u>38,842</u>	<u>169,553</u>
Cash and investment fund balance - ending	<u>\$ 18,539</u>	<u>\$ 44,946</u>	<u>\$ -</u>	<u>\$ 45,427</u>	<u>\$ 108,912</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ 18,539	\$ 44,946	\$ -	\$ 31,723	\$ 95,208
Restricted assets:					
Cash and investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,704</u>	<u>13,704</u>
Total cash and investment assets - December 31	<u>\$ 18,539</u>	<u>\$ 44,946</u>	<u>\$ -</u>	<u>\$ 45,427</u>	<u>\$ 108,912</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
Streets	\$ -	\$ -	\$ -	\$ 13,704	\$ 13,704
Unrestricted	<u>18,539</u>	<u>44,946</u>	<u>-</u>	<u>31,723</u>	<u>95,208</u>
Total cash and investment fund balance - December 31	<u>\$ 18,539</u>	<u>\$ 44,946</u>	<u>\$ -</u>	<u>\$ 45,427</u>	<u>\$ 108,912</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 FUNDS
As of and for the Year Ended December 31, 2008

	<u>Wastewater Utility</u>
Operating receipts:	
Residential sales	\$ 69,862
Other	<u>150</u>
Total operating receipts	<u>70,012</u>
Operating disbursements:	
Equipment and capital improvements	910,756
Billing services	3,035
Professional services	6,384
Salaries and wages	11,404
Purchased power	5,608
Sludge removal	1,775
Fuel	681
Material and supplies	4,064
Testing	3,657
Miscellaneous disbursements	<u>993</u>
Total operating disbursements	<u>948,357</u>
Deficiency of receipts over disbursements	(878,345)
Nonoperating receipts (disbursements):	
Interest on long-term debt	<u>(24,061)</u>
Deficiency of receipts over disbursements and nonoperating disbursements	(902,406)
Capital contributions	<u>875,000</u>
Deficiency of receipts and contributions over disbursements and nonoperating disbursements	(27,406)
Cash and investment fund balance - beginning	<u>73,511</u>
Cash and investment fund balance - ending	<u><u>\$ 46,105</u></u>
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 45,575
Restricted assets:	
Cash and investments	<u>530</u>
Total cash and investment assets - December 31	<u><u>\$ 46,105</u></u>
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Construction	\$ 530
Unrestricted	<u>45,575</u>
Total cash and investment fund balance - December 31	<u><u>\$ 46,105</u></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, 2009

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	\$ 16,448	\$ 1,046	\$ 10,538	\$ -	\$ (4,864)	\$ -	\$ (4,864)
Public safety	15,868	-	750	-	(15,118)	-	(15,118)
Highways and streets	7,169	-	6,065	891	(213)	-	(213)
Sanitation	7,020	-	-	-	(7,020)	-	(7,020)
Economic development	42,340	-	47,002	-	4,662	-	4,662
Culture and recreation	1,610	-	-	-	(1,610)	-	(1,610)
Total governmental activities	<u>90,455</u>	<u>1,046</u>	<u>64,355</u>	<u>891</u>	<u>(24,163)</u>	<u>-</u>	<u>(24,163)</u>
Business-type activities:							
Wastewater	<u>128,011</u>	<u>61,465</u>	<u>-</u>	<u>80,000</u>	<u>-</u>	<u>13,454</u>	<u>13,454</u>
Total business-type activities	<u>128,011</u>	<u>61,465</u>	<u>-</u>	<u>80,000</u>	<u>-</u>	<u>13,454</u>	<u>13,454</u>
Total primary government	<u>\$ 218,466</u>	<u>\$ 62,511</u>	<u>\$ 64,355</u>	<u>\$ 80,891</u>	<u>(24,163)</u>	<u>13,454</u>	<u>(10,709)</u>
General receipts:							
Property taxes					17,932	-	17,932
Other local sources					<u>1,586</u>	<u>-</u>	<u>1,586</u>
Total general receipts					<u>19,518</u>	<u>-</u>	<u>19,518</u>
Change in net assets					(4,645)	13,454	8,809
Net assets - beginning					<u>108,912</u>	<u>46,105</u>	<u>155,017</u>
Net assets - ending					<u>\$ 104,267</u>	<u>\$ 59,559</u>	<u>\$ 163,826</u>
<u>Assets</u>							
Cash and investments					\$ 90,672	\$ 9,694	\$ 100,366
Restricted assets:							
Cash and investments					<u>13,595</u>	<u>49,865</u>	<u>63,460</u>
Total assets					<u>\$ 104,267</u>	<u>\$ 59,559</u>	<u>\$ 163,826</u>
<u>Net Assets</u>							
Restricted for:							
Streets					\$ 13,595	\$ -	\$ 13,595
Construction					-	49,865	49,865
Unrestricted					<u>90,672</u>	<u>9,694</u>	<u>100,366</u>
Total net assets					<u>\$ 104,267</u>	<u>\$ 59,559</u>	<u>\$ 163,826</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, 2009

