

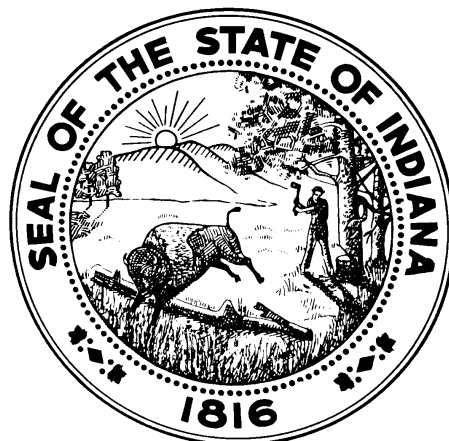
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2007

CITY OF SULLIVAN

SULLIVAN COUNTY, INDIANA



FILED
09/03/2008

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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 12-31-11
Mayor	Timothy S. Boles J. Scott Biddle	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Timothy S. Boles J. Scott Biddle	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Common Council	Clint J. Lamb Debra J. Ayres	01-01-07 to 12-31-07 01-01-08 to 12-31-08



STATE OF INDIANA
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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, 2007, 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, 2007, 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 August 20, 2008, 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.

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.

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

The Schedules of Funding Progress and 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.

The City 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 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 has 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 it.

STATE BOARD OF ACCOUNTS

August 20, 2008



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

TO: THE OFFICIALS OF THE 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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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

August 20, 2008

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

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Totals
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ 909,061	\$ 182,113	\$ -	\$ -	\$ (726,948)	\$ -	\$ (726,948)
Public safety	746,090	16,762	-	-	(729,328)	-	(729,328)
Highways and streets	336,018	-	164,164	16,404	(155,450)	-	(155,450)
Sanitation	-	37,600	-	-	37,600	-	37,600
Health and welfare	-	128,931	-	-	128,931	-	128,931
Culture and recreation	181,253	46,382	-	-	(134,871)	-	(134,871)
Urban redevelopment and housing	196,521	-	-	-	(196,521)	-	(196,521)
Principal and interest on indebtedness	64,312	-	-	-	(64,312)	-	(64,312)
Total governmental activities	<u>2,433,255</u>	<u>411,788</u>	<u>164,164</u>	<u>16,404</u>	<u>(1,840,899)</u>	<u>-</u>	<u>(1,840,899)</u>
Business-type activities:							
Wastewater	1,558,186	1,445,447	-	-	-	(112,739)	(112,739)
Trash	216,130	205,340	-	-	-	(10,790)	(10,790)
Total business-type activities	<u>1,774,316</u>	<u>1,650,787</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(123,529)</u>	<u>(123,529)</u>
Total primary government	<u>\$ 4,207,571</u>	<u>\$ 2,062,575</u>	<u>\$ 164,164</u>	<u>\$ 16,404</u>	<u>(1,840,899)</u>	<u>(123,529)</u>	<u>(1,964,428)</u>
General receipts:							
Property taxes					905,884	-	905,884
Intergovernmental					246,633	-	246,633
Other local sources					330,788	-	330,788
Grants and contributions not restricted to specific programs					203,204	-	203,204
Investment earnings					20,106	-	20,106
Total general receipts					<u>1,706,615</u>	<u>-</u>	<u>1,706,615</u>
Change in net assets					(134,284)	(123,529)	(257,813)
Net assets - beginning					<u>541,835</u>	<u>1,883,288</u>	<u>2,425,123</u>
Net assets - ending					<u>\$ 407,551</u>	<u>\$ 1,759,759</u>	<u>\$ 2,167,310</u>
<u>Assets</u>							
Cash and investments					\$ 117,231	\$ 1,237,643	\$ 1,354,874
Restricted assets:							
Cash and investments					<u>290,320</u>	<u>522,116</u>	<u>812,436</u>
Total assets					<u>\$ 407,551</u>	<u>\$ 1,759,759</u>	<u>\$ 2,167,310</u>
<u>Net Assets</u>							
Restricted for:							
Public safety					\$ 39,896	\$ -	\$ 39,896
Highways and streets					110,986	-	110,986
Culture and recreation					48,877	-	48,877
Capital outlay					60,977	447,652	508,629
Other purposes					29,584	74,464	104,048
Unrestricted					<u>117,231</u>	<u>1,237,643</u>	<u>1,354,874</u>
Total net assets					<u>\$ 407,551</u>	<u>\$ 1,759,759</u>	<u>\$ 2,167,310</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
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2007

