

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, 2013 to December 31, 2013



FILED
02/20/2015

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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 Pro Tempore of the Common Council	P. Brad Deal Tyler W. Hutcheson	01-01-13 to 12-31-13 01-01-14 to 12-31-14
Utility Office Manager	Sheryl Hill Delores M. Elder	01-01-13 to 03-17-13 03-18-13 to 12-31-14
Superintendent of Water Utility	Jacob D. Raubach	01-01-13 to 12-31-14
Superintendent of Wastewater Utility	William Goodrich	01-01-13 to 12-31-14



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, 2013, 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, 2013.

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, 2013, 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 December 3, 2014, 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, and Schedule of Leases and Debt, 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.


Paul D. Joyce, CPA
State Examiner

December 3, 2014



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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, 2013, and the related notes to the financial statement, and have issued our report thereon dated December 3, 2014, 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 items 2013-001 and 2013-002 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2013-002.

City of Brazil's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying 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.


Paul D. Joyce, CPA
State Examiner

December 3, 2014

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FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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, 2013

Fund	Cash and Investments 01-01-13	Receipts	Disbursements	Cash and Investments 12-31-13
GENERAL FUND	\$ (12,591)	\$ 2,705,649	\$ 2,526,490	\$ 166,568
MVH	11,189	383,274	303,574	90,889
LOCAL RDS & STS	(15,302)	69,043	47,510	6,231
ECONOMIC DEVELOPMENT	22,039	-	-	22,039
Sanitation	257,156	400,281	501,641	155,796
POLICE EDUCATION	10,013	7,952	13,091	4,874
UNSAFE BUILDING FUND	24,878	9,687	19,652	14,913
PARKS	27,703	266,454	215,143	79,014
RAINY DAY FUND	111,617	-	33,019	78,598
K-9 Fund	771	250	-	1,021
Levy Excess Fund	6,245	-	-	6,245
CCD	220,099	166,240	207,787	178,552
PARKS NON REVERTING	103,065	5,381	95,447	12,999
POLICE BIKE FUND	19	-	-	19
Cumulative Drainage Fund	(1,601)	-	-	(1,601)
CCI	62,594	21,240	7,412	76,422
POLICE PENSION	(58,367)	128,765	19,958	50,440
FIRE PENSION	521,479	200,340	396,808	325,011
LOIT - Public Safety	6,429	326,709	291,271	41,867
Wheel Tax	-	81,724	-	81,724
Oil Revenue Fund	-	44,552	-	44,552
CEMETERY	(34,097)	61,380	35,402	(8,119)
GEN. OBLIGATION BOND	206,871	134,058	73,726	267,203
REDEVELOPMENT BOND	49,724	79,042	77,775	50,991
CEMETERY NON REVERTING	15,658	-	-	15,658
EMERGENCY RESPONSE TEAM	(2,306)	-	-	(2,306)
NSP GRANT FUND	59,384	239,893	299,277	-
POLICE GRANT	25,722	3,715	-	29,437
POLICE DEFERRAL	26,494	10,010	7,430	29,074
GOLF FUND	(432)	365,410	358,279	6,699
Shop With A Cop	3,893	12,250	11,500	4,643
LAW ENFORCEMENT	261	-	-	261
TRAFFIC SAFETY	(5,496)	-	-	(5,496)
FIRE EDUCATION	160	-	-	160
FIREFIGHTERS SPECIAL	51,791	20,525	31,761	40,555
FIRE PREVENTION FUND	1,422	500	895	1,027
2007 PW LOAN	(84,072)	-	103,525	(187,597)
2008 GO/SPEC DIST BONDS	70,643	89,314	68,096	91,861
SIDEWALK CONST BOND	1,219	-	-	1,219
SIDEWALK CONST II	13,998	-	-	13,998
DUE TO CITY SANITATION	36,138	1,594	-	37,732
Pogues Run Grant	10,999	43,920	162,969	(108,050)
PAYROLL FUND	87,049	3,410,215	3,376,477	120,787
HEALTH CLAIM FUND	705	199	-	904
Health Reimbursement	21,792	138,175	122,105	37,862
Sewer - Oper. & Maint.	325,446	3,027,954	2,628,371	725,029
Sewer - Depreciation	-	272,100	88,686	183,414
Sewer - Bond & Interest	2,236	991,662	993,898	-
Sewer - Debt Service Rsrv	1,005,000	-	-	1,005,000
Sewer - Construction	2,076,656	912,429	920,720	2,068,365
Water - Oper. & Maint.	783,191	1,997,498	1,715,555	1,065,134
Water - Meter Deposits	278,653	2,766	-	281,419
Water Improvement	(184,007)	-	325,930	(509,937)
Water - Bond & Interest	119,602	652,800	601,438	170,964
Water - Debt Service Rsrv	97,896	130,512	-	228,408
Water - Construction	29,326	18	-	29,344
Totals	\$ 6,388,954	\$ 17,415,480	\$ 16,682,618	\$ 7,121,816

