

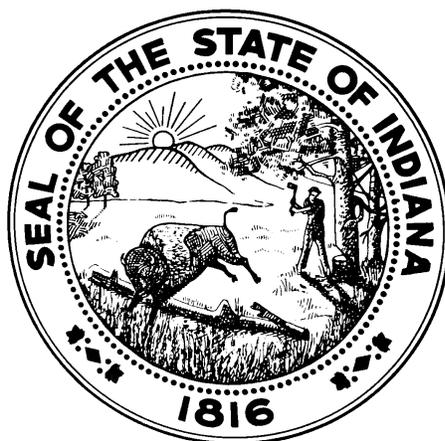
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2006

CITY OF SULLIVAN

SULLIVAN COUNTY, INDIANA



FILED
12/26/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Donna Sue Pitts	08-02-05 to 12-31-07
Mayor	Timothy S. Boles	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Timothy S. Boles	01-01-04 to 12-31-07
President of the Common Council	Rodger Smith Clint J. Lamb	01-01-05 to 12-31-06 01-01-07 to 12-31-07



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 CITY OF SULLIVAN, SULLIVAN 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 City of Sullivan (City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City'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 City 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 City as of December 31, 2006, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated October 10, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. 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 Schedules of Funding Progress, Schedule of Contributions From the Employer and Other Contributing Entities as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the Table of Contents, 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 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

October 10, 2007



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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 CITY OF SULLIVAN, SULLIVAN 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 City of Sullivan (City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 10, 2007. 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 City'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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 City'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 City'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

October 10, 2007

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

Functions/Programs	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Primary government:						
Governmental activities:						
General government	\$ 771,638	\$ 237,227	\$ 160,050	\$ (374,361)	\$ -	\$ (374,361)
Public safety	768,549	5,021	164,494	(599,034)	-	(599,034)
Highways and streets	382,524	113,470	-	(269,054)	-	(269,054)
Culture and recreation	130,765	44,491	11,033	(75,241)	-	(75,241)
Total governmental activities	2,053,476	400,209	335,577	(1,317,690)	-	(1,317,690)
Business-type activities:						
Wastewater	1,781,596	2,067,070	-	-	285,474	285,474
Trash	189,733	208,178	-	-	18,445	18,445
Total business-type activities	1,971,329	2,275,248	-	-	303,919	303,919
Total primary government	\$ 4,024,805	\$ 2,675,457	\$ 335,577	(1,317,690)	303,919	(1,013,771)
General receipts:						
Property taxes				937,635	-	937,635
Intergovernmental				289,924	-	289,924
Riverboat revenue sharing				29,054	-	29,054
Unrestricted investment earnings				6,951	-	6,951
Transfers				24,456	-	24,456
Total general receipts and transfers				1,288,020	-	1,288,020
Change in net assets				(29,670)	303,919	274,249
Net assets - beginning				571,505	1,579,369	2,150,874
Net assets - ending				\$ 541,835	\$ 1,883,288	\$ 2,425,123
<u>Assets</u>						
Cash and investments				\$ 105,291	\$ 1,379,922	\$ 1,485,213
Restricted assets:						
Cash and investments				436,544	503,366	939,910
Total assets				\$ 541,835	\$ 1,883,288	\$ 2,425,123
<u>Net Assets</u>						
Restricted for:						
Culture and recreation				\$ 61,257	\$ -	\$ 61,257
Debt service				-	30,612	30,612
Other purposes				375,287	472,754	848,041
Unrestricted				105,291	1,379,922	1,485,213
Total net assets				\$ 541,835	\$ 1,883,288	\$ 2,425,123

