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May 19, 2009

Board of Commissioners
Brazil Housing Authority
122 W. Jackson St.
Brazil, IN 47834

We have reviewed the audit report prepared by Pamela J. Simpson, CPA, Independent Public Accountant, for the period January 1, 2006 to December 31, 2006. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Brazil Housing Authority, as of December 31, 2006, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the finding in the report. Page 36 contains the status of one prior audit finding.

STATE BOARD OF ACCOUNTS

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**REPORT ON EXAMINATION OF
FINANCIAL STATEMENTS AND
SUPPLEMENTAL DATA**

TWELVE MONTHS ENDED DECEMBER 31, 2006

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

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PAMELA J. SIMPSON, C.P.A.

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UNQUALIFIED OPINION ON GENERAL-PURPOSE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - GOVERNMENTAL ENTITY

Independent Auditor's Report

Board of Commissioners
Brazil Housing Authority
Brazil, Indiana

I have audited the accompanying financial statements of Brazil Housing Authority, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Brazil Housing Authority, as of December 31, 2006 and the respective changes in financial position and cash flows for the year end in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 30, 2007, on my consideration of the Brazil Housing Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal controls 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* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9, are not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements of the Brazil Housing Authority, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the Brazil Housing Authority. The accompanying financial data schedule and other additional statements and schedules listed as supplemental data in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Brazil Housing Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Decatur, Illinois
July 30, 2007


Certified Public Accountant

Management's Discussion and Analysis

As management of the Housing Authority of the City of Brazil, we offer the readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, Housing Authority of the City of Brazil.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged in a business-type activity. The following statements are included:

- Statement of Net Assets – reports the Authority's current financial resources (short term spendable resources) with capital assets and long-term debt obligations.
- Statement of Revenues, Expenses, and Changes in Fund Net Assets reports the Authority's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- Statement of Cash Flows – reports the Authority's cash flows from operating, investing, capital and non-capital activities.
- Comparison of budget vs. actual – reports the Authority's actual operating revenues and expenses versus the budgeted amounts.

Our analysis of the Authority as a whole begins on the next page. The most important question asked about the Authorities finances is "Is the Authority as a whole better or worse off as a result of the year's activities?"

The attached analysis of entity wide net assets, revenues, and expenses are provided to assist with answering the above question. This analysis includes all assets and liabilities using the accrual basis of accounting.

Accrual accounting is similar to the accounting used by most private sector companies. Accrual accounting recognizes revenues and expenses when earned regardless of when cash is received or paid.

Our analysis also presents the Authority's net assets and changes in them. One can think of the Authority's net assets as the difference between what the Authority own's (assets) to what the Authority owes (liabilities). The change in net assets analysis will assist the reader with measuring the health or financial position of the Authority.

HOUSING AUTHORITY OF THE CITY OF BRAZIL
MANAGEMENT DISCUSSION AND ANALYSIS
FYE DECEMBER 31, 2006

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Over time, significant changes in the Authorities net assets are an indicator of whether its financial health is improving or deteriorating. To fully assess the financial health of any Authority the reader must also consider other non-financial factors such as changes in family composition, fluctuations in the local economy, HUD mandated program administrative changes, and the physical condition of the Authorities capital assets.

To fully understand the financial statements of the Housing Authority, one must start with an understanding of what the Authority actual does. The following is a brief description of the programs and services that the Authority provides for the residents of Brazil:

Low Income Public Housing

The Housing Authority owns 300 units at 4 sites in the City of Brazil. The Authority is responsible for the management, maintenance and utilities for all units and sites. On an annual basis, the Authority submits a request for funding known as the Calculation of Operating Fund Subsidy. The basic concept of the Calculation of Operating Subsidy is that the Authority has an Allowable Expense Level, Allowable Utilities Expense Level and Audit Costs and that HUD will fund the difference between the Allowable Expenses and the amount of rents that the Authority can charge the Authority's tenants.