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 Indiana 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. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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.

CITY OF BRAZIL
NOTES TO FINANCIAL STATEMENT
(Continued)

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, 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.

CITY OF BRAZIL
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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

CITY OF BRAZIL
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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. 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.

CITY OF BRAZIL
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

B. 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.

C. 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 Capitol Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

CITY OF BRAZIL
NOTES TO FINANCIAL STATEMENT
(Continued)

Funding Policy

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

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of expenditures made 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, 2013

	GENERAL FUND	MVH	LOCAL RDS & STS	ECONOMIC DEVELOPMENT	Sanitation	POLICE EDUCATION	UNSAFE BUILDING FUND	PARKS
Cash and investments - beginning	\$ (12,591)	\$ 11,189	\$ (15,302)	\$ 22,039	\$ 257,156	\$ 10,013	\$ 24,878	\$ 27,703
Receipts:								
Taxes	1,214,273	131,904	-	-	-	-	-	219,729
Licenses and permits	39,200	25	-	-	-	3,380	-	-
Intergovernmental	1,390,931	251,090	36,024	-	-	-	-	9,388
Charges for services	13,523	-	-	-	400,281	3,156	9,687	32,431
Fines and forfeits	6,067	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-
Other receipts	41,655	255	33,019	-	-	1,416	-	4,906
Total receipts	2,705,649	383,274	69,043	-	400,281	7,952	9,687	266,454
Disbursements:								
Personal services	1,853,644	200,795	-	-	254,807	-	-	97,335
Supplies	143,335	46,037	43,452	-	171,394	12,496	-	22,777
Other services and charges	424,202	50,464	-	-	50,889	595	19,652	94,531
Debt service - principal and interest	40,433	6,278	-	-	24,551	-	-	-
Capital outlay	-	-	-	-	-	-	-	500
Utility operating expenses	-	-	-	-	-	-	-	-
Other disbursements	64,876	-	4,058	-	-	-	-	-
Total disbursements	2,526,490	303,574	47,510	-	501,641	13,091	19,652	215,143
Excess (deficiency) of receipts over disbursements	179,159	79,700	21,533	-	(101,360)	(5,139)	(9,965)	51,311
Cash and investments - ending	\$ 166,568	\$ 90,889	\$ 6,231	\$ 22,039	\$ 155,796	\$ 4,874	\$ 14,913	\$ 79,014

CITY OF BRAZIL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2013
 (Continued)

	RAINY DAY FUND	K-9 Fund	Levy Excess Fund	CCD	PARKS NON REVERTING	POLICE BIKE FUND	Cumulative Drainage Fund
Cash and investments - beginning	\$ 111,617	\$ 771	\$ 6,245	\$ 220,099	\$ 103,065	\$ 19	\$ (1,601)
Receipts:							
Taxes	-	-	-	75,970	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	3,246	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	250	-	87,024	5,381	-	-
Total receipts	-	250	-	166,240	5,381	-	-
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	7,561	-	-
Other services and charges	-	-	-	207,787	85,867	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	33,019	-	-	-	2,019	-	-
Total disbursements	33,019	-	-	207,787	95,447	-	-
Excess (deficiency) of receipts over disbursements	(33,019)	250	-	(41,547)	(90,066)	-	-
Cash and investments - ending	\$ 78,598	\$ 1,021	\$ 6,245	\$ 178,552	\$ 12,999	\$ 19	\$ (1,601)

CITY OF BRAZIL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2013
 (Continued)