	General	Motor Vehicle Highway	Section Street Project	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 831,962	\$ -	\$ -	\$ 73,922	\$ 905,884
Licenses and permits	13,123	-	-	1,815	14,938
Intergovernmental	183,610	190,748	-	270,101	644,459
Charges for services	194,415	-	-	197,620	392,035
Fines and forfeits	95	-	-	1,220	1,315
Other	28,568	-	238,418	12,688	279,674
Total receipts	1,251,773	190,748	238,418	557,366	2,238,305
Disbursements:					
General government	563,655	-	-	850	564,505
Public safety	581,612	-	-	164,478	746,090
Highways and streets	-	91,552	-	1,000	92,552
Culture and recreation	-	-	-	129,331	129,331
Urban redevelopment and housing	-	-	-	196,521	196,521
Debt service:					
Principal	53,630	-	-	3,630	57,260
Interest	6,769	-	-	283	7,052
Capital outlay:					
General government	4,506	-	340,050	-	344,556
Highways and streets	-	160,316	-	83,150	243,466
Culture and recreation	-	-	-	51,922	51,922
Total disbursements	1,210,172	251,868	340,050	631,165	2,433,255
Excess (deficiency) of receipts over disbursements	41,601	(61,120)	(101,632)	(73,799)	(194,950)
Other financing sources (uses):					
Transfers in	22,187	-	101,632	16,399	140,218
Transfers out	(12,649)	(31,300)	-	(96,269)	(140,218)
Other receipts	5,284	8,574	-	46,808	60,666
Total other financing sources (uses)	14,822	(22,726)	101,632	(33,062)	60,666
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	56,423	(83,846)	-	(106,861)	(134,284)
Cash and investment fund balance - beginning	60,808	133,970	-	347,057	541,835
Cash and investment fund balance - ending	\$ 117,231	\$ 50,124	\$ -	\$ 240,196	\$ 407,551
Cash and Investment Assets - Ending					
Cash and investments	\$ 117,231	\$ -	\$ -	\$ -	\$ 117,231
Restricted assets:					
Cash and investments	-	50,124	-	240,196	290,320
Total cash and investment assets - ending	\$ 117,231	\$ 50,124	\$ -	\$ 240,196	\$ 407,551
Cash and Investment Fund Balance - Ending					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ 39,896	\$ 39,896
Highways and streets	-	50,124	-	60,862	110,986
Culture and recreation	-	-	-	48,877	48,877
Capital outlay	-	-	-	60,977	60,977
Other purposes	-	-	-	29,584	29,584
Unrestricted	117,231	-	-	-	117,231
Total cash and investment fund balance - ending	\$ 117,231	\$ 50,124	\$ -	\$ 240,196	\$ 407,551

