

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

CITY OF BRAZIL  
CLAY COUNTY, INDIANA

January 1, 2012 to December 31, 2012



**FILED**  
08/22/2013



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Karen McQueen	01-01-12 to 12-31-15
Mayor	Brian Wyndham	01-01-12 to 12-31-15
President of the Board of Public Works	Brian Wyndham	01-01-12 to 12-31-15
President of the Common Council	Samuel N. Glover P. Brad Deal	01-01-12 to 12-31-12 01-01-13 to 12-31-13
Superintendent of Water Utility	Jacob D. Raubach	01-01-12 to 12-31-13
Co-Superintendents of Wastewater Utility	Jerry D. Robison Terry L. Robison	01-01-12 to 10-18-12 01-01-12 to 10-18-12
Superintendent of Wastewater Utility	William Goodrich	10-19-12 to 12-31-13
Utility Office Manager	Sheryl Hill Delores M. Elder	01-01-12 to 03-17-13 03-18-13 to 12-31-13



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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF BRAZIL, CLAY COUNTY, INDIANA

***Report on the Financial Statement***

We have audited the accompanying financial statement of the City of Brazil (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As discussed in Note 1 of the financial statement, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated July 23, 2013, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

***Accompanying Information***

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. 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 financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

*Other Information*

The City's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the City's response and, accordingly, we express no opinion on it.



Bruce Hartman  
State Examiner

July 23, 2013



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF BRAZIL, CLAY COUNTY, INDIANA

We have audited, 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, the financial statement of the City of Brazil (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated July 23, 2013, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's financial statement is 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*.

***City of Brazil's Response to Findings***

The City's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman  
State Examiner

July 23, 2013

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## FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF BRAZIL  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ (153,000)	\$ 2,928,961	\$ 2,788,552	\$ (12,591)
MVH	41,889	326,158	356,858	11,189
LRS	(12,819)	37,663	40,146	(15,302)
Economic Development Fund	22,039	-	-	22,039
Law Enforcement Continuing Education Fund	26,162	12,205	28,354	10,013
Unsafe Building Fund	(13,985)	42,257	3,394	24,878
Parks and Recreation	18,597	236,735	227,629	27,703
Rainy Day	90,727	45,890	25,000	111,617
K9 Fund	28	21,330	20,587	771
Levy Excess Fund	6,245	-	-	6,245
CCD	154,387	131,870	66,158	220,099
PARKS NON REVERTING	18,660	88,471	4,066	103,065
Cumulative Drainage Fund	(1,601)	-	-	(1,601)
CCI	38,887	23,707	-	62,594
Police Pension	4,294	15,518	78,179	(58,367)
Fire Pension	447,995	352,366	278,882	521,479
LOIT - Public Safety	-	331,282	324,853	6,429
Sanitation	235,357	408,552	386,753	257,156
CEMETERY	(13,496)	60,357	80,958	(34,097)
GEN. OBLIGATION BOND	68,879	209,292	71,300	206,871
REDEVELOPMENT BOND	71,053	80,804	102,133	49,724
CEMETERY NON REVERTING	15,658	-	-	15,658
POLICE BIKE FUND	19	-	-	19
EMERGENCY RESPONSE TEAM	(2,306)	-	-	(2,306)
NSP GRANT FUND	-	345,600	286,216	59,384
POLICE GRANT	24,739	983	-	25,722
POLICE DEFERRAL	38,113	33,100	44,719	26,494
GOLF FUND	(9,245)	442,702	433,889	(432)
Shop With A Cop	3,513	10,880	10,500	3,893
LAW ENFORCEMENT	5,785	208	5,732	261
TRAFFIC SAFETY	6,033	3,146	14,675	(5,496)
FIRE EDUCATION	160	-	-	160
FIREFIIGHTERS SPECIAL	60,604	8,056	16,869	51,791
FIRE PREVENTION FUND	-	4,000	2,578	1,422
2007 PW LOAN	24,138	-	108,210	(84,072)
2008 GO/SPEC DIST BONDS	33,950	78,896	42,203	70,643
SIDEWALK CONST BOND	1,219	-	-	1,219
SIDEWALK CONST II	13,998	-	-	13,998
DUE TO CITY SANITATION	40,386	28	4,276	36,138
Pogues Run Grant	-	108,180	97,181	10,999
PAYROLL FUND	62,009	25,040	-	87,049
HEALTH CLAIM FUND	904	-	199	705
Health Reimbursement	16,509	60,539	55,256	21,792
Sewer - Oper. & Maint.	(8,649)	2,725,550	2,391,455	325,446
Sewer - Bond & Interest	2,236	996,910	996,910	2,236
Sewer - Debt Service Rsv	1,005,000	-	-	1,005,000
Sewer - Construction	-	2,550,529	473,873	2,076,656
Water - Oper. & Maint.	329,633	1,877,071	1,423,513	783,191
Water - Meter Deposits	258,926	19,727	-	278,653
Water Improvement	-	-	184,007	(184,007)
Water - Bond & Interest	117,672	1,930	-	119,602
Water - Debt Service Rsv	97,896	-	-	97,896
Water - Construction	252,751	176	223,601	29,326
Totals	<u>\$ 3,441,949</u>	<u>\$ 14,646,669</u>	<u>\$ 11,699,664</u>	<u>\$ 6,388,954</u>

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

CITY OF BRAZIL  
NOTES TO FINANCIAL STATEMENT

**Note 1. 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 some or all of 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, water, wastewater, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

*B. Basis of Accounting*

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), 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 regulatory 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.