	CCI	POLICE PENSION	FIRE PENSION	LOIT - Public Safety	Wheel Tax	Oil Revenue Fund	CEMETERY
Cash and investments - beginning	\$ 62,594	\$ (58,367)	\$ 521,479	\$ 6,429	\$ -	\$ -	\$ (34,097)
Receipts:							
Taxes	-	-	-	-	-	-	50,090
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	21,240	-	-	326,709	81,724	-	2,140
Charges for services	-	-	-	-	-	-	9,150
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	128,765	200,340	-	-	44,552	-
Total receipts	21,240	128,765	200,340	326,709	81,724	44,552	61,380
Disbursements:							
Personal services	-	16,894	204,404	291,271	-	-	-
Supplies	-	-	1,170	-	-	-	-
Other services and charges	7,412	326	129,616	-	-	-	35,402
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	2,738	61,618	-	-	-	-
Total disbursements	7,412	19,958	396,808	291,271	-	-	35,402
Excess (deficiency) of receipts over disbursements	13,828	108,807	(196,468)	35,438	81,724	44,552	25,978
Cash and investments - ending	\$ 76,422	\$ 50,440	\$ 325,011	\$ 41,867	\$ 81,724	\$ 44,552	\$ (8,119)

CITY OF BRAZIL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2013
 (Continued)

	GEN. OBLIGATION BOND	REDEVELOPMENT BOND	CEMETERY NON REVERTING	EMERGENCY RESPONSE TEAM	NSP GRANT FUND	POLICE GRANT	POLICE DEFERRAL
Cash and investments - beginning	\$ 206,871	\$ 49,724	\$ 15,658	\$ (2,306)	\$ 59,384	\$ 25,722	\$ 26,494
Receipts:							
Taxes	128,565	75,803	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	5,493	3,239	-	-	239,893	3,715	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	10,010
Total receipts	<u>134,058</u>	<u>79,042</u>	<u>-</u>	<u>-</u>	<u>239,893</u>	<u>3,715</u>	<u>10,010</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	296,397	-	7,430
Debt service - principal and interest	73,726	77,775	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	2,880	-	-
Total disbursements	<u>73,726</u>	<u>77,775</u>	<u>-</u>	<u>-</u>	<u>299,277</u>	<u>-</u>	<u>7,430</u>
Excess (deficiency) of receipts over disbursements	<u>60,332</u>	<u>1,267</u>	<u>-</u>	<u>-</u>	<u>(59,384)</u>	<u>3,715</u>	<u>2,580</u>
Cash and investments - ending	<u>\$ 267,203</u>	<u>\$ 50,991</u>	<u>\$ 15,658</u>	<u>\$ (2,306)</u>	<u>\$ -</u>	<u>\$ 29,437</u>	<u>\$ 29,074</u>

CITY OF BRAZIL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2013
 (Continued)

	GOLF FUND	Shop With A Cop	LAW ENFORCEMENT	TRAFFIC SAFETY	FIRE EDUCATION	FIREFIGHTERS SPECIAL	FIRE PREVENTION FUND
Cash and investments - beginning	\$ (432)	\$ 3,893	\$ 261	\$ (5,496)	\$ 160	\$ 51,791	\$ 1,422
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	353,496	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	11,914	12,250	-	-	-	20,525	500
Total receipts	<u>365,410</u>	<u>12,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,525</u>	<u>500</u>
Disbursements:							
Personal services	141,154	-	-	-	-	-	-
Supplies	75,521	11,500	-	-	-	31,761	-
Other services and charges	70,687	-	-	-	-	-	895
Debt service - principal and interest	70,917	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>358,279</u>	<u>11,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,761</u>	<u>895</u>
Excess (deficiency) of receipts over disbursements	<u>7,131</u>	<u>750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,236)</u>	<u>(395)</u>
Cash and investments - ending	<u>\$ 6,699</u>	<u>\$ 4,643</u>	<u>\$ 261</u>	<u>\$ (5,496)</u>	<u>\$ 160</u>	<u>\$ 40,555</u>	<u>\$ 1,027</u>

CITY OF BRAZIL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2013
 (Continued)