Section 8 Housing Choice Vouchers

HUD has contracted with the Housing Authority support for 115 Housing Choice Vouchers. The Authority pays a Housing Assistance Payments to Landlords for Low Income tenants. The Housing Assistance Payment matches the difference between the total rent that the Landlord can charge, at or below a fair market rent amount supplied by HUD, and the amount that the tenant can pay. For each unit that the Authority administers, HUD pays the Authority an administrative fee. The Housing Authority is not responsible for the upkeep and maintenance of the units and properties associated with this program.

Capital Fund/Comprehensive Grant Program

These grant programs are awarded by HUD on an annual basis. The purpose of these grants is to improve the Authority's sites and the management of the Authority. The Authority requisitions funds from HUD as the Authority expends funds.

**HOUSING AUTHORITY OF THE CITY OF BRAZIL
MANAGEMENT DISCUSSION AND ANALYSIS
FYE DECEMBER 31, 2006**

Future Events

There are no future events planned by the Authority during the fiscal year ending December 31, 2006 that will significantly affect the Authority's Net Assets either positively or negatively.

Condensed Comparative Financial Statements

Analysis of Entity Wide Net Assets (Statement of Net Assets)

Total Assets for FYE 2006 were \$5,787,374 and at FYE 2005 the amount was \$5,962,315. This represents a net decrease of \$174,941.

Cash increased by \$62,324 or 158% because less cash was invested at the close of 2006.

Other Current Assets decreased by \$94,014 or 19%. The decrease in current assets was affected by the decrease in the amount of funds due from HUD for the reimbursement of Capital Fund expenditures by BHA, the decrease in investments and the decrease in prepaid expenses.

Capital Assets decreased by \$143,251. The change in Capital Assets will be presented in the section of this analysis entitled Analysis of Capital Assets.

Current Liabilities decreased by \$35,417. In fiscal year 2005, the Authority had negative cash in the Section 8 Housing Choice Voucher because of under funding of Housing Assistance Payments. The Authority made up the difference during fiscal year 2006.

The table on the next page illustrates our analysis:

	2006	2005	Net Change	Percent Variance
Cash	101,664	39,340	62,324	158%
Other Current Assets	409,582	503,596	-94,014	-19%
Capital Assets	5,276,128	5,419,379	-143,251	-3%
Total Assets	5,787,374	5,962,315	-174,941	-3%
Current Liabilities	96,047	131,464	-35,417	-27%
Long Term Liabilities	0	0	0	0%
Total Liabilities	96,047	131,464	-35,417	-27%
Invested in Capital Assets	5,276,128	5,419,379	-143,251	-3%
Unrestricted Net Assets	415,199	411,472	3,727	1%
Total Net Assets	5,691,327	5,830,851	-139,524	-2%

**HOUSING AUTHORITY OF THE CITY OF BRAZIL
MANAGEMENT DISCUSSION AND ANALYSIS
FYE DECEMBER 31, 2006**

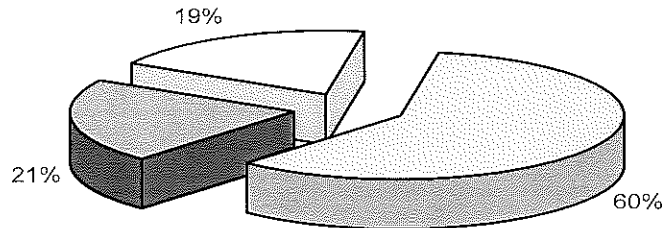
Analysis of Entity Wide Revenues (Statement of Activities)

The Authority administers the following programs and the revenues generated from these programs during Fiscal Year Ending 2006 were as follows:

<u>Program</u>	<u>Revenues Generated</u>
Low Income Public Housing	\$1,060,656
Section 8 Housing Choice Vouchers	\$385,039
Public Housing Capital Fund Program	\$348,220
Total Revenue	\$1,793,915

The diagram below illustrates the percentage of revenues generated by these programs for Fiscal Year Ending December 31, 2006:

Revenues Generated By Program



- | | |
|--|--|
| <input type="checkbox"/> Low Income Public Housing | <input type="checkbox"/> Section 8 Housing Choice Vouchers |
| <input type="checkbox"/> Public Housing Capital Fund Program | |

Total revenues for Fiscal Year Ending December 31, 2006 were \$1,793,915 as compared to the \$1,820,944 of total revenues for Fiscal Year Ending December 31, 2005. Comparatively, Fiscal Year Ending 2005 revenues exceeded Fiscal Year Ending 2006 revenues by \$27,029.