*C. Cash and Investments*

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

*D. Receipts*

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF BRAZIL  
NOTES TO FINANCIAL STATEMENT  
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Penalties which include fees received for late payments.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

*E. Disbursements*

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

CITY OF BRAZIL  
NOTES TO FINANCIAL STATEMENT  
(Continued)

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

*F. Interfund Transfers*

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

*G. Fund Accounting*

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

**Note 2. Budgets**

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

**Note 3. Property Taxes**

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

CITY OF BRAZIL  
NOTES TO FINANCIAL STATEMENT  
(Continued)

**Note 4. Deposits and Investments**

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

**Note 5. Risk Management**

The City may be 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; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

**Note 6. Pension Plans**

*A. Public Employees' Retirement Fund*

*Plan Description*

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and 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:

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

CITY OF BRAZIL  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*Funding Policy and Annual Pension Cost*

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

*B. 1925 Police Officers' Pension Plan*

*Plan Description*

The 1925 Police Officers' Pension Plan 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*

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

*On Behalf Payments*

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

*C. 1937 Firefighters' Pension Plan*

*Plan Description*

The 1937 Firefighters' Pension Plan 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*

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

*On Behalf Payments*

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

CITY OF BRAZIL  
NOTES TO FINANCIAL STATEMENT  
(Continued)

*D. 1977 Police Officers' and Firefighters' Pension and Disability Fund*

*Plan Description*

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) 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 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS 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:

Indiana Public Retirement System  
1 North Capital Street, Suite 001  
Indianapolis, IN 46204  
Ph. (888) 526-1687

*Funding Policy*

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

The City also contributes to additional pension plans unique to the City. Information regarding these plans may be obtained from the City.

**Note 7. Cash Balance Deficits**

The financial statement contains some funds with deficits in cash. This is a result of expenditures in excess of revenues.

## SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF BRAZIL  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012

	General	MVH	LRS	Economic Development Fund	Law Enforcement Continuing Education Fund	Unsafe Building Fund
Cash and investments - beginning	\$ (153,000)	\$ 41,889	\$ (12,819)	\$ 22,039	\$ 26,162	\$ (13,985)
Receipts:						
Taxes	1,179,949	107,757	-	-	-	-
Licenses and permits	83,969	-	-	-	3,080	-
Intergovernmental	1,247,137	214,889	33,605	-	-	-
Charges for services	22,319	-	-	-	6,362	22,257
Fines and forfeits	2,975	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	392,612	3,512	4,058	-	2,763	20,000
Total receipts	<u>2,928,961</u>	<u>326,158</u>	<u>37,663</u>	<u>-</u>	<u>12,205</u>	<u>42,257</u>
Disbursements:						
Personal services	1,861,306	213,201	-	-	-	-
Supplies	93,285	46,709	40,146	-	23,341	-
Other services and charges	379,006	70,270	-	-	5,013	3,394
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	35,871	26,678	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	419,084	-	-	-	-	-
Total disbursements	<u>2,788,552</u>	<u>356,858</u>	<u>40,146</u>	<u>-</u>	<u>28,354</u>	<u>3,394</u>
Excess (deficiency) of receipts over disbursements	<u>140,409</u>	<u>(30,700)</u>	<u>(2,483)</u>	<u>-</u>	<u>(16,149)</u>	<u>38,863</u>
Cash and investments - ending	<u>\$ (12,591)</u>	<u>\$ 11,189</u>	<u>\$ (15,302)</u>	<u>\$ 22,039</u>	<u>\$ 10,013</u>	<u>\$ 24,878</u>