	2007 PW LOAN	2008 GO/SPEC DIST BONDS	SIDEWALK CONST BOND	SIDEWALK CONST II	DUE TO CITY SANITATION	Pogues Run Grant	PAYROLL FUND
Cash and investments - beginning	\$ (84,072)	\$ 70,643	\$ 1,219	\$ 13,998	\$ 36,138	\$ 10,999	\$ 87,049
Receipts:							
Taxes	-	85,654	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	3,660	-	-	-	43,920	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	-	-	1,594	-	3,410,215
Total receipts	-	89,314	-	-	1,594	43,920	3,410,215
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	103,525	68,096	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	162,969	3,376,477
Total disbursements	103,525	68,096	-	-	-	162,969	3,376,477
Excess (deficiency) of receipts over disbursements	(103,525)	21,218	-	-	1,594	(119,049)	33,738
Cash and investments - ending	\$ (187,597)	\$ 91,861	\$ 1,219	\$ 13,998	\$ 37,732	\$ (108,050)	\$ 120,787

CITY OF BRAZIL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2013
 (Continued)

	HEALTH CLAIM FUND	Health Reimbursement	Sewer Oper. & Maint.	Sewer - Depreciation	Sewer - Bond & Interest	Sewer - Debt Service Rsrv	Sewer - Construction
Cash and investments - beginning	\$ 705	\$ 21,792	\$ 325,446	\$ -	\$ 2,236	\$ 1,005,000	\$ 2,076,656
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	2,924,820	-	-	-	-
Penalties	-	-	79,409	-	-	-	-
Other receipts	199	138,175	23,725	272,100	991,662	-	912,429
Total receipts	199	138,175	3,027,954	272,100	991,662	-	912,429
Disbursements:							
Personal services	-	-	521,002	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	31,617	-	-	-	-
Debt service - principal and interest	-	-	-	-	993,898	-	19,163
Capital outlay	-	-	-	28,360	-	-	33,299
Utility operating expenses	-	-	667,108	-	-	-	842,113
Other disbursements	-	122,105	1,408,644	60,326	-	-	26,145
Total disbursements	-	122,105	2,628,371	88,686	993,898	-	920,720
Excess (deficiency) of receipts over disbursements	199	16,070	399,583	183,414	(2,236)	-	(8,291)
Cash and investments - ending	\$ 904	\$ 37,862	\$ 725,029	\$ 183,414	\$ -	\$ 1,005,000	\$ 2,068,365

CITY OF BRAZIL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2013
 (Continued)

	Water Oper. & Maint.	Water Meter Deposits	Water Improvement	Water Bond & Interest	Water Debt Service Rsrv	Water Construction	Totals
Cash and investments - beginning	\$ 783,191	\$ 278,653	\$ (184,007)	\$ 119,602	\$ 97,896	\$ 29,326	\$ 6,388,954
Receipts:							
Taxes	-	-	-	-	-	-	1,981,988
Licenses and permits	-	-	-	-	-	-	42,605
Intergovernmental	-	-	-	-	-	-	2,422,412
Charges for services	-	-	-	-	-	-	821,724
Fines and forfeits	-	-	-	-	-	-	6,067
Utility fees	1,963,852	-	-	-	-	-	4,888,672
Penalties	30,205	-	-	-	-	-	109,614
Other receipts	3,441	2,766	-	652,800	130,512	18	7,142,398
Total receipts	<u>1,997,498</u>	<u>2,766</u>	<u>-</u>	<u>652,800</u>	<u>130,512</u>	<u>18</u>	<u>17,415,480</u>
Disbursements:							
Personal services	500,752	-	-	-	-	-	4,082,058
Supplies	-	-	-	-	-	-	567,004
Other services and charges	-	-	-	-	-	-	1,513,769
Debt service - principal and interest	-	-	-	424,633	-	-	1,902,995
Capital outlay	-	-	277,187	-	-	-	339,346
Utility operating expenses	648,051	-	-	-	-	-	2,157,272
Other disbursements	566,752	-	48,743	176,805	-	-	6,120,174
Total disbursements	<u>1,715,555</u>	<u>-</u>	<u>325,930</u>	<u>601,438</u>	<u>-</u>	<u>-</u>	<u>16,682,618</u>
Excess (deficiency) of receipts over disbursements	<u>281,943</u>	<u>2,766</u>	<u>(325,930)</u>	<u>51,362</u>	<u>130,512</u>	<u>18</u>	<u>732,862</u>
Cash and investments - ending	<u>\$ 1,065,134</u>	<u>\$ 281,419</u>	<u>\$ (509,937)</u>	<u>\$ 170,964</u>	<u>\$ 228,408</u>	<u>\$ 29,344</u>	<u>\$ 7,121,816</u>