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

CITY OF SULLIVAN
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	Motor Vehicle Highway	Other Governmental Funds	Totals
Receipts:				
Taxes	\$ 839,351	\$ -	\$ 98,284	\$ 937,635
Licenses and permits	11,067	-	13,416	24,483
Intergovernmental	152,426	92,888	61,354	306,668
Charges for services	123,381	99,537	168,755	391,673
Fines and forfeits	150	-	2,051	2,201
Other	33,440	-	327,706	361,146
	<u>1,159,815</u>	<u>192,425</u>	<u>671,566</u>	<u>2,023,806</u>
Total receipts				
Disbursements:				
General government	462,980	-	308,658	771,638
Public safety	610,560	-	157,989	768,549
Highways and streets	-	121,788	100,487	222,275
Culture and recreation	-	-	130,765	130,765
Capital outlay:				
Highways and streets	-	-	160,249	160,249
	<u>1,073,540</u>	<u>121,788</u>	<u>858,148</u>	<u>2,053,476</u>
Total disbursements				
Excess (deficiency) of receipts over disbursements	<u>86,275</u>	<u>70,637</u>	<u>(186,582)</u>	<u>(29,670)</u>
Cash and investment fund balance - beginning	<u>(25,467)</u>	<u>63,333</u>	<u>533,639</u>	<u>571,505</u>
Cash and investment fund balance - ending	<u>\$ (25,467)</u>	<u>\$ 63,333</u>	<u>\$ 533,639</u>	<u>\$ 571,505</u>
<u>Cash and Investment Assets - December 31</u>				
Cash and investments	\$ 60,808	\$ -	\$ 44,483	\$ 105,291
Restricted assets:				
Cash and investments	-	133,970	302,574	436,544
Total cash and investment assets - December 31	<u>\$ 60,808</u>	<u>\$ 133,970</u>	<u>\$ 347,057</u>	<u>\$ 541,835</u>
<u>Cash and Investment Fund Balance - December 31</u>				
Restricted for:				
Culture and recreation	\$ -	\$ -	\$ 61,257	\$ 61,257
Other purposes	-	133,970	241,317	375,287
Unrestricted	<u>60,808</u>	<u>-</u>	<u>44,483</u>	<u>105,291</u>
Total cash and investment fund balance - December 31	<u>\$ 60,808</u>	<u>\$ 133,970</u>	<u>\$ 347,057</u>	<u>\$ 541,835</u>

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

CITY OF SULLIVAN
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, 2006

	Wastewater Utility	Trash Utility	Totals
Operating receipts:			
Metered water receipts:			
Residential	\$ 1,281,405	\$ -	\$ 1,281,405
Flat rate receipts	-	208,178	208,178
Other	765,770	-	765,770
	<u>2,047,175</u>	<u>208,178</u>	<u>2,255,353</u>
Total operating receipts			
Operating disbursements:			
Administration and general	38,591	-	38,591
Insurance claims and premiums	35,191	-	35,191
Salaries and wages	97,419	131,377	228,796
Employee pensions and benefits	44,326	-	44,326
Purchased power	13,220	-	13,220
Material and supplies	548	11,853	12,401
Contractual services	843,143	6,515	849,658
Miscellaneous disbursements	471,963	39,988	511,951
	<u>1,544,401</u>	<u>189,733</u>	<u>1,734,134</u>
Total operating disbursements			
Excess of operating receipts over operating disbursements	<u>502,774</u>	<u>18,445</u>	<u>521,219</u>
Nonoperating receipts (disbursements):			
Interest and investment receipts	19,895	-	19,895
Debt service of principal	(198,007)	-	(198,007)
Interest and investment disbursement	(39,188)	-	(39,188)
	<u>(217,300)</u>	<u>-</u>	<u>(217,300)</u>
Total nonoperating receipts (disbursements)			
Excess of receipts over disbursements and nonoperating receipts	285,474	18,445	303,919
Excess of receipts, contributions and transfers in over disbursements and transfers out	285,474	18,445	303,919
Cash and investment fund balance - beginning	<u>1,519,367</u>	<u>60,002</u>	<u>1,579,369</u>
Cash and investment fund balance - ending	<u>\$ 1,804,841</u>	<u>\$ 78,447</u>	<u>\$ 1,883,288</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 1,301,475	\$ 78,447	\$ 1,379,922
Restricted assets:			
Cash and investments	503,366	-	503,366
Total cash and investment assets - December 31	<u>\$ 1,804,841</u>	<u>\$ 78,447</u>	<u>\$ 1,883,288</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 30,612	\$ -	\$ 30,612
Other purposes	472,754	-	472,754
Unrestricted	<u>1,301,475</u>	<u>78,447</u>	<u>1,379,922</u>
Total cash and investment fund balance - December 31	<u>\$ 1,804,841</u>	<u>\$ 78,447</u>	<u>\$ 1,883,288</u>