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, 2007

	Wastewater Utility	Trash Utility	Totals
Operating receipts:			
Metered receipts:			
Residential	\$ 1,354,733	\$ -	\$ 1,354,733
Flat rate receipts	-	202,045	202,045
Miscellaneous	<u>7,470</u>	<u>3,295</u>	<u>10,765</u>
Total operating receipts	<u>1,362,203</u>	<u>205,340</u>	<u>1,567,543</u>
Operating disbursements:			
Salaries and wages	138,577	91,343	229,920
Employee pensions and benefits	62,014	26,144	88,158
Purchased power	14,408	-	14,408
Material and supplies	1,497	20,669	22,166
Contractual services	486,366	52,869	539,235
Insurance claims and expense	36,345	-	36,345
Miscellaneous disbursements	<u>55,422</u>	<u>18,105</u>	<u>73,527</u>
Total operating disbursements	<u>794,629</u>	<u>209,130</u>	<u>1,003,759</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>567,574</u>	<u>(3,790)</u>	<u>563,784</u>
Nonoperating receipts (disbursements):			
Interest receipts	18,744	-	18,744
Debt service of principal	(501,104)	(7,000)	(508,104)
Interest disbursements	(197,782)	-	(197,782)
Other disbursements	<u>(64,671)</u>	<u>-</u>	<u>(64,671)</u>
Total nonoperating receipts (disbursements)	<u>(744,813)</u>	<u>(7,000)</u>	<u>(751,813)</u>
Deficiency of receipts under disbursements and nonoperating receipts (disbursements)	(177,239)	(10,790)	(188,029)
Capital contributions	<u>64,500</u>	<u>-</u>	<u>64,500</u>
Deficiency of receipts and contributions under disbursements	(112,739)	(10,790)	(123,529)
Cash and investment fund balance - beginning	<u>1,804,841</u>	<u>78,447</u>	<u>1,883,288</u>
Cash and investment fund balance - ending	<u>\$ 1,692,102</u>	<u>\$ 67,657</u>	<u>\$ 1,759,759</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 1,169,986	\$ 67,657	\$ 1,237,643
Restricted assets:			
Cash and investments	<u>522,116</u>	<u>-</u>	<u>522,116</u>
Total cash and investment assets - December 31	<u>\$ 1,692,102</u>	<u>\$ 67,657</u>	<u>\$ 1,759,759</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Debt service	\$ 447,652	\$ -	\$ 447,652
Other purposes	74,464	-	74,464
Unrestricted	<u>1,169,986</u>	<u>67,657</u>	<u>1,237,643</u>
Total cash and investment fund balance - December 31	<u>\$ 1,692,102</u>	<u>\$ 67,657</u>	<u>\$ 1,759,759</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, 2007

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Additions:		
Contributions:		
Employer	\$ 668	\$ -
Plan members	<u>152,427</u>	<u>-</u>
Total contributions	<u>153,095</u>	<u>-</u>
Investment earnings:		
Interest	<u>1,035</u>	<u>-</u>
Agency fund additions	<u>-</u>	<u>1,263,147</u>
Total additions	<u>154,130</u>	<u>1,263,147</u>
Deductions:		
Benefits	185,091	-
Administrative and general	1,744	-
Agency fund deductions	<u>-</u>	<u>1,275,779</u>
Total deductions	<u>186,835</u>	<u>1,275,779</u>
Deficiency of total additions under total deductions	(32,705)	(12,632)
Cash and investment fund balance - beginning	<u>273,724</u>	<u>19,451</u>
Cash and investment fund balance - ending	<u>\$ 241,019</u>	<u>\$ 6,819</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 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, and 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 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 is used to account for state motor vehicle highway distributions. It is principally used for the construction and maintenance of streets and alleys.

CITY OF SULLIVAN
NOTES TO FINANCIAL STATEMENTS
(Continued)

The section street project fund is used to account for the proceeds accumulated to improve section street.

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.

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 primary government and the wastewater and trash utilities. 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.

CITY OF SULLIVAN
NOTES TO FINANCIAL STATEMENTS
(Continued)

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 non-operating 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 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 Statement of Activities and Net Assets – Cash and Investment Basis.

CITY OF SULLIVAN
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Stewardship, Compliance and Accountability

A. 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.

B. Disbursements in Excess of Appropriations

For the year ended December 31, 2007, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2007
Motor Vehicle Highway	\$ 26,197
Park and Recreation	4,511
Total	\$ 30,708

These disbursements were funded by greater than anticipated receipts.

III. Detailed Notes on All Funds

A. 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

CITY OF SULLIVAN
NOTES TO FINANCIAL STATEMENTS
(Continued)

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.

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2007 were as follows:

Transfer From	Transfer To	2007
General Fund	Other governmental funds	\$ 12,649
Motor Vehicle Highway Fund	Section Street Project Fund	31,300
Other governmental funds	General Fund	22,187
	Section Street Project Fund	70,332
	Other governmental funds	3,750
Total		\$ 140,218

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

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; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); 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; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); 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.

B. Subsequent Events

On June 4, 2008, the City entered into a capital lease with Fifth Third Bank in the amount of \$95,250 for the purchase of four police cars. The lease requires five annual payments of \$21,306 at an interest rate of 3.85%.