CITY OF BRAZIL  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	Parks and Recreation	Rainy Day	K9 Fund	Levy Excess Fund	CCD	PARKS NON REVERTING
Cash and investments - beginning	\$ 18,597	\$ 90,727	\$ 28	\$ 6,245	\$ 154,387	\$ 18,660
Receipts:						
Taxes	179,327	-	-	-	71,892	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	14,012	-	-	-	5,617	-
Charges for services	35,094	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	8,302	45,890	21,330	-	54,361	88,471
Total receipts	<u>236,735</u>	<u>45,890</u>	<u>21,330</u>	<u>-</u>	<u>131,870</u>	<u>88,471</u>
Disbursements:						
Personal services	88,599	-	-	-	-	-
Supplies	28,714	-	-	-	-	1,367
Other services and charges	110,316	5,000	14,500	-	66,158	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	20,000	6,087	-	-	2,699
Total disbursements	<u>227,629</u>	<u>25,000</u>	<u>20,587</u>	<u>-</u>	<u>66,158</u>	<u>4,066</u>
Excess (deficiency) of receipts over disbursements	<u>9,106</u>	<u>20,890</u>	<u>743</u>	<u>-</u>	<u>65,712</u>	<u>84,405</u>
Cash and investments - ending	<u>\$ 27,703</u>	<u>\$ 111,617</u>	<u>\$ 771</u>	<u>\$ 6,245</u>	<u>\$ 220,099</u>	<u>\$ 103,065</u>

CITY OF BRAZIL  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	Cumulative Drainage Fund	CCI	Police Pension	Fire Pension	LOIT - Public Safety	Sanitation
Cash and investments - beginning	\$ (1,601)	\$ 38,887	\$ 4,294	\$ 447,995	\$ -	\$ 235,357
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	23,707	-	-	327,906	-
Charges for services	-	-	-	-	-	401,220
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	-	15,518	352,366	3,376	7,332
Total receipts	-	23,707	15,518	352,366	331,282	408,552
Disbursements:						
Personal services	-	-	78,179	278,312	316,295	170,946
Supplies	-	-	-	570	8,558	32,000
Other services and charges	-	-	-	-	-	157,007
Debt service - principal and interest	-	-	-	-	-	26,800
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	-	-	78,179	278,882	324,853	386,753
Excess (deficiency) of receipts over disbursements	-	23,707	(62,661)	73,484	6,429	21,799
Cash and investments - ending	\$ (1,601)	\$ 62,594	\$ (58,367)	\$ 521,479	\$ 6,429	\$ 257,156

CITY OF BRAZIL  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	CEMETERY	GEN. OBLIGATION BOND	REDEVELOPMENT BOND	CEMETERY NON REVERTING	POLICE BIKE FUND	EMERGENCY RESPONSE TEAM
Cash and investments - beginning	\$ (13,496)	\$ 68,879	\$ 71,053	\$ 15,658	\$ 19	\$ (2,306)
Receipts:						
Taxes	47,445	194,124	74,948	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	3,707	15,168	5,856	-	-	-
Charges for services	6,750	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	2,455	-	-	-	-	-
Total receipts	<u>60,357</u>	<u>209,292</u>	<u>80,804</u>	<u>-</u>	<u>-</u>	<u>-</u>
Disbursements:						
Personal services	49,681	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	31,277	-	-	-	-	-
Debt service - principal and interest	-	71,300	102,133	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>80,958</u>	<u>71,300</u>	<u>102,133</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(20,601)</u>	<u>137,992</u>	<u>(21,329)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ (34,097)</u>	<u>\$ 206,871</u>	<u>\$ 49,724</u>	<u>\$ 15,658</u>	<u>\$ 19</u>	<u>\$ (2,306)</u>

CITY OF BRAZIL  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	NSP GRANT FUND	POLICE GRANT	POLICE DEFERRAL	GOLF FUND	Shop With A Cop	LAW ENFORCEMENT
Cash and investments - beginning	\$ -	\$ 24,739	\$ 38,113	\$ (9,245)	\$ 3,513	\$ 5,785
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	983	-	-	-	-
Charges for services	213,139	-	-	366,275	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	132,461	-	33,100	76,427	10,880	208
Total receipts	<u>345,600</u>	<u>983</u>	<u>33,100</u>	<u>442,702</u>	<u>10,880</u>	<u>208</u>
Disbursements:						
Personal services	-	-	-	152,172	-	-
Supplies	-	-	14,266	93,928	10,500	5,732
Other services and charges	195,908	-	7,770	78,765	-	-
Debt service - principal and interest	-	-	-	90,262	-	-
Capital outlay	-	-	22,683	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	90,308	-	-	18,762	-	-
Total disbursements	<u>286,216</u>	<u>-</u>	<u>44,719</u>	<u>433,889</u>	<u>10,500</u>	<u>5,732</u>
Excess (deficiency) of receipts over disbursements	<u>59,384</u>	<u>983</u>	<u>(11,619)</u>	<u>8,813</u>	<u>380</u>	<u>(5,524)</u>
Cash and investments - ending	<u>\$ 59,384</u>	<u>\$ 25,722</u>	<u>\$ 26,494</u>	<u>\$ (432)</u>	<u>\$ 3,893</u>	<u>\$ 261</u>