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

CITY OF SULLIVAN
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2006

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Additions:			
Contributions:			
Taxes	\$ 107,517	\$ -	\$ -
State	153,965	-	-
Other	<u>941</u>	<u>-</u>	<u>-</u>
Total contributions	<u>262,423</u>	<u>-</u>	<u>-</u>
Agency fund additions	<u>-</u>	<u>-</u>	<u>1,144,525</u>
Total additions	<u>262,423</u>	<u>-</u>	<u>1,144,525</u>
Deductions:			
Administrative and general	186,672	10,262	-
Agency fund deductions	<u>-</u>	<u>-</u>	<u>1,136,209</u>
Total deductions	<u>186,672</u>	<u>10,262</u>	<u>1,136,209</u>
Excess (deficiency) of total additions over total deductions	75,751	(10,262)	8,316
Cash and investment fund balance - beginning	<u>197,973</u>	<u>10,262</u>	<u>11,135</u>
Cash and investment fund balance - ending	<u>\$ 273,724</u>	<u>\$ -</u>	<u>\$ 19,451</u>

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

CITY OF SULLIVAN
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor Town Council form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, wastewater, trash, urban redevelopment and housing.

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

Primary Government: City of Sullivan

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

Related Organizations

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The City appoints the board members of the Park Board, Planning Commission and the Board of Zoning Appeals.

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, liabilities, 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 City 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 motor vehicle highway fund accounts for state tax distributions.

CITY OF SULLIVAN
NOTES TO FINANCIAL STATEMENTS
(Continued)

The City reports the following major proprietary funds:

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

The trash utility fund accounts for the operation of trash collection system.

Additionally, the City reports the following fund types:

The pension trust funds account for the activities of the 1925 police and 1937 fire pension funds, which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the cemetery.

Agency funds account for assets held by the City as an agent for payroll transactions.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund, and fiduciary 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 City 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 City 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 City and Wastewater and Trash utilities. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

CITY OF SULLIVAN
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 City 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.

2. 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.

3. 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.

4. 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 City'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.

CITY OF SULLIVAN
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 and the similar discretely presented component unit 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 Statement of Cash Activities, 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:

1. 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 Statement of Activities and Net Assets – Cash and Investment Basis.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component units are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

CITY OF SULLIVAN
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 City 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 City receives approval of the Indiana Department of Local Government Finance.

The City'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 and Investments

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 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 City 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.

CITY OF SULLIVAN
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Rate Structure – Enterprise Funds

Wastewater Utility

The current rate structure was approved by the City Council on June 8, 2004.

Trash Utility

The current rate structure was approved by the City Council on April 28, 2001.

C. Pension Plans

Agent Single-Employer Defined Benefit Pension Plans

1. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (Indiana Code 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

2. 1937 Firefighters' Pension Plan

Plan Description

The City contributes to the 1937 Firefighters' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (Indiana Code 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

CITY OF SULLIVAN
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

Actuarial Information for the Above Plans

	1925 Police Officers' Pension	1937 Firefighters' Pension
	<u> </u>	<u> </u>
Annual required contribution	\$ 78,300	\$ 81,700
Interest on net pension obligation	57,400	41,600
Adjustment to annual required contribution	<u>(62,500)</u>	<u>(45,400)</u>
Annual pension cost	73,200	77,900
Contributions made	<u>52,262</u>	<u>62,395</u>
Increase in net pension obligation	20,938	15,505
Net pension obligation, beginning of year	<u>849,960</u>	<u>616,768</u>
Net pension obligation, end of year	<u>\$ 870,898</u>	<u>\$ 632,273</u>

	1925 Police Officers' Pension	1937 Firefighters' Pension
	<u> </u>	<u> </u>
Contribution rates:		
City	67%	76%
Plan members	6%	6%
Actuarial valuation date	01-01-05	01-01-05
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed 30 years	Level percentage of projected payroll, closed 30 years
Amortization period		
Amortization period (from date)	01-01-05	01-01-05
Asset valuation method	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and realized capital

CITY OF SULLIVAN
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions	1925 Police Officers' Pension	1937 Firefighters' Pension
Investment rate of return	6%	6%
Projected future salary increases:		
Total	4%	4%
Attributed to inflation	4%	4%
Attributed to merit/seniority	0%	0%
Cost-of-living adjustments	2.75/4%*	2.75/4%*

*2.75% converted members; 4% nonconverted members

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1925 Police Officers' Pension Plan	12-31-03	\$ 159,700	25%	\$ 741,273
	12-31-04	158,100	31%	849,960
	12-31-05	73,200	71%	870,898
1937 Firefighters' Pension Plan	12-31-03	137,700	35%	532,763
	12-31-04	136,700	39%	616,768
	12-31-05	77,900	80%	632,273

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2006, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	6	7
Current active employees	7	10