“Other Revenue” decreases due to a reclassification in 2006 of other tenant charges (currently included in “Other Tenant Income”).

Interest income decreased due to fewer funds invested during the fiscal year and at year end.

**HOUSING AUTHORITY OF THE CITY OF BRAZIL
MANAGEMENT DISCUSSION AND ANALYSIS
FYE DECEMBER 31, 2006**

	2006	2005	Net Change	Percentage Change
Total Tenant Revenue	640,502	622,068	18,434	3%
HUD Operating Grants	862,919	878,015	-15,096	-2%
HUD Capital Grants	272,372	302,610	-30,238	-10%
Investment Income	10,182	11,561	-1,379	-12%
Other Revenue	7,503	14,753	-7,250	-49%
Gain/loss on Sale of Fixed Assets	437	-8,063	8,500	0%
Total Revenue	1,793,915	1,820,944	-27,029	-2%

Analysis of Entity Wide Expenditures

Total Expenditures for Fiscal Year Ending December 31, 2006 were \$1,958,067 as compared to the \$2,058,203 of total expenditures for Fiscal Year Ending December 31, 2005. Comparatively, Fiscal Year Ending 2006 expenditures decreased from Fiscal Year Ending 2005 expenditures by \$100,136 or 5%. Changes by major expense category will be presented below.

Administrative expenditures decreased by \$11,474 or 3%. The Authority decreased the amount of other administrative expenses during the fiscal because of reductions in HUD funding.

Tenant Services expenditures increased by \$2,086 or 4%. The Authority increased tenant participation activities during fiscal year ending December 31, 2006, which caused this expense to increase.

Utilities increased by \$361 or less than 1%.

Maintenance expenditures decreased by \$26,582 or 7%. Maintenance labor salaries and benefits decreased because of changes in staff. The Authority also decreased the amount of maintenance materials utilized from the prior fiscal year.

General expenses increased by \$6,124 or 6%. The Authority's insurance expenses increased because of rising insurance rates. The Authority's Payment In Lieu of Taxes (PILOT) expenses increased because of an increase in the amount of rents charged to tenants.

Extraordinary Maintenance expenditures decreased by \$19,804 or 86%. These expenditures decreased because the number of extraordinary repairs required during the fiscal year decreased.

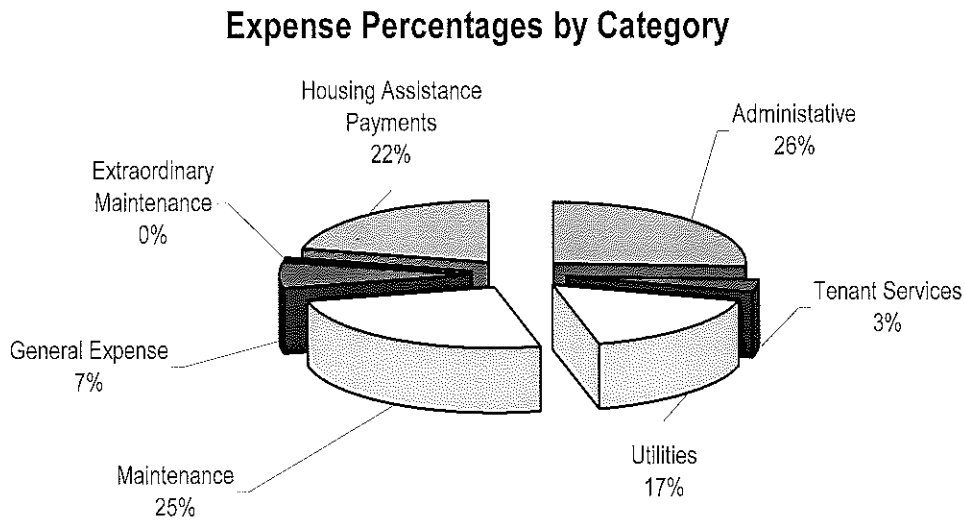
Housing Assistance Payments decreased by \$64,340 or 17%. The decrease was related to the decrease in the number of units leased during the fiscal year.