	General	EDIT	Other Governmental Funds	Totals
Receipts:				
Taxes	\$ 17,932	\$ -	\$ -	\$ 17,932
Intergovernmental	6,285	47,002	11,959	65,246
Charges for services	1,046	-	-	1,046
Other	12	-	1,574	1,586
	<u>25,275</u>	<u>47,002</u>	<u>13,533</u>	<u>85,810</u>
Total receipts				
Disbursements:				
General government	16,448	-	-	16,448
Public safety	15,868	-	-	15,868
Highways and streets	-	-	7,169	7,169
Sanitation	7,020	-	-	7,020
Culture and recreation	1,610	-	-	1,610
Economic development	-	42,340	-	42,340
	<u>40,946</u>	<u>42,340</u>	<u>7,169</u>	<u>90,455</u>
Total disbursements				
Excess (deficiency) of revenue over disbursements	<u>(15,671)</u>	<u>4,662</u>	<u>6,364</u>	<u>(4,645)</u>
Cash and investment fund balance - beginning	<u>18,539</u>	<u>44,946</u>	<u>45,427</u>	<u>108,912</u>
Cash and investment fund balance - ending	<u>\$ 2,868</u>	<u>\$ 49,608</u>	<u>\$ 51,791</u>	<u>\$ 104,267</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 2,868	\$ 49,608	\$ 38,196	\$ 90,672
Restricted assets:				
Cash and investments	-	-	13,595	13,595
Total cash and investment assets - December 31	<u>\$ 2,868</u>	<u>\$ 49,608</u>	<u>\$ 51,791</u>	<u>\$ 104,267</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Streets	\$ -	\$ -	\$ 13,595	\$ 13,595
Unrestricted	<u>2,868</u>	<u>49,608</u>	<u>38,196</u>	<u>90,672</u>
Total cash and investment fund balance - December 31	<u>\$ 2,868</u>	<u>\$ 49,608</u>	<u>\$ 51,791</u>	<u>\$ 104,267</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 FUNDS
As of and for the Year Ended December 31, 2009

	Wastewater Utility
Operating receipts:	
Residential sales	\$ 61,465
Operating disbursements:	
Equipment and capital improvements	31,829
Billing services	3,035
Professional services	3,721
Insurance	5,122
Salaries and wages	17,921
Purchased power	11,068
Material and supplies	6,246
Testing	8,355
Total operating disbursements	87,297
Deficiency of operating receipts over operating disbursements	(25,832)
Nonoperating disbursements:	
Interest on long-term debt	(40,714)
Deficiency of receipts over disbursements and nonoperating disbursements	(66,546)
Capital contributions	80,000
Excess of receipts and capital contributions over disbursements and nonoperating disbursements	13,454
Cash and investment fund balance - beginning	46,105
Cash and investment fund balance - ending	\$ 59,559
<u>Cash and Investment Assets - December 31</u>	
Cash and investments	\$ 9,694
Restricted assets:	
Cash and investments	49,865
Total cash and investment assets - December 31	\$ 59,559
<u>Cash and Investment Fund Balance - December 31</u>	
Restricted for:	
Construction	\$ 49,865
Unrestricted	9,694
Total cash and investment fund balance - December 31	\$ 59,559

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 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

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, 2009, the Town had deposit balances in the amount of \$163,827. 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.

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.

TOWN OF MODOC
NOTES TO FINANCIAL STATEMENTS
(Continued)

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions 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, 2008

	Motor Vehicle Highway	Local Road and Street	Cumulative Capital Improvement	Law Enforcement Continuing Education	Riverboat	Rainy Day	Totals
Receipts:							
Intergovernmental	\$ 5,989	\$ 1,155	\$ 732	\$ -	\$ 1,411	\$ -	\$ 9,287
Other	1,201	-	-	-	-	-	1,201
Total receipts	7,190	1,155	732	-	1,411	-	10,488
Disbursements:							
Highways and streets	3,903	-	-	-	-	-	3,903
Total disbursements	3,903	-	-	-	-	-	3,903
Excess of receipts over disbursements	3,287	1,155	732	-	1,411	-	6,585
Cash and investment fund balance - beginning	11,011	12,549	5,392	171	5,676	4,043	38,842
Cash and investment fund balance - ending	<u>\$ 14,298</u>	<u>\$ 13,704</u>	<u>\$ 6,124</u>	<u>\$ 171</u>	<u>\$ 7,087</u>	<u>\$ 4,043</u>	<u>\$ 45,427</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ 14,298	\$ -	\$ 6,124	\$ 171	\$ 7,087	\$ 4,043	\$ 31,723
Restricted assets:							
Cash and investments	-	13,704	-	-	-	-	13,704
Total cash and investment assets - December 31	<u>\$ 14,298</u>	<u>\$ 13,704</u>	<u>\$ 6,124</u>	<u>\$ 171</u>	<u>\$ 7,087</u>	<u>\$ 4,043</u>	<u>\$ 45,427</u>
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Streets	\$ -	\$ 13,704	\$ -	\$ -	\$ -	\$ -	\$ 13,704
Unrestricted	14,298	-	6,124	171	7,087	4,043	31,723
Total cash and investment fund balance - December 31	<u>\$ 14,298</u>	<u>\$ 13,704</u>	<u>\$ 6,124</u>	<u>\$ 171</u>	<u>\$ 7,087</u>	<u>\$ 4,043</u>	<u>\$ 45,427</u>