CITY OF SULLIVAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

1925 Police Officer's Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-01	\$ 46,085	\$ 1,673,000	\$ (1,626,915)	3%	\$ 45,000	(3,615)%
01-01-02	54,893	1,557,100	(1,502,207)	4%	46,800	(3,210)%
01-01-03	111,620	1,586,200	(1,474,580)	7%	48,300	(3,053)%
01-01-04	88,427	1,608,300	(1,519,873)	5%	49,200	(3,089)%
01-01-05	92,157	1,598,800	(1,506,643)	6%	50,200	(3,001)%
01-01-06	90,602	1,095,200	(1,004,598)	8%	51,200	(1,962)%

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-01	\$ 32,600	\$ 1,819,600	\$ (1,787,000)	2%	\$ 45,000	(3,971)%
01-01-02	9,986	1,385,400	(1,375,414)	1%	23,400	(5,878)%
01-01-03	124,136	1,066,700	(942,564)	12%	48,300	(1,951)%
01-01-04	118,736	1,382,900	(1,264,164)	9%	24,600	(5,139)%
01-01-05	217,024	1,395,800	(1,178,776)	16%	25,100	(4,696)%
01-01-06	107,370	1,143,400	(1,036,030)	9%	25,600	(4,047)%

CITY OF SULLIVAN
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF CONTRIBUTIONS FROM THE
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

<u>1925 Police Officers' Pension Plan</u>			
	<u>Year Ending</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage Of ARC Contributed</u>
1925 Police Officers' Pension Plan	12-31-00	\$ 152,600	33%
	12-31-01	180,100	44%
	12-31-02	174,300	67%
	12-31-03	187,800	22%
	12-31-04	195,500	25%
	12-31-05	78,300	67%
1937 Firefighters' Pension Plan	12-31-00	162,700	40%
	12-31-01	193,600	43%
	12-31-02	150,000	144%
	12-31-03	157,700	31%
	12-31-04	163,500	32%
	12-31-05	81,700	76%

CITY OF SULLIVAN
 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

	Tax Draw Clearing	Adopt a Spot	Riverboat Revenue Sharing	General Levy Excess	Chaney Street Project	Fire Nonreverting	Local Road and Street
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	29,054	-	-	-	4,220
Charges for services	-	-	-	-	-	5,845	11,883
Fines and forfeits	-	-	-	-	-	-	-
Other	128,601	-	-	21,764	-	-	-
Total receipts	128,601	-	29,054	21,764	-	5,845	16,103
Disbursements:							
General government	128,551	-	55,113	-	-	-	-
Public safety	-	-	-	-	-	8,792	-
Highways and streets	-	-	-	-	-	-	98,937
Culture and recreation	-	-	-	-	-	-	-
Capital outlay:							
Highways and streets	-	-	-	-	-	-	-
Total disbursements	128,551	-	55,113	-	-	8,792	98,937
Deficiency of receipts over disbursements	50	-	(26,059)	21,764	-	(2,947)	(82,834)
Cash and investment fund balance - beginning	(50)	241	48,114	-	-	5,432	139,692
Cash and investment fund balance - ending	<u>\$ -</u>	<u>\$ 241</u>	<u>\$ 22,055</u>	<u>\$ 21,764</u>	<u>\$ -</u>	<u>\$ 2,485</u>	<u>\$ 56,858</u>
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ 241	\$ 22,055	\$ 21,764	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	-	-	-	-	-	2,485	56,858
Total cash and investment assets - December 31	<u>\$ -</u>	<u>\$ 241</u>	<u>\$ 22,055</u>	<u>\$ 21,764</u>	<u>\$ -</u>	<u>\$ 2,485</u>	<u>\$ 56,858</u>
Cash and Investment Fund Balance - December 31							
Restricted for:							
Culture and recreation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other purposes	-	-	-	-	-	2,485	56,858
Unrestricted	-	241	22,055	21,764	-	-	-
Total cash and investment fund balance - December 31	<u>\$ -</u>	<u>\$ 241</u>	<u>\$ 22,055</u>	<u>\$ 21,764</u>	<u>\$ -</u>	<u>\$ 2,485</u>	<u>\$ 56,858</u>

CITY OF SULLIVAN
 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
 (Continued)