CITY OF BRAZIL
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2013

Government or Enterprise	Accounts Payable	Accounts Receivable
Wastewater	\$ 17,733	\$ 324,937
Water	36,350	143,690
Governmental activities	<u>43</u>	<u>1</u>
Totals	<u>\$ 54,126</u>	<u>\$ 468,628</u>

CITY OF BRAZIL
SCHEDULE OF LEASES AND DEBT
December 31, 2013

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
City of Brazil	Golf Cart Lease	\$ 21,001	9/26/2011	7/15/2016
Total governmental activities		<u>21,001</u>		
Total of annual lease payments		<u>\$ 21,001</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds	GO Bonds Series 2002	\$ 330,000	\$ 75,851
General obligation bonds	GO Bonds Series 2008	300,000	23,958
General obligation bonds	Special Taxing District Bonds Series 2002	355,000	75,076
General obligation bonds	Redevelopment Bonds of 2008 Series B	<u>610,000</u>	<u>96,940</u>
Total governmental activities		<u>1,595,000</u>	<u>271,825</u>
Wastewater:			
Revenue bonds	Sewage Works Refunding Revenue Bonds of 2004	3,165,000	996,570
Revenue bonds	Sewage Works Revenue Bonds of 2013	4,010,000	69,058
Notes and loans payable	Capital Lease - Guaranteed Energy Savings Performance Contract	<u>1,201,700</u>	<u>88,657</u>
Total Wastewater		<u>8,376,700</u>	<u>1,154,285</u>
Water:			
Revenue bonds	Waterworks Revenue Bonds of 2010 Series A	<u>4,533,000</u>	<u>325,948</u>
Totals		<u>\$ 14,504,700</u>	<u>\$ 1,752,058</u>

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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

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

Report on Compliance for the 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, 2013. 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.

Basis for Qualified Opinion on Highway Planning and Construction Cluster

As described in item 2013-004 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Subrecipient Monitoring that are applicable to its Highway Planning and Construction Cluster. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

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

Qualified Opinion on Highway Planning and Construction Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Highway Planning and Construction Cluster* paragraph, 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 the Highway Planning and Construction Cluster for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-005. Our opinion on the major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. 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.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 types of requirements that could have a direct and material effect on the 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.


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

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-003 and 2013-005 to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. 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 THE MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

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.


Paul D. Joyce, CPA
State Examiner

December 3, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

CITY OF BRAZIL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

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 Transportation</u>				
Highway Planning and Construction Cluster				
Highway Planning and Construction	IN Dept of Transportation			
Highway Planning and Construction		20.205		
Lighting Grant			Des#1173127	\$ 50,320
Pogues Run Detention Pond			Des#0901952	332,414
Total - Highway Planning and Construction				<u>382,734</u>
Recreational Trails Program	IN Dept of Natural Resources	20.219	RT-08-002/2013	<u>130,227</u>
Total - Highway Planning and Construction Cluster				<u>512,961</u>
Highway Safety Cluster				
Safety Belt Performance Grants	IN Criminal Justice Institute			
Safety Belt Performance		20.609	18X9204020IN13	<u>3,715</u>
Total - Highway Safety Cluster				<u>3,715</u>
Total - Department of Transportation				<u>516,676</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	DW09121101	<u>63,004</u>
Total - Environmental Protection Agency				<u>63,004</u>
<u>Department of Homeland Security</u>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	IN Dept of Homeland Security			
Presidentially Declared Disasters		97.036	FEMA-IN-DR-1799	<u>43,920</u>
Total - Department of Homeland Security				<u>43,920</u>
Total federal awards expended				<u>\$ 623,600</u>

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

CITY OF BRAZIL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City 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.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to the subrecipient as follows for the year ended December 31, 2013:

Program Title	Federal CFDA Number	2013
Recreational Trails Program	20.219	\$ <u>130,277</u>

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?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

_____ Name of Federal Program or Cluster _____

Highway and Planning Construction Cluster

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

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

FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the City related to financial transactions and reporting.