On July 7, 2008, the City entered into a capital lease with First Financial Bank in the amount of \$65,000 for the purchase of street department equipment. The lease requires five annual payments of \$14,802 at an interest rate of 4.49%.

CITY OF SULLIVAN
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Conduit Debt Obligation

From time to time, the City has issued Pollution Control Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The City, the State, and any political subdivision thereof are not obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying notes to the financial statements.

As of December 31, 2007, there was one series of Pollution Control Revenue Bonds outstanding. The aggregate principal amount payable for the Pollution Control Revenue Bonds series issued after July 1, 1995, was \$128,100,000.

D. Rate Structure – Enterprise Funds

Wastewater Utility

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

Trash Utility

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

E. Pension Plans

1. Single-Employer Defined Benefit Pension Plans

a. 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 (IC 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.

CITY OF SULLIVAN
NOTES TO FINANCIAL STATEMENTS
(Continued)

b. 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 (IC 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.

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

	<u>1925 Police Officers' Pension</u>	<u>1937 Firefighters' Pension</u>
Annual required contribution	\$ 76,600	\$ 79,700
Interest on net pension obligation	22,000	7,600
Adjustment to annual required contribution	<u>(27,400)</u>	<u>(9,400)</u>
Annual pension cost	71,200	77,900
Contributions made	<u>70,852</u>	<u>82,243</u>
Increase (decrease) in net pension obligation	348	(4,343)
Net pension obligation, beginning of year	<u>366,987</u>	<u>126,640</u>
Net pension obligation, end of year	<u>\$ 367,335</u>	<u>\$ 122,297</u>

CITY OF SULLIVAN
NOTES TO FINANCIAL STATEMENTS
(Continued)

	1925 Police Officers' Pension	1937 Firefighters' Pension
Actuarial valuation date	01-01-07	01-01-07
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	30 years	30 years
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

Actuarial Assumptions

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	12-31-05	\$ 122,700	43%	\$ 408,261
	12-31-06	72,800	157%	366,987
	12-31-07	71,200	100%	367,335
1937 Firefighters' Pension Plan	12-31-05	101,900	61%	194,948
	12-31-06	79,100	186%	126,640
	12-31-07	77,900	106%	122,297

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2007 was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retirees and beneficiaries currently receiving benefits	6	7

CITY OF SULLIVAN
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

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

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2007, 2006, and 2005, were \$80,728, \$86,142, and \$89,617, respectively, equal to the required contributions for each year.

CITY OF SULLIVAN
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF FUNDING PROGRESS

1925 Police Officers' 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)
01-01-02	\$ 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%	-	N/A
01-01-07	119,894	1,057,700	(937,806)	11%	-	N/A

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)
01-01-02	\$ 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%	-	N/A
01-01-07	153,830	1,099,700	(945,870)	14%	-	N/A

N/A - Not applicable due to no covered payroll

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

	<u>Year Ending</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
1925 Police Officers' Pension Plan	12-31-02	\$ 174,300	67%
	12-31-03	187,800	22%
	12-31-04	195,500	25%
	12-31-05	127,000	41%
	12-31-06	78,300	146%
	12-31-07	76,600	92%
1937 Firefighters' Pension Plan	12-31-02	150,000	144%
	12-31-03	157,700	31%
	12-31-04	163,500	32%
	12-31-05	103,900	60%
	12-31-06	81,700	180%
	12-31-07	79,700	103%