The table below illustrates our analysis:

**HOUSING AUTHORITY OF THE CITY OF BRAZIL
MANAGEMENT DISCUSSION AND ANALYSIS
FYE DECEMBER 31, 2006**

	2006	2005	Net Change	Percent Variances
Administrative	384,668	396,142	-11,474	-3%
Tenant Services	49,561	47,475	2,086	4%
Utilities	255,581	255,220	361	0%
Maintenance	377,090	403,672	-26,582	-7%
General Expense	103,623	97,499	6,124	6%
Extraordinary Maintenance	3,320	23,124	-19,804	-86%
Housing Assistance Payments	321,516	385,856	-64,340	-17%
Depreciation Expense	462,708	449,215	13,493	3%
Total Expenses	<u>\$1,958,067</u>	<u>\$2,058,203</u>	<u>-\$100,136</u>	<u>-5%</u>

The diagram next page illustrates the percentage of Authority expenditures by these categories excluding Depreciation Expense for Fiscal Year Ending December 31, 2006:



**HOUSING AUTHORITY OF THE CITY OF BRAZIL
MANAGEMENT DISCUSSION AND ANALYSIS
FYE DECEMBER 31, 2006**

Analysis of Capital Asset and Long-Term Debt Activity

Buildings decreased by \$184,871. The Authority reclassified \$188,814 from the buildings to construction in process. The Authority also had an increase in building improvements of \$3,943.

Furniture, Equipment & Machinery – Dwelling increased by \$110,070 or 51.3%. The increase was related to miscellaneous equipment purchases made from the Capital Fund Program funding.

Furniture, Equipment & Machinery – Administration increased by a net amount \$5,652 or 2.1%. The Authority disposed of miscellaneous equipment totaling \$43,101. The Authority made current year purchases that included the purchase of a Saturn Vue, computer replacements and a phone system replacement.

Construction in Process increased by \$345,668. The Authority reclassified \$188,814 from the buildings to construction in process. The Authority also had current year construction in process utilizing Capital Funds

Accumulated Depreciation increased by \$419,770. The Authority's depreciation expense for the fiscal year ending December 31, 2006 was \$462,708. Accumulated depreciation decreased because of the disposal of fixed assets.

	2006	2005	Net Change	Percent Variance
Land	173,525	173,525	0	0.0%
Buildings	12,120,802	12,305,673	-184,871	-1.5%
Furniture, Equip., & Mach. - Dwelling	324,795	214,725	110,070	51.3%
Furniture, Equip., & Mach. - Administrative	278,249	272,597	5,652	2.1%
Construction In Process	345,668	0	345,668	100.0%
Total Fixed Assets	13,243,039	12,966,520	276,519	2.1%
Accumulated Depreciation	7,966,911	7,547,141	419,770	5.6%
Net Fixed Assets	5,276,128	5,419,379	-143,251	-2.6%

Debt Outstanding

As of December 31, 2006, the Authority had no outstanding long-term debt.