1. Lack of Segregation of Duties: The City has not separated incompatible activities related to receipts, disbursements including payroll, and cash. The City has a control in place for receipts, but the Clerk-Treasurer does not document her review of the Daily Cash Collection

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

Register to the deposit ticket which is completed by the Deputy Clerk-Treasurer. One employee in the Clerk-Treasurer's Office prepares the payroll and no one else reviews it. Bank reconciliations are prepared by one employee but no one else reviews the reconciliation. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

2. Monitoring of Controls: An evaluation of the City's system of internal control has not been conducted. The failure to monitor the internal control system places the City at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the City has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the City to monitor and assess the quality of the system of internal control.
3. The financial information entered into the Annual Financial Report on Gateway was used to compile the financial statement. The receipts and disbursements reported in the Annual Financial Report for the Payroll Fund were both understated in the amount of \$3,358,261. Audit adjustments were proposed, accepted by the City, and made to the financial statement presented in this report.

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)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

**FINDING 2013-002 - INTERNAL CONTROLS AND COMPLIANCE OVER
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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.

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

During the audit of the SEFA, we noted the following errors: Two projects were omitted from the SEFA, the Highway Planning and Construction Grant (Pogues Run Detention Pond), and the Recreational Trails Program. Incorrect amounts were reported for the Highway Planning and Construction (Lighting Grant), Capitalization Grants for Drinking Water State Revolving Funds, and the Disaster Grant - Public Assistance (Presidentially Declared Disasters). The Community Development Block Grant was included on the schedule but did not have any activity for the audit period. The errors resulted in total expenditures reported on the SEFA being overstated by \$568,620. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

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 of Indiana, Chapter 7)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.

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

- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

Section III - Federal Award Findings and Questioned Costs

FINDING 2013-003 - INTERNAL CONTROLS OVER THE RECREATIONAL TRAILS PROGRAM

Federal Agency: Department of Transportation

Federal Program: Recreational Trails Program

CFDA Number: 20.219

Federal Award Number and Year (or Other Identifying Number): RT-08-002/2013

Pass-Through Entity: Indiana Department of Natural Resources

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements: Cash Management; Procurement and Suspension and Debarment; and Subrecipient Monitoring. The City received a grant for a recreational trail and passed the money through to the Clay Community Parks Association (Parks Association). The City did not have any documentation for this grant and did not monitor the subrecipient. The only documentation on file at the City was an EFT notice and a copy of the check written to the Parks Association, additional records were obtained for audit from the Parks Association.

The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

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

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

FINDING 2013-004 - SUBRECIPIENT MONITORING

Federal Agency: Department of Transportation
Federal Program: Recreational Trails Program
CFDA Number: 20.219
Federal Award Number and Year (or Other Identifying Number): RT-08-002/2013
Pass-Through Entity: Indiana Department of Natural Resources

The City received a federal award for a walking trail project at Craig Park and subsequently passed through the entire federal award in the amount of \$130,277 to the Clay Community Parks Association (Parks Association) to design and build the walking trail. The City could not provide any documentation that the expenditure of those funds was monitored. The City did not have procedures in place to monitor the reports compiled by the Parks Association. Records were obtained for audit from the Parks Association.

Due to the lack of procedures for monitoring the subrecipient, the City could not ensure that the federal awards had been used in compliance with laws, regulations and the provisions of the grant agreement. Any misuse of the federal funds by the Clay Community Parks Association would not have been detected by the City.

OMB Circular A-133___.400(d) states in part:

"Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes: . . .

- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

Noncompliance with the grant agreement or the compliance requirements that the compliance have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City develop procedures to ensure that the compliance requirements for Subrecipient Monitoring are being met.

FINDING 2013-005 - INTERNAL CONTROL AND COMPLIANCE OVER CASH MANAGEMENT

Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Number and Year (or Other Identifying Number): DES#1173127
Pass-Through Entity: Indiana Department of Transportation

Management of the City has an internal control system in place but the controls were not adequately implemented for the Cash Management compliance requirement for the Highway Planning and Construction (Lighting Grant). The controls were not effective in making sure that the City paid the project engineer before requesting reimbursement as required by the contract with the Indiana Department of Transportation (INDOT).

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

The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis.