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, 2007

	Crime Control	Local Road and Street	Law Enforcement Continuing Education	Unsafe Building	Riverboat	Parks and Recreation
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,422
Licenses and permits	-	-	1,290	-	-	-
Intergovernmental	-	16,404	-	-	29,114	8,821
Charges for services	-	-	574	-	-	240
Fines and forfeits	-	-	-	1,120	-	-
Other	3	-	898	-	-	7,924
Total receipts	3	16,404	2,762	1,120	29,114	72,407
Disbursements:						
General government	-	-	-	850	-	-
Public safety	-	-	2,702	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	84,600
Urban redevelopment and housing	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	3,630
Interest	-	-	-	-	-	283
Capital outlay:						
Highways and streets	-	4,718	-	-	-	-
Culture and recreation	-	-	-	-	-	5,114
Total disbursements	-	4,718	2,702	850	-	93,627
Excess (deficiency) of receipts over disbursements	3	11,686	60	270	29,114	(21,220)
Other financing sources (uses):						
Transfers in	-	-	-	-	-	1,720
Transfers out	-	(12,282)	-	-	(51,000)	(1,147)
Other receipts	-	-	-	-	-	-
Total other financing sources (uses)	-	(12,282)	-	-	(51,000)	573
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	3	(596)	60	270	(21,886)	(20,647)
Cash and investment fund balance - beginning	912	56,858	2,352	13,300	22,055	29,675
Cash and investment fund balance - ending	\$ 915	\$ 56,262	\$ 2,412	\$ 13,570	\$ 169	\$ 9,028
Cash and Investment Assets - Ending						
Restricted assets:						
Cash and investments	\$ 915	\$ 56,262	\$ 2,412	\$ 13,570	\$ 169	\$ 9,028
Total cash and investment assets - ending	\$ 915	\$ 56,262	\$ 2,412	\$ 13,570	\$ 169	\$ 9,028
Cash and Investment Fund Balance - Ending						
Restricted for:						
Public safety	\$ 915	\$ -	\$ 2,412	\$ -	\$ -	\$ -
Highways and streets	-	56,262	-	-	-	-
Culture and recreation	-	-	-	-	-	9,028
Capital outlay	-	-	-	-	-	-
Other purposes	-	-	-	13,570	169	-
Total cash and investment fund balance - ending	\$ 915	\$ 56,262	\$ 2,412	\$ 13,570	\$ 169	\$ 9,028

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, 2007
 (Continued)

	Levy Excess Special Revenue	Tax Draw Clearing	Adopt A Spot	In Housing Grant	Fire Nonreverting	Street Cut Deposit
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	525
Intergovernmental	-	80	-	196,521	-	-
Charges for services	-	-	-	-	15,406	-
Fines and forfeits	-	-	-	-	-	-
Other	1,394	-	-	-	-	-
Total receipts	1,394	80	-	196,521	15,406	525
Disbursements:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	11,078	-
Highways and streets	-	-	-	-	-	1,000
Culture and recreation	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	196,521	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Total disbursements	-	-	-	196,521	11,078	1,000
Excess (deficiency) of receipts over disbursements	1,394	80	-	-	4,328	(475)
Other financing sources (uses):						
Transfers in	14,130	-	-	-	-	-
Transfers out	(24,456)	-	-	-	-	-
Other receipts	-	-	-	-	-	-
Total other financing sources (uses)	(10,326)	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(8,932)	80	-	-	4,328	(475)
Cash and investment fund balance - beginning	24,456	-	241	-	2,485	5,075
Cash and investment fund balance - ending	\$ 15,524	\$ 80	\$ 241	\$ -	\$ 6,813	\$ 4,600
Cash and Investment Assets - Ending						
Restricted assets:						
Cash and investments	\$ 15,524	\$ 80	\$ 241	\$ -	\$ 6,813	\$ 4,600
Total cash and investment assets - ending	\$ 15,524	\$ 80	\$ 241	\$ -	\$ 6,813	\$ 4,600
Cash and Investment Fund Balance - Ending						
Restricted for:						
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 6,813	\$ -
Highways and streets	-	-	-	-	-	4,600
Culture and recreation	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Other purposes	15,524	80	241	-	-	-
Total cash and investment fund balance - ending	\$ 15,524	\$ 80	\$ 241	\$ -	\$ 6,813	\$ 4,600

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, 2007
 (Continued)