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
AS OF DECEMBER 31, 2006**

ASSETS

CURRENT ASSETS

Cash	\$ 101,664
Accounts receivable (interfund eliminated)	29,900
Accrued interest receivable	2,874
Investments	328,420
Inventory (net of obsolete inventories)	22,256
Deferred charges	<u>26,132</u>

Total Current Assets \$ 511,246

CAPITAL ASSETS

Land, buildings and equipment	\$ 13,243,039
Less: Accumulated depreciation	<u>-7,966,911</u>

Net Capital Assets \$ 5,276,128

Total Assets \$ 5,787,374

LIABILITIES

CURRENT LIABILITIES

Accounts payable (interfund eliminated)	\$ 61,815
Accrued liabilities	32,408
Deferred revenue	<u>1,824</u>

Total Current Liabilities \$ 96,047

NET ASSETS

Invested in capital assets	\$ 5,276,128
Unrestricted	<u>415,199</u>

Total Net Assets \$ 5,691,327

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF REVENUES AND EXPENDITURES - PROPRIETARY FUNDS
AND CHANGES IN NET ASSETS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

Operating Income

Tenant rental revenue	\$ 560,032
Tenant revenue - other	<u>80,470</u>
Total Rental Income	\$ 640,502
HUD grants - operating	862,919
Fraud recovery	2,093
Other revenue	5,410
Gain (loss) on sale of fixed assets	<u>437</u>
Total Operating Income	<u>\$ 1,511,361</u>

Operating Expenses

Administration	\$ 384,668
Tenant services	49,561
Utilities	255,581
Ordinary maintenance and operation	377,090
Extraordinary maintenance	3,320
General expense	103,623
Housing assistance payments	321,516
Depreciation	<u>462,708</u>
Total Operating Expenses	<u>\$ 1,958,067</u>
Net Operating Income (Loss)	<u>\$ -446,706</u>

Nonoperating Income (Expense)

HUD grants - capital	\$ 272,372
Interest income	<u>10,182</u>
Total Nonoperating Income (Expense)	<u>\$ 282,554</u>
Changes in net assets	\$ -164,152
Net assets, beginning of year	5,830,851
Prior period adjustments	<u>24,628</u>
Net assets, end of year	<u>\$ 5,691,327</u>

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

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

Operating Activities

Operating grants	\$ 878,195
Tenant revenue	639,999
Other revenue	7,940
Housing assistance payments	-321,516
Payments to employees	-351,564
Payments to suppliers and contractors	<u>-788,394</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 64,660</u>

Investing Activities

Investments (purchased) redeemed	\$ 67,580
Interest income	<u>10,182</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 77,762</u>

Capital and Related Financing Activities

HUD grants - capital	\$ 272,372
(Additions) deletions of fixed assets	<u>-319,457</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ -47,085</u>
Net Change in Cash	\$ 95,337
Cash Balance at December 31, 2005	<u>6,327</u>
Cash Balance at December 31, 2006	<u>\$ 101,664</u>

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

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

Reconciliation of Operating Income (Loss) to Net Cash
Provided (Used) by Operating Activities

Net operating income (loss)	\$ -446,706
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	462,708
Adjustments to net assets	24,628
(Increase) decrease in accounts receivable	29,611
(Increase) decrease in deferred charges	12,872
(Increase) decrease in inventories	-3,569
(Increase) decrease in other assets	2,796
Increase (decrease) in accounts payable	-20,650
Increase (decrease) in accrued liabilities	2,861
Increase (decrease) in deferred revenues	<u>109</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 64,660</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

Note 1 - Summary of Significant Accounting Policies

(a) Organization -

The Brazil Housing Authority was established by the City of Brazil pursuant to the laws of the State of Indiana, to transact business and to have powers as defined therein. The Housing Authority was established to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other applicable Federal Agencies.

Under the United States Housing Act of 1937, as amended, the U.S. Department of Housing and Urban Development (HUD) had direct responsibility for administering low-rent housing programs in the United States. Accordingly, HUD has entered into a contract with the Authority for the purpose of assisting in financing the acquisition, construction and leasing of housing units and to make annual contributions (subsidies) to the program for the purpose of maintaining its low-rent character.