The City did not comply with the Cash Management requirement to pay vendors before requesting reimbursement from INDOT. The City submitted reimbursement requests claiming expenses incurred for the project engineer prior to paying those expenses in 100 percent of the reimbursement requests tested.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Section VI-N of the Indiana Department of Transportation - Local Public Agency Project Coordination contract between the City and INDOT states in part: "All payments made by INDOT, if any, shall be made in arrears in conformance with State fiscal policies and procedures . . ."

The failure to adequately implement internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management develop and implement procedures and controls to ensure that the compliance requirement for Cash Management is being met.

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AUDITEE PREPARED DOCUMENT

The subsequent document was provided by management of the City. The document is presented as intended by the City.



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

CORRECTIVE ACTION PLAN

1. **FINDING 2013-001 – INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING**

Contact Person Responsible for Corrective Action: Karen McQueen, Clerk-Treasurer

Contact Phone Number: (812) 448-8403

Description of Corrective Action Plan:

- A) Lack of Segregation of Duties: The Clerk-Treasurer will now start to sign all Daily Cash Collection registers from the computer. There will also be a second set of eyes reviewing and signing off on City of Brazil Payroll and City of Brazil Bank Reconcilements after they are completed. Signing these documents will provide evidence that the documents have been reviewed.
- B) In 2015, the Clerk Treasurer will complete the 2014 Annual Report, with the assistance of Umbaugh and Associates, instead of Umbaugh and Associates completing the report and the Clerk-Treasurer assisting. The City of Brazil's Annual Report will then be reviewed. This procedure will hopefully eliminate future errors.

Anticipated Completion Date: These procedures will be implemented immediately.

2. **FINDING 2013-002 – INTERNAL CONTROLS AND COMPLIANCE OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Contact Person Responsible for Corrective Action: Karen McQueen, Clerk-Treasurer

Contact Phone Number: (812) 448-8403

Description of Corrective Action Plan:

- A.) In 2015 the Clerk-Treasurer will complete the SEFA with the assistance of Umbaugh and Associates. The SEFA will then be reviewed. This procedure will hopefully eliminate future errors.

Anticipated Completion Date: February 2015

3. **FINDING 2013-003 – INTERNAL CONTROLS OVER THE RECREATIONAL TRAILS PROGRAM**

Contact Person Responsible for Corrective Action: Karen McQueen, Clerk-Treasurer

Karen McQueen, Clerk-Treasurer • Patty Bedwell, Deputy 1

Contact Phone Number: (812) 448-8403

Description of Corrective Action Plan:

- A.) The Clerk-Treasurer and the City of Brazil will now handle all sub-recipient grant money and payables in house, instead of passing money and payables to the sub-recipients. This procedure will hopefully eliminate future errors and keep the Clerk-Treasurer more informed. It is also very important for the Clerk-Treasurer to be informed of all meetings involving grants with the City of Brazil.

Anticipated Completion Date: Current

4. FINDING 2013-004 – SUB-RECIPIENT MONITORING (RECREATIONAL TRAILS PROGRAM)

Contact Person Responsible for Corrective Action: Karen McQueen, Clerk-Treasurer

Contact Phone Number: (812) 448-8403

Description of Corrective Action Plan:

- A.) The Clerk-Treasurer and the City of Brazil will now handle all sub-recipient grant money and payables in house instead of passing money and payables to the sub-recipients. This procedure will hopefully eliminate future errors and keep the Clerk-Treasurer more informed. It is also very important for the Clerk-Treasurer to be informed of all meetings involving grants with the City of Brazil.

Anticipated Completion Date: Current

5. FINDING 2013-005 – INTERNAL CONTROL AND COMPLIANCE OVER CASH MANAGEMENT (LIGHTING GRANT)

Contact Person Responsible for Corrective Action: Karen McQueen, Clerk-Treasurer

Contact Phone Number: (812) 448-8403

Description of Corrective Action Plan:

- A.) The Clerk-Treasurer's Office and the Utility Office will handle all Accounts Payable and Receivable for all grants received by the City of Brazil. Vendors and banks will also be informed to communicate directly with one of these offices for payments and deposits of funds.

Anticipated Completion Date: Current

Karen McQueen
(Signature)

Clerk-Treasurer
(Title)

11-24-2014
(Date)

OTHER REPORT

In addition to this report, a Supplemental Compliance Report has been issued for the City. That report can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.