CITY OF BRAZIL  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	TRAFFIC SAFETY	FIRE EDUCATION	FIREFIGHTERS SPECIAL	FIRE PREVENTION FUND	2007 PW LOAN	2008 GO/SPEC DIST BONDS
Cash and investments - beginning	\$ 6,033	\$ 160	\$ 60,604	\$ -	\$ 24,138	\$ 33,950
Receipts:						
Taxes	-	-	-	-	-	73,178
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	5,718
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	3,146	-	8,056	4,000	-	-
Total receipts	<u>3,146</u>	<u>-</u>	<u>8,056</u>	<u>4,000</u>	<u>-</u>	<u>78,896</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	14,675	-	8,864	-	-	-
Other services and charges	-	-	-	2,578	-	-
Debt service - principal and interest	-	-	-	-	108,210	42,203
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	8,005	-	-	-
Total disbursements	<u>14,675</u>	<u>-</u>	<u>16,869</u>	<u>2,578</u>	<u>108,210</u>	<u>42,203</u>
Excess (deficiency) of receipts over disbursements	<u>(11,529)</u>	<u>-</u>	<u>(8,813)</u>	<u>1,422</u>	<u>(108,210)</u>	<u>36,693</u>
Cash and investments - ending	<u>\$ (5,496)</u>	<u>\$ 160</u>	<u>\$ 51,791</u>	<u>\$ 1,422</u>	<u>\$ (84,072)</u>	<u>\$ 70,643</u>

CITY OF BRAZIL  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	SIDEWALK CONST BOND	SIDEWALK CONST II	DUE TO CITY SANITATION	Pogues Run Grant	PAYROLL FUND	HEALTH CLAIM FUND
Cash and investments - beginning	\$ 1,219	\$ 13,998	\$ 40,386	\$ -	\$ 62,009	\$ 904
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	108,180	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	-	-	28	-	25,040	-
Total receipts	-	-	28	108,180	25,040	-
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	4,276	97,181	-	199
Total disbursements	-	-	4,276	97,181	-	199
Excess (deficiency) of receipts over disbursements	-	-	(4,248)	10,999	25,040	(199)
Cash and investments - ending	\$ 1,219	\$ 13,998	\$ 36,138	\$ 10,999	\$ 87,049	\$ 705

CITY OF BRAZIL  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	Health Reimbursement	Sewer - Oper. & Maint.	Sewer - Bond & Interest	Sewer - Debt Service Rsrv	Sewer - Construction	Water - Oper. & Maint.
Cash and investments - beginning	\$ 16,509	\$ (8,649)	\$ 2,236	\$ 1,005,000	\$ -	\$ 329,633
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	2,631,869	-	-	-	1,738,132
Penalties	-	-	-	-	-	27,605
Other receipts	60,539	93,681	996,910	-	2,550,529	111,334
Total receipts	<u>60,539</u>	<u>2,725,550</u>	<u>996,910</u>	<u>-</u>	<u>2,550,529</u>	<u>1,877,071</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	82,500	-
Utility operating expenses	-	1,300,629	196,910	-	326,843	1,111,451
Other disbursements	55,256	1,090,826	800,000	-	64,530	312,062
Total disbursements	<u>55,256</u>	<u>2,391,455</u>	<u>996,910</u>	<u>-</u>	<u>473,873</u>	<u>1,423,513</u>
Excess (deficiency) of receipts over disbursements	<u>5,283</u>	<u>334,095</u>	<u>-</u>	<u>-</u>	<u>2,076,656</u>	<u>453,558</u>
Cash and investments - ending	<u>\$ 21,792</u>	<u>\$ 325,446</u>	<u>\$ 2,236</u>	<u>\$ 1,005,000</u>	<u>\$ 2,076,656</u>	<u>\$ 783,191</u>

CITY OF BRAZIL  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2012  
 (Continued)

	Water - Meter Deposits	Water Improvement	Water - Bond & Interest	Water - Debt Service Rsrv	Water - Construction	Totals
Cash and investments - beginning	\$ 258,926	\$ -	\$ 117,672	\$ 97,896	\$ 252,751	\$ 3,441,949
Receipts:						
Taxes	-	-	-	-	-	1,928,620
Licenses and permits	-	-	-	-	-	87,049
Intergovernmental	-	-	-	-	-	2,006,485
Charges for services	-	-	-	-	-	1,073,416
Fines and forfeits	-	-	-	-	-	2,975
Utility fees	-	-	-	-	-	4,370,001
Penalties	-	-	-	-	-	27,605
Other receipts	19,727	-	1,930	-	176	5,150,518
Total receipts	19,727	-	1,930	-	176	14,646,669
Disbursements:						
Personal services	-	-	-	-	-	3,208,691
Supplies	-	-	-	-	-	422,655
Other services and charges	-	-	-	-	-	1,126,962
Debt service - principal and interest	-	-	-	-	-	440,908
Capital outlay	-	184,007	-	-	223,601	575,340
Utility operating expenses	-	-	-	-	-	2,935,833
Other disbursements	-	-	-	-	-	2,989,275
Total disbursements	-	184,007	-	-	223,601	11,699,664
Excess (deficiency) of receipts over disbursements	19,727	(184,007)	1,930	-	(223,425)	2,947,005
Cash and investments - ending	\$ 278,653	\$ (184,007)	\$ 119,602	\$ 97,896	\$ 29,326	\$ 6,388,954