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, 2009

	Motor Vehicle Highway	Local Road and Street	Cumulative Capital Improvement	Law Enforcement Continuing Education	Riverboat	Rainy Day	Totals
Receipts:							
Intergovernmental	\$ 6,065	\$ 891	\$ 690	\$ 750	\$ 1,408	\$ 2,155	\$ 11,959
Other	<u>1,574</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,574</u>
Total receipts	<u>7,639</u>	<u>891</u>	<u>690</u>	<u>750</u>	<u>1,408</u>	<u>2,155</u>	<u>13,533</u>
Disbursements:							
Highways and streets	<u>6,169</u>	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,169</u>
Excess (deficiency) of receipts over disbursements	1,470	(109)	690	750	1,408	2,155	6,364
Cash and investment fund balance - beginning	<u>14,298</u>	<u>13,704</u>	<u>6,124</u>	<u>171</u>	<u>7,087</u>	<u>4,043</u>	<u>45,427</u>
Cash and investment fund balance - ending	<u>\$ 15,768</u>	<u>\$ 13,595</u>	<u>\$ 6,814</u>	<u>\$ 921</u>	<u>\$ 8,495</u>	<u>\$ 6,198</u>	<u>\$ 51,791</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ 15,768	\$ -	\$ 6,814	\$ 921	\$ 8,495	\$ 6,198	\$ 38,196
Restricted assets:							
Cash and investments	<u>-</u>	<u>13,595</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,595</u>
Total cash and investment assets - December 31	<u>\$ 15,768</u>	<u>\$ 13,595</u>	<u>\$ 6,814</u>	<u>\$ 921</u>	<u>\$ 8,495</u>	<u>\$ 6,198</u>	<u>\$ 51,791</u>
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Streets	\$ -	\$ 13,595	\$ -	\$ -	\$ -	\$ -	\$ 13,595
Unrestricted	<u>15,768</u>	<u>-</u>	<u>6,814</u>	<u>921</u>	<u>8,495</u>	<u>6,198</u>	<u>38,196</u>
Total cash and investment fund balance - December 31	<u>\$ 15,768</u>	<u>\$ 13,595</u>	<u>\$ 6,814</u>	<u>\$ 921</u>	<u>\$ 8,495</u>	<u>\$ 6,198</u>	<u>\$ 51,791</u>

TOWN OF MODOC
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2009

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.

<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>20,035</u>
 Total governmental activities, capital assets not being depreciated	 <u><u>\$ 34,535</u></u>
 Business-type activities:	
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 7,500
Machinery and equipment	30,665
Improvements other than buildings	<u>2,477,993</u>
 Total Wastewater Utility capital assets, capital assets not being depreciated	 <u><u>\$ 2,516,158</u></u>

TOWN OF MODOC
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2009

The Town 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	\$ 51,487
Total Wastewater Utility	<u>\$ 987,000</u>	<u>\$ 51,487</u>

TOWN OF MODOC
AUDIT RESULTS AND COMMENTS

ANNUAL REPORT

Annual Reports for 2008 and 2009 were not presented for audit.

IC 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 2009 from the County Auditor was not deposited until January 2010.

IC 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."

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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, 2008 and 2009. 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 non-compliance 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, 2008 and 2009.

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 2, 2010

TOWN OF MODOC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2008 and 2009

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-08	Total Federal Awards Expended 12-31-09
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Direct Grant				
Water and Waste Disposal Systems for Rural Communities Modoc Sanitary Sewers and Plant	10.760	Grant 02	\$ 890,399	\$ 30,666
<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	216,000	-
Total federal awards expended			<u>\$ 1,106,399</u>	<u>\$ 30,666</u>

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 outstanding at December 31, 2008 and 2009. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2008	2009
USDA Rural Development	10.760	\$ 987,000	\$ 987,000

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

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 2, 2010, with Eva Farmer, Clerk-Treasurer; David Sexton, President of the Town Council; and Sharon Lankford, former Clerk-Treasurer.