In evaluating the Authority as a reporting entity, management has addressed its relationship with the City of Brazil and concluded that the City does not maintain an oversight responsibility for the Authority's operations. An independent Board of Commissioners, appointed by the City, is responsible for the activities of the Authority. The Authority recruits and employs its executive staff and has substantial legal authority to control its affairs without requiring approval of the City government. Debt incurred by the Authority is not an obligation of the City; the City does not review or approve the Authority's budget, is not entitled to any surplus funds generated by the Authority's operations and is not responsible for any deficits incurred by the Authority. Consequently, in accordance with evaluating the criteria set forth in Section 2100 and 2600 of the Governmental Accounting Standards Board Codification, management has concluded that the Brazil Housing Authority is a separate reporting entity. All funds and programs of the Housing Authority are included in these statements. The Housing Authority has no component units.

(b) Method of Accounting -

The financial statements of the Housing Authority have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

The Housing Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails.

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(c) Funds -

Each of the programs of the Housing Authority are organized on a basis of fund accounting, using a separate set of self balancing accounts as prescribed by HUD. The programs of the Housing Authority are:

- * Low Rent Public Housing
- * Section 8 Choice Vouchers
- * Capital Fund Program

These programs are all accounted for within the 'Proprietary' (enterprise) fund as described below:

Proprietary Fund Types:

Proprietary funds use the economic resources measurement focus and utilize the accrual basis of accounting. All assets and liabilities associated with a proprietary fund's activities are included on the fund statement. Proprietary fund equity is segregated into Invested in Capital Assets Net of Related Debt, Restricted Net Assets and Unrestricted Net Assets.

(d) Cash and Cash Equivalents -

For purposes of the statement of cash flows, the Housing Authority considers all highly liquid investments to be cash equivalents. The term "highly liquid" refers to investments with a maturity of one month or less when purchased to be cash equivalents.

(e) Accounts Receivable -

The tenants accounts receivable discloses the gross amount due from the tenants at December 31, 2006, and does not take into consideration prepaid amounts. The Housing Authority provides for an allowance for doubtful accounts, based on the estimated collections of current accounts receivables. The Housing Authority periodically writes off uncollectible accounts receivable to the allowance account based on a review of the current status of existing receivables and the determination that the receivable will not be collected.

(f) Inventories and Materials -

Inventories and materials are stated at cost which approximates market determined on a first-in, first-out basis.

(g) Investments -

Investments are stated at cost which approximates market.

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(h) Fixed Assets -

For the purpose of determining, distinguishing and recording materials and non-expendable equipment and personal property purchased or acquired in connection with development, management, and maintenance of public housing developments owned or operated, the Housing Authority follows the following capitalization policy:

If the anticipated life or useful life of equipment or property is more than one (1) year, the same shall be capitalized and recorded as non-expendable equipment and charged as a capital expenditure.

Land, buildings and equipment contains the following:

- 1) The total development construction costs incurred for each project at the end of the initial operating period,
- 2) nonexpendable equipment, and
- 3) property betterments and additions
- 4) land acquisitions.

These are recorded at cost. Depreciation of property and equipment is provided using the straight line method for financial reporting purposes at rates based on the following estimates:

Buildings	40 years
Equipment	5 - 10 years
Transportation equipment	5 years
Furniture and fixtures	10 years
Leasehold improvements	15 years

(i) Income Tax -

The Authority, organized as a non-profit corporation subsidized by the Federal government, is exempt from Federal and State income taxes.

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 1 - Summary of Significant Accounting Policies

(j) Annual Contributions/Subsidies and Other Grants

Annual contributions and subsidies received from the Department of HUD are recorded as grant revenues.

Other grants (such as CFP grants) are recognized when program expenditures are incurred. Such revenue is subject to review by the Department of Housing and Urban Development and may result in disallowance in subsequent periods.

(k) The Housing Authority adopts a budget annually. The budget is submitted to the Department of Housing and Urban Development for approval. Subsequent budget revisions may also be required to be submitted to HUD for approval.