	Fire Reports/ Donations	Pool Liner	Park Nonreverting	Park/Pool Donations	Police Ordinance Violation
Receipts:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	9,827	42,642	-
Fines and forfeits	-	-	-	-	100
Other	10	-	-	2,249	-
Total receipts	10	-	9,827	44,891	100
Disbursements:					
General government	-	-	-	-	-
Public safety	125	-	-	-	337
Highways and streets	-	-	-	-	-
Culture and recreation	-	-	3,668	41,063	-
Urban redevelopment and housing	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay:					
Highways and streets	-	-	-	-	-
Culture and recreation	-	46,808	-	-	-
Total disbursements	125	46,808	3,668	41,063	337
Excess (deficiency) of receipts over disbursements	(115)	(46,808)	6,159	3,828	(237)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Other receipts	-	46,808	-	-	-
Total other financing sources (uses)	-	46,808	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(115)	-	6,159	3,828	(237)
Cash and investment fund balance - beginning	384	-	18,270	11,592	1,349
Cash and investment fund balance - ending	<u>\$ 269</u>	<u>\$ -</u>	<u>\$ 24,429</u>	<u>\$ 15,420</u>	<u>\$ 1,112</u>
<u>Cash and Investment Assets - Ending</u>					
Restricted assets:					
Cash and investments	\$ 269	\$ -	\$ 24,429	\$ 15,420	\$ 1,112
Total cash and investment assets - ending	<u>\$ 269</u>	<u>\$ -</u>	<u>\$ 24,429</u>	<u>\$ 15,420</u>	<u>\$ 1,112</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Public safety	\$ 269	\$ -	\$ -	\$ -	\$ 1,112
Highways and streets	-	-	-	-	-
Culture and recreation	-	-	24,429	15,420	-
Capital outlay	-	-	-	-	-
Other purposes	-	-	-	-	-
Total cash and investment fund balance - ending	<u>\$ 269</u>	<u>\$ -</u>	<u>\$ 24,429</u>	<u>\$ 15,420</u>	<u>\$ 1,112</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, 2007
 (Continued)

	Sullivan County Community Foundation Grant	Ambulance	Cumulative Capital Improvement	Cumulative Capital Development	Totals
Receipts:					
Taxes	\$ -	\$ -	\$ -	\$ 18,500	\$ 73,922
Licenses and permits	-	-	-	-	1,815
Intergovernmental	-	-	16,217	2,944	270,101
Charges for services	-	128,931	-	-	197,620
Fines and forfeits	-	-	-	-	1,220
Other	210	-	-	-	12,688
Total receipts	210	128,931	16,217	21,444	557,366
Disbursements:					
General government	-	-	-	-	850
Public safety	-	150,236	-	-	164,478
Highways and streets	-	-	-	-	1,000
Culture and recreation	-	-	-	-	129,331
Urban redevelopment and housing	-	-	-	-	196,521
Debt service:					
Principal	-	-	-	-	3,630
Interest	-	-	-	-	283
Capital outlay:					
Highways and streets	-	-	12,900	65,532	83,150
Culture and recreation	-	-	-	-	51,922
Total disbursements	-	150,236	12,900	65,532	631,165
Excess (deficiency) of receipts over disbursements	210	(21,305)	3,317	(44,088)	(73,799)
Other financing sources (uses):					
Transfers in	-	-	-	549	16,399
Transfers out	-	-	(7,050)	(334)	(96,269)
Other receipts	-	-	-	-	46,808
Total other financing sources (uses)	-	-	(7,050)	215	(33,062)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	210	(21,305)	(3,733)	(43,873)	(106,861)
Cash and investment fund balance - beginning	(210)	49,680	33,455	75,128	347,057
Cash and investment fund balance - ending	\$ -	\$ 28,375	\$ 29,722	\$ 31,255	\$ 240,196
Cash and Investment Assets - Ending					
Restricted assets:					
Cash and investments	\$ -	\$ 28,375	\$ 29,722	\$ 31,255	\$ 240,196
Total cash and investment assets - ending	\$ -	\$ 28,375	\$ 29,722	\$ 31,255	\$ 240,196
Cash and Investment Fund Balance - Ending					
Restricted for:					
Public safety	\$ -	\$ 28,375	\$ -	\$ -	\$ 39,896
Highways and streets	-	-	-	-	60,862
Culture and recreation	-	-	-	-	48,877
Capital outlay	-	-	29,722	31,255	60,977
Other purposes	-	-	-	-	29,584
Total cash and investment fund balance - ending	\$ -	\$ 28,375	\$ 29,722	\$ 31,255	\$ 240,196