CITY OF BRAZIL  
 SCHEDULE OF PAYABLES AND RECEIVABLES  
 December 31, 2012

Government or Enterprise	Accounts Payable	Accounts Receivable
Governmental activities	\$ 18,369	\$ 276,805
Wastewater	-	304,612
Water	85,832	147,329
Totals	\$ 104,201	\$ 728,746

CITY OF BRAZIL  
SCHEDULE OF LEASES AND DEBT  
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities: City of Brazil	Golf Cart Lease	\$ 21,001	09-26-11	07-15-16
Total of annual lease payments		<u>\$ 21,001</u>		

Type	Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds	GO Bonds Series 2002	\$ 330,000	\$ 73,726
General obligation bonds	GO Bonds Series 2008	935,000	72,993
General obligation bonds	Special Taxing District Bonds Series 2002	415,000	77,775
Notes and loans payable	Public Works Project Loan of 2007	<u>100,000</u>	<u>103,525</u>
Total governmental activities		<u>1,780,000</u>	<u>328,019</u>
Wastewater:			
Revenue bonds	Sewage Works Refunding Revenue Bonds of 2004	4,400,000	995,708
Notes and loans payable	Capital Lease - Guaranteed Energy Savings Performance Contract	<u>1,214,700</u>	<u>90,035</u>
Total Wastewater		<u>5,614,700</u>	<u>1,085,743</u>
Water:			
Revenue bonds	Waterworks Revenue Bonds of 2010 Series A	4,670,000	272,751
Revenue bonds	Supplemental Waterworks Refunding Revenue Bonds of 2010 Series B	<u>52,000</u>	<u>52,759</u>
Total Water		<u>4,722,000</u>	<u>325,510</u>
Totals		<u>\$ 12,116,700</u>	<u>\$ 1,739,272</u>

CITY OF BRAZIL  
 SCHEDULE OF CAPITAL ASSETS  
 December 31, 2012

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	Ending Balance
Governmental activities:	
Land	\$ 7,137
Machinery, equipment, and vehicles	52,836
Books and other	25,259
Total governmental activities	85,232
Wastewater:	
Land	82,500
Infrastructure	27,004,592
Machinery, equipment, and vehicles	12,027
Total Wastewater	27,099,119
Water:	
Land	16,000
Infrastructure	6,637,263
Machinery, equipment, and vehicles	12,192
Construction in progress	5,625,834
Total Water	12,291,289
Total capital assets	\$ 39,475,640

CITY OF BRAZIL  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

We noted several deficiencies in the internal control system of the City related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statements and then determining how those identified risks should be managed. The City has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
2. **Monitoring of Controls:** Effective internal control over financial reporting requires the City Council to monitor and assess the quality of the City's system of internal control. The City Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the City at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the City has no process to identify or communicate corrective actions to improve controls.
3. The City did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**OVERDRAWN CASH BALANCES**

The financial statements presented in this report included the following funds with overdrawn cash balances at December 31, 2012:

Fund	Amount Overdrawn
General	\$ 12,591
LRS	15,302
Cumulative Drainage Fund	1,601
Police Pension	58,367
Cemetery	34,097
2007 PW Loan	84,072
Water Improvement	184,007

CITY OF BRAZIL  
AUDIT RESULTS AND COMMENTS  
(Continued)

Fund	Amount Overdrawn
Traffic Safety	5,496
Emergency Response Team	2,306
Golf Fund	432

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***BANK ACCOUNT RECONCILIATIONS (Applies to City and Utilities)***

Depository reconciliations of the fund balances to the bank account balances were not presented for the audit period ending December 31, 2012, for the following funds:

Health Claim Fund  
Park Non Reverting

In addition, as stated in the prior Report B40653, depository reconciliations of the fund balances to the bank account balances were incorrect for the City General Treasury Account, NSP Account, Fire Special Fund Account, Gold Fund Account, K9 Fund Account, Law Enforcement Fund Account, Park Non Reverting Fund Account, Payroll Fund Account, Police Pension Account, Fire Pension Account and Utilities Pooled Cash Account.

Indiana Code 5-13-6-1(e) states: "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."

***APPROPRIATIONS (Applies to City)***

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Year	Excess Amount Expended
General	2012	\$ 320,432
Cemetery	2012	19,768
Parks Non Reverting	2012	1,367
Redevelopment Bond	2012	21,808
Rainy Day	2012	25,000
LRS	2012	2,696
LOIT - Public Safety	2012	48,697
Golf Fund	2012	31,194
CCD	2012	41,158

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 do not exceed its budget for that year as finally determined under this article."