(l) The preparation of financial statements in conformity with generally accepted accounting principles require the Housing Authority to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Cash and Investments

Statutes authorize the Housing Authority to invest in certificates of deposit, money market funds, United States government securities and repurchase agreements fully collateralized by United States government securities.

All cash and investments are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC) or other equivalent insurance company of the depository financial institutions. The deposits exceeding the insured or registered limits are public funds covered by the State of Indiana Public Deposit Fund.

Custodial Credit Risk

- a. Deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to or that the Authority will not be able to recover collateral securities in the possession of an outside party.
- b. Investments - Custodial credit risk is the risk that in the event of the failure of the depository, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party.

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

Credit Risk Investments, Concentration of Credit Risk and Interest Rate Risks - Investments

Credit Risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Housing Authority has no investment policy that limits its investment choices other than the limitation of state law and/or the Department of Urban Development regulations.

Concentrations of Credit Risk is the risk of loss attributed to the amount of the investment in a single issuer. The Authority does not have a formal investment policy covering the concentration of credit risk.

Investment Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Housing Authority has no formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

- Category 1 - Deposits which are insured or collateralized with securities held by the Housing Authority or by its agent in the Housing Authority's name.
- Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Authority's name.
- Category 3 - Deposits which are not collateralized or insured.

Based on the three levels of risk, all of the Housing Authority's funds are classified as Category 1.

<u>Fund</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Low Rent	\$ 94,353	\$ 170,372
Voucher	<u>7,311</u>	<u>7,311</u>
Total	<u>\$ 101,664</u>	<u>\$ 177,683</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 2 - Cash and Investments (Continued)

Similar to cash deposits, investments held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

- Category 1 - Investments that are insured, registered or collateralized with securities held by the Housing Authority or by its agent in the Housing Authority's name.
- Category 2 - Investments which are uninsured and unregistered held by the counter-party's trust department or agent in the Housing Authority's name.
- Category 3 - Uninsured or unregistered investments held by the counter-party, its trust or its agent, but not in the Housing Authority's name.

Based on the three levels of risk, all of the Housing Authority's investments are classified as Category 1.

<u>Fund</u>	<u>Book Balance</u>	<u>Market Value</u>
Low Rent	\$ 282,441	\$ 282,441
Voucher	<u>45,979</u>	<u>45,979</u>
Total	<u>\$ 328,420</u>	<u>\$ 328,420</u>

Note 3 - Compensated Absences

All regular full-time employees will be eligible for paid annual leave as follows:

Years 1-3	12 days
Years 4-15	18 days
Over 15 years	24 days

To recognize commitment to the agency, the Authority does increase the paid annual leave effective the 4th and 16th year of service. Employees will first earn and have these bonus days posted to their account on the anniversary of their employment date on the 4th and 16th year. Thereafter the days will be posted on the 1st of January.

The Housing Authority requires all employees to take their annual/vacation leave each year as earned; however, if business circumstances prohibit employees from using their annual leave, carryover of not more than 5 days may be permitted with the prior approval of the Executive Director.

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 3 - Compensated Absences (Continued)

Vacation Leave

Employees will not earn vacation during their first three months of the probationary period. Accrual begins the 1st day of the fourth month of employment.

Sick Leave

Employees shall begin accruing sick leave at the rate of one (1) day per month, after they have satisfactorily completed the first three months of the probationary period.

Note 4 - Defined Contribution Plan

The Housing Authority provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after 90 days. The plan requires the Housing Authority and the employee to contribute 7.5% and 5.5% of covered wages, respectively.

The amounts contributed for the twelve months ended December 31, 2006 were \$23,735 and \$17,406, respectively.