CITY OF SULLIVAN
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PENSION TRUST FUNDS
 For The Year Ended December 31, 2007

	<u>Police Pension</u>	<u>Fire Pension</u>	<u>Totals</u>
Additions:			
Contributions:			
Employer	\$ 334	\$ 334	\$ 668
State	<u>70,518</u>	<u>81,909</u>	<u>152,427</u>
Total contributions	<u>70,852</u>	<u>82,243</u>	<u>153,095</u>
Investment receipts:			
Interest	<u>360</u>	<u>675</u>	<u>1,035</u>
Total additions	<u>71,212</u>	<u>82,918</u>	<u>154,130</u>
Deductions:			
Benefits	88,649	96,442	185,091
Administrative and general	<u>744</u>	<u>1,000</u>	<u>1,744</u>
Total deductions	<u>89,393</u>	<u>97,442</u>	<u>186,835</u>
Deficiency of total additions over total deductions	(18,181)	(14,524)	(32,705)
Cash and investment fund balance - beginning	<u>119,894</u>	<u>153,830</u>	<u>273,724</u>
Cash and investment fund balance - ending	<u>\$ 101,713</u>	<u>\$ 139,306</u>	<u>\$ 241,019</u>



SULLIVAN, INDIANA

"Take Time to Care"

Mayor Scott Biddle

Email: sullivanmayor@joink.com

Clerk/Treasurer Sue Pitts

Email: sullincity@joink.com

CITY OF SULLIVAN
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2007

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Notes and loans payable:		
Police Car	\$ 58,048	\$ 21,416
Ambulance	37,998	15,994
Defibrillators	5,667	5,833
Tennis Courts	3,766	3,908
Fire Truck	267,139	44,081
Pool Liner	46,000	8,029
Cemetery Mower	7,806	2,866
Total governmental activities debt	<u>\$ 426,424</u>	<u>\$ 102,127</u>
Business-type Activities:		
Wastewater Utility		
Notes and loans payable:		
Mower	\$ 3,966	\$ 2,905
Sewer Improvements	255,133	73,135
Sewer Improvements - State Revolving Loan	6,887,277	-
Total Wastewater Utility	<u>7,146,376</u>	<u>76,040</u>
Other Utility:		
Notes and loans payable:		
Dump Truck	29,000	6,536
Total business-type activities debt	<u>\$ 7,175,376</u>	<u>\$ 82,576</u>

CITY HALL

32 N. Court Street • Sullivan, IN 47882 • Ph 812-268-5464 • Fax 812-268-4522

CITY OF SULLIVAN
AUDIT RESULTS AND COMMENTS

APPROPRIATIONS (City)

Disbursements of \$3,994, \$26,940, and \$222 were made from the City's General Fund, Motor Vehicle Highway Fund, and Park and Recreation Fund, respectively, and posted as unappropriated expenses to the Ledger of Appropriations, Encumbrances, Disbursements and Balances. A review of the Accounts Payable Vouchers for these disbursements determined that the disbursements should have been posted to a proper appropriation, rather than as an unappropriated expense.

After adjustment for the aforementioned misclassified disbursements, the records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Excess Amount Expended</u>
Motor Vehicle Highway	\$ 26,197
Park and Recreation	4,511

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year shall not exceed its budget for that year as finally determined under this article."

APPROVAL OF CLAIMS (City and Utilities)

The City manually issues checks for disbursements requiring prepayment before the next Common Council meeting. However, the checks were subsequently never included on an Accounts Payable Voucher Register, General Form No. 364, for approval by the Common Council.

Indiana Code 5-11-10-2(a) states: "Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

CAPITAL ASSET RECORDS (City and Utilities)

The City does not maintain any capital asset record. Capital assets should be recorded on City and Town Form No. 211, Capital Assets Ledger. An inventory of all capital assets owned has not been taken.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF SULLIVAN
AUDIT RESULTS AND COMMENTS
(Continued)

CERTIFIED REPORT NOT FILED (City and Utilities)

The City did not file a certified report of compensation of officers and employees (Form 100-R or its equivalent) with the State Board of Accounts for the year 2007.