	Street Cut Deposit	Park and Recreation	Cemetery Operating	Cemetery Levy Excess	Fire Reports/ Donations	Park Nonreverting	Park Pool Donations
Receipts:							
Taxes	\$ -	\$ 76,110	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	12,311	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	3,500	102,630	-	10	9,945	31,036
Fines and forfeits	2,050	-	-	-	-	-	-
Other	-	2,190	4,958	423	-	10	8,842
Total receipts	2,050	94,111	107,588	423	10	9,955	39,878
Disbursements:							
General government	-	-	123,822	-	-	-	-
Public safety	-	-	-	-	790	-	-
Highways and streets	1,550	-	-	-	-	-	-
Culture and recreation	-	84,041	-	-	-	10,438	28,286
Capital outlay:							
Highways and streets	-	-	-	-	-	-	-
Total disbursements	1,550	84,041	123,822	-	790	10,438	28,286
Deficiency of receipts over disbursements	500	10,070	(16,234)	423	(780)	(483)	11,592
Cash and investment fund balance - beginning	4,575	19,605	16,234	-	1,164	18,753	-
Cash and investment fund balance - ending	<u>\$ 5,075</u>	<u>\$ 29,675</u>	<u>\$ -</u>	<u>\$ 423</u>	<u>\$ 384</u>	<u>\$ 18,270</u>	<u>\$ 11,592</u>
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ -	\$ -	\$ -	\$ 423	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	5,075	29,675	-	-	384	18,270	11,592
Total cash and investment assets - December 31	<u>\$ 5,075</u>	<u>\$ 29,675</u>	<u>\$ -</u>	<u>\$ 423</u>	<u>\$ 384</u>	<u>\$ 18,270</u>	<u>\$ 11,592</u>
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
Culture and recreation	\$ -	\$ 29,675	\$ -	\$ -	\$ -	\$ 18,270	\$ 11,592
Other purposes	5,075	-	-	-	384	-	-
Unrestricted	-	-	-	423	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 5,075</u>	<u>\$ 29,675</u>	<u>\$ -</u>	<u>\$ 423</u>	<u>\$ 384</u>	<u>\$ 18,270</u>	<u>\$ 11,592</u>

CITY OF SULLIVAN
 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
 (Continued)

	Park and Recreation Levy Excess	Unsafe Building	Park State Grant	Law Enforcement Continuing Education	Police Ordinance Violations	Cumulative Capital Improvement
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	1,105	-	-
Intergovernmental	-	-	8,000	-	-	16,494
Charges for services	-	1,300	-	2,081	525	-
Fines and forfeits	-	-	-	-	-	-
Other	1,720	-	-	33	-	-
Total receipts	1,720	1,300	8,000	3,219	525	16,494
Disbursements:						
General government	-	-	-	-	-	-
Public safety	-	-	-	2,936	30	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	8,000	-	-	-
Capital outlay:						
Highways and streets	-	-	-	-	-	83,875
Total disbursements	-	-	8,000	2,936	30	83,875
Deficiency of receipts over disbursements	1,720	1,300	-	283	495	(67,381)
Cash and investment fund balance - beginning	-	12,000	-	2,069	854	100,836
Cash and investment fund balance - ending	<u>\$ 1,720</u>	<u>\$ 13,300</u>	<u>\$ -</u>	<u>\$ 2,352</u>	<u>\$ 1,349</u>	<u>\$ 33,455</u>
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	1,720	13,300	-	2,352	1,349	33,455
Total cash and investment assets - December 31	\$ 1,720	\$ 13,300	\$ -	\$ 2,352	\$ 1,349	\$ 33,455
Cash and Investment Fund Balance - December 31						
Restricted for:						
Culture and recreation	\$ 1,720	\$ -	\$ -	\$ -	\$ -	\$ -
Other purposes	-	13,300	-	2,352	1,349	33,455
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - December 31	\$ 1,720	\$ 13,300	\$ -	\$ 2,352	\$ 1,349	\$ 33,455

CITY OF SULLIVAN
 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
 (Continued)