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SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE CITY OF BRAZIL, CLAY COUNTY, INDIANA

***Report on Compliance for Each Major Federal Program***

We have audited the City of Brazil's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2012. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on the Major Federal Program***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

***Other Matters***

The City's response to our audit is described in the accompanying Official Response. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
(Continued)

***Report on Internal Control Over Compliance***

Management of the City is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the type of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The City's response to our audit is described in the accompanying Official Response. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman  
State Examiner

July 23, 2013

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## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the City. The schedule and note are presented as intended by the City.

CITY OF BRAZIL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>Department of Defense</u>				
National Guard Military Operations and Maintenance (O&M) Projects	State Armory Board			
National Guard Military Operations and Maintenance (O&M) Projects		12.401		\$ 665
Total - Department of Defense				<u>665</u>
<u>Department of Housing and Urban Development</u>				
CDBG - State-Administered CDBG Cluster				
Community Development Block Grants/State Program and Non-Entitlement Grants in Hawaii	Office of Community and Rural Affairs			
Community Development Block Grants/State Program and Non-Entitlement Grants in Hawaii		14.228	DR2-09-089	2,536
Total - CDBG - State-Administered CDBG Cluster				<u>2,536</u>
Total - Department of Housing and Urban Development				<u>2,536</u>
<u>Department of Transportation</u>				
Highway Planning and Construction Cluster				
Highway Planning and Construction	IN Dept of Transportation			
Highway Planning and Construction		20.205		53,880
Recreational Trails Program	IN Dept of Natural Resources			
Recreational Trails Program		20.219		19,773
Total - Highway Planning and Construction Cluster				<u>73,653</u>
Highway Safety Cluster				
Safety Belt Performance Grants	IN Criminal Justice Institute			
Safety Belt Performance		20.609		2,769
Total - Highway Safety Cluster				<u>2,769</u>
Total - Department of Transportation				<u>76,422</u>
<u>Environmental Protection Agency</u>				
Capitalization Grants for Drinking Water State Revolving Funds	Indiana Finance Authority			
Capitalization Grants for Drinking Water State Revolving Funds		66.468		496,087
Total - Environmental Protection Agency				<u>496,087</u>
<u>Department of Homeland Security</u>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	IN Dept of Homeland Security			
Presidentially Declared Disasters		97.036		176,066
Total - Department of Homeland Security				<u>176,066</u>
Total federal awards expended				<u>\$ 751,776</u>

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

CITY OF BRAZIL  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

***Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Brazil and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

CITY OF BRAZIL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I – Summary of Auditor's Results**

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	no

Identification of Major Program:

CFDA Number	Name of Federal Program or Cluster
66.468	Capitalization Grants for Drinking 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

**Section II – Financial Statement Findings**

**FINDING 2012-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

We noted several deficiencies in the internal control system of the City related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statements and then determining how those identified risks should be managed. The City has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.

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

2. **Monitoring of Controls:** Effective internal control over financial reporting requires the City Council to monitor and assess the quality of the City's system of internal control. The City Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility place the City at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the City has no process to identify or communicate corrective actions to improve controls.
3. The City did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***Section III – Federal Award Findings and Questioned Costs***

No matters are reportable.



# CITY OF BRAZIL

*Karen McQueen, Clerk-Treasurer*

203 East National Avenue  
Brazil, Indiana 47834  
Phone: (812) 448-8403  
Fax: (812) 446-0337  
[www.brazil.in.gov](http://www.brazil.in.gov)

July 11, 2013

## Corrective Action Plan

### Section II – Financial Statement Findings

#### Finding 2012 – 1 – Internal Control – Over Financial Transactions and Reporting

##### Action to be taken to correct finding:

The Brazil City Clerk-Treasurer's office has discussed the best way to avoid internal control issues in the future.

We have identified and we will exercise proper controls to detect and correct the reporting of the annual CTAR and SEFA. Also by furnishing quarterly reports this will enable council to be compliant with internal controls.

This should avoid any internal control issues in the future.

X *Karen McQueen* Date: 7-11-2013  
Karen McQueen, Clerk-Treasurer

CITY OF BRAZIL  
EXIT CONFERENCE

The contents of this report were discussed on July 23, 2013, with P. Brad Deal, President of the Common Council, and Delores M. Elder, Utility Office Manager. The officials concurred with our audit findings.

The contents of this report were discussed on July 23, 2013, with Brian Wyndham, Mayor, and Karen McQueen, Clerk-Treasurer. The Official Response has been made a part of this report and may be found on pages 44 through 48.



# CITY OF BRAZIL

*Karen McQueen, Clerk-Treasurer*

203 East National Avenue  
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This is in response to the audit findings for the 2012 audit by the State Board of Accounts.