Indiana Code 5-11-13-1 states in part: "Every state, county, city, township, or school official . . . shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

OFFICIAL BONDS (City and Utilities)

The following official bonds were not filed in the office of the County Recorder:

Park Superintendent
City of Sullivan Employees' Blanket Bonds

In addition, the following required official bonds were not acquired:

Police Pension Secretary
Fire Pension Fiscal Officer

Indiana Code 5-4-1-5.1 states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

Regarding the Police Pension Secretary, Indiana Code 36-8-6-3(e) states in part: "The secretary shall, in a manner prescribed by Indiana Code 5-4-1, execute a bond conditioned upon the faithful discharge of his duties."

Regarding the Fire Pension Secretary, Indiana Code 36-8-7-10(c) states in part: "The president of the local board shall execute the officer's bond in the sum that the local board considers adequate, conditioned that the fiscal officer will faithfully discharge the duties of the fiscal officer's office and faithfully account for and put over to the persons authorized to receive it all money that comes into the fiscal officer's hands by virtue of the fiscal officer's office."

OPTICAL IMAGES OF WARRANTS (City and Utilities)

Harris Bank did not return the actual cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks.

Indiana Code 5-15-6-3 concerning optical imaging of checks states in part:

"(a) . . . 'original records' . . . includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process. . . .

CITY OF SULLIVAN
AUDIT RESULTS AND COMMENTS
(Continued)

- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Further, Indiana Code 26-2-8-22 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

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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
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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, 2007. 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.

As described in item 2007-1 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with the requirements regarding Equipment and Real Property Management that are applicable to its Capitalization Grants for Clean Water State Revolving Funds. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

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)

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in item 2007-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

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. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2007-1 to be a material weakness.

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

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

August 20, 2008

CITY OF SULLIVAN
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2007

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 HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Department of Commerce Community Development Block Grant/Entitlement Program	14.218	CF-05-125	\$ 64,500
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Pass-Through Indiana Finance Authority Capitalization Grants for Clean Water State Revolving Funds Wastewater Infrastructure Improvements Project	66.458	CS 18240801	1,228,567
Total federal awards expended			<u>\$ 1,293,067</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF SULLIVAN
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 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.

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?	yes
Reportable conditions identified that are not considered to be material weaknesses?	yes

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds

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

Auditee qualified as low-risk auditee? no

CITY OF SULLIVAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

FINDING 2007-1, EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458

The City does not maintain any capital asset record. Capital assets should be recorded on City and Town Form No. 211, Capital Assets Ledger. An inventory of all capital assets owned has not been taken.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The lack of capital asset records could result in misappropriation of capital assets.

City officials should maintain the prescribed capital asset records.

CITY OF SULLIVAN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



SULLIVAN, INDIANA

"Take Time to Care"

Mayor Scott Biddle

Email: sullivanmayor@joink.com

Clerk/Treasurer Sue Pitts

Email: sullincity@joink.com

CORRECTIVE ACTION PLAN

FINDING NO. 2007-1

Federal Agency: U.S. Environmental Protection Agency

Federal Program: Capitalization Grants for Clean Water State Revolving Funds

CFDA Number: 66.458

The City is fully aware of the requirement to maintain proper capital asset records. By the end of the year, we plan to conduct a physical inventory of all capital assets owned. Upon completion, the assets identified will be posted to City and Town Form No. 211, Capital Assets Ledger. All subsequent additions and deletions will be posted to the Capital Assets Ledger.

A handwritten signature in cursive script that reads "Donna Sue Pitts".

Donna Sue Pitts

Clerk-Treasurer

City of Sullivan

CITY HALL

32 N. Court Street • Sullivan, IN 47882 • Ph 812-268-5464 • Fax 812-268-4522

CITY OF SULLIVAN
EXIT CONFERENCE

The contents of this report were discussed on August 20, 2008, with Donna Sue Pitts, Clerk-Treasurer; J. Scott Biddle, Mayor; and Debra J. Ayres, President of the Common Council. The officials concurred with our audit findings.