	Sullivan County Community Foundation	Cumulative Capital Development	Cumulative Capital Development Levy Excess	Ambulance	Crime Control	Totals
Receipts:						
Taxes	\$ -	\$ 22,174	\$ -	\$ -	\$ -	\$ 98,284
Licenses and permits	-	-	-	-	-	13,416
Intergovernmental	-	3,586	-	-	-	61,354
Charges for services	-	-	-	-	-	168,755
Fines and forfeits	-	-	-	-	1	2,051
Other	-	-	549	158,616	-	327,706
Total receipts	-	25,760	549	158,616	1	671,566
Disbursements:						
General government	1,172	-	-	-	-	308,658
Public safety	-	-	-	145,441	-	157,989
Highways and streets	-	-	-	-	-	100,487
Culture and recreation	-	-	-	-	-	130,765
Capital outlay:						
Highways and streets	-	76,374	-	-	-	160,249
Total disbursements	1,172	76,374	-	145,441	-	858,148
Deficiency of receipts over disbursements	(1,172)	(50,614)	549	13,175	1	(186,582)
Cash and investment fund balance - beginning	962	125,742	-	36,505	911	533,639
Cash and investment fund balance - ending	<u>(210)</u>	<u>75,128</u>	<u>549</u>	<u>49,680</u>	<u>912</u>	<u>347,057</u>
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,483
Restricted assets:						
Cash and investments	(210)	75,128	549	49,680	912	302,574
Total cash and investment assets - December 31	<u>(210)</u>	<u>75,128</u>	<u>549</u>	<u>49,680</u>	<u>912</u>	<u>347,057</u>
Cash and Investment Fund Balance - December 31						
Restricted for:						
Culture and recreation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61,257
Other purposes	(210)	75,128	549	49,680	912	241,317
Unrestricted	-	-	-	-	-	44,483
Total cash and investment fund balance - December 31	<u>(210)</u>	<u>75,128</u>	<u>549</u>	<u>49,680</u>	<u>912</u>	<u>347,057</u>

CITY OF SULLIVAN
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PENSION TRUST FUNDS
 For The Year Ended December 31, 2006

	<u>Police Pension</u>	<u>Fire Pension</u>	<u>Totals</u>
Additions:			
Contributions:			
Taxes	\$ 43,862	\$ 63,655	\$ 107,517
State	70,212	83,753	153,965
Other	<u>433</u>	<u>508</u>	<u>941</u>
Total additions	<u>114,507</u>	<u>147,916</u>	<u>262,423</u>
Deductions:			
Administrative and general	<u>85,215</u>	<u>101,457</u>	<u>186,672</u>
Excess of total additions over total deductions	29,292	46,459	75,751
Cash and investment fund balance - beginning	<u>90,602</u>	<u>107,371</u>	<u>197,973</u>
Cash and investment fund balance - ending	<u><u>\$ 119,894</u></u>	<u><u>\$ 153,830</u></u>	<u><u>\$ 273,724</u></u>

CITY OF SULLIVAN
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Notes and loans payable	\$ 529,278	\$ 87,259
Total governmental activities long-term debt	<u>\$ 529,278</u>	<u>\$ 87,259</u>
Business-type Activities:		
Wastewater Utility		
Notes and loans payable	316,084	58,338
Revenue bonds:		
Sewer Improvements	6,982,167	215,000
Total Wastewater Utility	<u>7,298,251</u>	<u>273,338</u>
Total business-type activities long-term debt:	<u>\$ 7,298,251</u>	<u>\$ 273,338</u>

CITY OF SULLIVAN
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS - CITY AND UTILITIES

Depository reconciliations of the fund balances to the bank account balances were incorrect and adjustments were necessary to correct reconciliations.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

PRESCRIBED FORMS - CITY AND UTILITIES

The following prescribed or approved form was not in use:

Capital Asset Ledger, City and Town Form 211

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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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 CITY OF SULLIVAN, SULLIVAN COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Sullivan (City) 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 year ended December 31, 2006. The City'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 City's management. Our responsibility is to express an opinion on the City'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 City'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 City's compliance with those requirements.

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

Internal Control Over Compliance

The management of the City 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 City'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 City'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 City'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 City'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

October 10, 2007

CITY OF SULLIVAN
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Direct Grant			
Water and Waste Disposal Systems for Rural Communities Wastewater Infrastructure Improvements Project	10.760		\$ 1,804,590
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Department of Commerce			
Community Development Block Grant/Entitlement Program	14.218	CF-05-125	435,500
Total federal awards expended			\$ 2,240,090

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

CITY OF SULLIVAN
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 City of Sullivan (City) 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.

II. Loans Outstanding

The City had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2006. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2006
Water and Waste Disposal Systems for Rural Communities	10.760	<u>\$ 1,804,590</u>

CITY OF SULLIVAN
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
 Reportable conditions 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
 Reportable conditions 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
14.218	Community Development Block Grant/Entitlement Program

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.

CITY OF SULLIVAN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF SULLIVAN
EXIT CONFERENCE

The contents of this report were discussed on October 10, 2007, with Donna Sue Pitts, Clerk-Treasurer; Timothy S. Boles, Mayor; and Clint J. Lamb, President of the Common Council. The officials concurred with our audit findings.