- 1.) In regards to the comment on dated outstanding checks 2 years old, we would like to state that this issue has been corrected and outstanding checks have been voided or reissued.
- 2.) In regards to the comments on the City of Brazil's financial report known as the CTAR, we would like to state that this has also been corrected and the annual report was resubmitted and financials matched with the State Board of Accounts numbers.
- 3.) In response to the Utility fund being out of balance, we would like to state that we will be researching and working with our accountants to get this fund back in balance by the end of the 2013 calendar year.
- 4.) Finally, in regards to the comment on over spent funds, General Fund \$320,432.08, Cemetery Fund \$19,768.00, Parks Non Reverting Fund \$1,367.00, Rainy Day Fund \$25,000.00, LRS Fund \$2,696.00, Public Safety LOIT Fund \$48,697.00, Golf Fund \$31,194.00, and the CCD Fund \$41,158.00, we would like to state that following:

General Fund – The City should have done an additional appropriation for \$19,825.27 to cover Unemployment wages of \$16,597.52 and NSP Legal Services of \$3,227.75. The remainder of the over spending within the General Fund were due to coding errors, per the Clerk-Treasurer's office. In May of 2012 the city received a temporary loan from the utilities office for \$291,000.00 per Resolution 3-2012(see attached, exhibit 1). The Clerk-Treasurer's office receipted this money in and then paid back this loan in the 2012 calendar year. However, due to a coding error it appeared that the general fund was over spent by the \$291,000.00 instead of being a wash. The city also reimbursed the Fire Pension Fund \$7,136.81 for property taxes and the Police K-9 Fund \$2,470.00 both amounts were not budgeted for in the 2012. All reimbursements went through the cities AP process instead of being entered as a Journal Entry to avoid Funds appearing to be over spent.

Cemetery Fund – The City of Brazil only budgeted \$2,900.00 for the mowing of the cemeteries for the 2012 year and in turn should have done an additional appropriation for \$19,768.00 to cover mowing expenses.

Park Non-Reverting Fund – This fund has a healthy financial balance and the City of Brazil was unclear that we needed to have a 2012 budget for this fund. The city will now do a budget for this fund and monitor this fund as needed. We will also do additional appropriations as needed. This fund is not DLGF regulated.

Rainy Day Fund – On December 13, 2012 a transfer out of the Rainy Day Fund was made to the Unsafe building Fund in the amount of \$20,000.00. Resolution 15-2012 was a resolution to do an additional appropriation into the Unsafe Building Fund for \$20,000.00 and should have read to be distributed from the Rainy Day Fund, however read to come from the General Fund (see attached, exhibit 2). The Rainy Day Fund is within our general checking account, however is set in its own fund per the computer and the two were confused while doing this additional appropriation. On February 1, 2012 the Golf Course received their first draw of \$5,000.00 on a temporary loan approved for \$30,000.00 on resolution 1-2012. Resolution was set for money to be received from the Rainy Day Fund (see attached, exhibit 3). We should have done an additional appropriation for the transfer of the \$5,000.00 as well and will do this in the future.

LRS Fund – Due to the low budget that this fund continues to receive it is necessary for supplies such as salt and rock to be purchased out of the MVH budget as well. This fund appears to be over budget for the 2012 calendar year, when in fact these are coding errors for materials expensed out of the LRS Fund. Materials should have been expensed from the MVH Fund.

Public Safety LOIT – The City of Brazil should have done an additional appropriation out of the same fund to cover Fire equipment and PERF payment for the Police and Fire Departments. Due to the new ERM website PERF payments are now due biweekly and payments are current instead of being in the rears a quarter. The 2012 budget only reflected 4 quarters to be paid, however the city paid 4 quarters plus 4 biweekly pays to equal \$47,021.96 over budget. The city also purchased some fire equipment over budget by \$1,675.46.

Golf Fund – The City of Brazil’s Golf Course’s first budget was put into place in the 2011 calendar year and the City has not regulated this fund as we should. This is a fund that continues to adjust to following a budget and we have seen improvements every year since budget was initiated. The city now knows that the Council should approve budget and monitor the Golf Course spending and do additional appropriations as needed. This fund is not DLGF regulated.

Cumulative Capital Development Fund (CCD) - The balance in this fund is extremely healthy, however the City of Brazil did not budget enough in the 2012 calendar year to cover sidewalk repairs, expenses for the decorative lighting grant and the city sign inventory. The City should have done an additional appropriation for the excess spending in this fund.

Karen McQueen, Clerk-Treasurer  
Brian Weyant Mayor

RESOLUTION NO 3 - 2012

CITY OF BRAZIL, INDIANA BOARD OF PUBLIC WORKS AND SAFETY

AUTHORIZING \$291,000.00 TEMPORARY LOAN FROM UTILITIES

WHEREAS, the City of Brazil, Indiana does not have sufficient funds on hand to meet its financial obligations prior to receiving its semiannual disbursement of property tax funds in June 2012 and the City needs to borrow money in anticipation of the receipt of property tax funds; and

WHEREAS, IC 8-1.5-3-12 authorizes a municipally owned utility to lend money to the municipality;

WHEREAS, the Brazil Water Utility has surplus funds available to lend to the City of Brazil in anticipation of the receipt of property tax funds.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY OF BRAZIL, INDIANA BOARD OF PUBLIC WORKS AND SAFETY:

1. The Board of Public Works and Safety hereby authorizes a loan to the City of Brazil from the Water Utility in the amount of \$291,000.00 in anticipation of the receipt of property tax revenue in the year 2012.

2. The proceeds for this loan shall be transferred to the City from the Water Operating Fund.

3. Said loan shall be due on or before thirty (30) days after the last day for the payment of anticipated taxes.

4. Said loan shall be interest free.

PASSED AND ADOPTED by the Brazil Board of Public Works and Safety, this 15<sup>th</sup> 14<sup>th</sup> day of May, 2012.

CITY OF BRAZIL, INDIANA BOARD OF PUBLIC WORKS AND SAFETY

Brian L. Wyndham  
Brian L. Wyndham, President

Ruthann Jeffries  
Ruthann Jeffries, Member

Linda Messmer  
Linda Messmer, Member

ATTEST:

Karen McQueen  
Lori Brown, Deputy Clerk-Treasurer  
Karen McQueen,

ADDITIONAL APPROPRIATION RESOLUTION/ORDINANCE 15-2012

Whereas, it has been determined that it is now necessary to appropriate more money than was originally appropriated in the annual budget; now, therefore:

Sec. 1. Be it ordained (resolved) by the City Council  
(Governing Body)  
Of Brazil Civil City, Clay County, that for the expenses of the  
(Taxing Unit) (County)  
taxing unit the following additional sums of money are hereby appropriated out of the funds  
named and for the purposes speified, subject to laws governing the same:

Fund Name: <u>General</u>	Amount Requested	Amount Approved By Fiscal Body
<i>Major Budget Classification:</i>		
10000 Personal Services	\$ _____	\$ _____
20000 Supplies	\$ _____	\$ _____
30000 Other Services & Charges	\$ <u>20,000</u>	\$ _____
40000 Capital Outlays	\$ _____	\$ _____
Total for <u>General</u> Fund:	\$ <u>20,000</u>	\$ _____

Adopted this 24 day of October, 2012.

NAY

AYE

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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

[Signature]  
[Signature]  
[Signature]  
\_\_\_\_\_

ATTEST:

[Signature]  
(Secretary of Governing Body)

**RESOLUTION 1 - 2012**

**CITY OF BRAZIL, INDIANA**

**A RESOLUTION APPROVING THE (INTER-FUND LOAN) TRANSFER OF \$30,000.00 IN FUNDS FROM RAINY DAY (FUND) TO GOLF COURSE (FUND)**

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**WHEREAS**, the City of Brazil, Indiana Golf Course is managed by an independent golf board; and

**WHEREAS**, the Golf Course does not receive any revenues through property taxes; and

**WHEREAS**, since the creation of the Golf Board the Golf Course is an independent and self-sufficient entity; and

**WHEREAS**, the Golf Course has been affected by hard financial times affecting all persons; and

**WHEREAS**, the Golf Course is not able to meet all of its financial obligations as this time; and

**WHEREAS**, the Common Council authorized an inter-fund (loan) transfer to the Golf Course in the amount of Twenty Thousand Dollars (\$20,000.00) on November 30, 2011 via Resolution 15-2011 which sum was to be repaid by December 31, 2011.

**WHEREAS**, the Common Council extended the date for repayment of the \$20,000 loan from December 31, 2011 to June 30, 2012 on December 21, 2011 via Resolution 20-2011.

**WHEREAS**, the Common Council wishes to again assist the Golf Board and Golf Course and to make an additional temporary loan in the amount of Thirty Thousand and 00/100 Dollars (\$30,000.00) to the Golf Course in order to assist them through this tough economic time.

NOW THEREFORE, **BE IT RESOLVED** BY THE COMMON COUNCIL OF THE CITY OF BRAZIL, INDIANA:

1. It is determined by the Common Council that it is necessary for the Golf Course to borrow money to enhance its golf course fund as it is in need of money for cash flow purposes.
2. It is determined by the Common Council that there is sufficient money on deposit in the rainy day fund that can be temporarily transferred to the golf course fund.
3. The Common Council agrees to transfer Thirty Thousand and 00/100 Dollars (\$30,000.00) from the rainy day fund to the golf course fund as a temporary loan which amount is to be repaid to the rainy day fund at 0% interest by December 31, 2012.