Note 5 - Accounts Receivable

Accounts receivable consists of the following accounts:

Tenants accounts receivable (net)	\$ 2,500
Accounts receivable - HUD	27,321
Accounts receivable - other	<u>79</u>
Subtotal	\$ 29,900
Interfund	<u>27,321</u>
Total	<u>\$ 57,221</u>

Note 6 - Investments

At December 31, 2006 investments consist of the following:

	<u>Rate</u>	
Certificate of deposit	5.25%	<u>\$ 328,420</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 7 - Deferred Charges

This classification includes the following accounts:

Prepaid insurance	\$ 15,824
Other	<u>10,308</u>
Total	<u>\$ 26,132</u>

Note 8 - Fixed Assets

Balance as of December 31, 2006	\$ 5,276,128
Balance as of December 31, 2005	<u>5,419,379</u>
Net Increase (Decrease)	<u>\$ -143,251</u>

Reconciliation

Disposals	\$ -163
Property betterments and additions	319,620
Current year depreciation expense	<u>-462,708</u>
Net Increase (Decrease)	<u>\$ -143,251</u>

<u>Analysis</u>	<u>Beginning Balance</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Ending Balance</u>
Land	\$ 173,525	\$ 0	\$ 0	\$ 173,525
Buildings	12,305,673	334,258	519,129	12,120,802
Equipment and furniture	487,322	166,187	50,465	603,044
Construction in progress	<u>0</u>	<u>345,668</u>	<u>0</u>	<u>345,668</u>
Subtotal	\$ 12,966,520	\$ 846,113	\$ 569,594	\$ 13,243,039
Accumulated depreciation	<u>-7,547,141</u>	<u>42,938</u>	<u>462,708</u>	<u>-7,966,911</u>
Total	<u>\$ 5,419,379</u>	<u>\$ 889,051</u>	<u>\$ 1,032,302</u>	<u>\$ 5,276,128</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 9 - Accounts Payable

This classification includes the following accounts:

Vendors and contractors	\$ 30,865
Tenants security deposits	<u>30,950</u>
Subtotal	\$ 61,815
Interfund	<u>27,321</u>
Total	<u>\$ 89,136</u>

Note 10 - Notes Payable

On August 4, 1987, the U.S. Department of Housing and Urban Development (HUD) issued notice PIH 87-212 to implement the provisions of the Housing and Community Development Reconciliation Amendments of 1985 (PL 99-272, enacted April 7, 1986). This notice states, in part, the following:

Project debt to HUD (HUD-held notes) will be forgiven after a debt forgiveness amendment to the consolidated Annual Contributions Contract has been executed by HUD and the Public Housing Authority and after the Actual Development Cost Certificate has been included in an audit and approved.

As a part of the HUD mandated GAAP conversion and the above referenced notice, all HUD-held notes were recorded as debt forgiveness during a prior fiscal year.

Note 11 - Accrued Liabilities

Accrued liabilities consists of the following:

Payment in lieu of taxes	<u>\$ 32,408</u>
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Note 12 - Deferred Revenue

This classification consists of the following accounts:

Tenants prepaid rent	<u>\$ 1,824</u>
----------------------	-----------------

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**NOTES TO FINANCIAL STATEMENTS
TWELVE MONTHS ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 13 - Allocation of Costs

The PHA allocated expenses not attributable to a specific program to all programs under management. The basis for this allocation was the number of units in each program. Management considers this to be an equitable method of allocation.

Note 14 - Contingencies

Federal Grants

In the normal course of operations, the Housing Authority receives grant funds from the Department of Housing and Urban Development. The programs are subject to audit by agents of HUD, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

Note 15 - Prior Year Adjustments Posted Directly to Surplus

Prior year HUD settlement 2004	<u>\$ 24,628</u>
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Note 16 - Risk Management

The Housing Authority carries commercial insurance coverage to cover exposure and the risk of losses related to torts, thefts, damages, destruction of assets, errors and omissions, injuries, natural disasters and defalcation.

For insured programs there has been no significant reduction in insurance coverage. Settled claims have not exceeded insurance coverage or the risk pool coverage in the current or past three years.

Note 17 - Economic Dependency

The Housing Authority received some of its revenue (63%) from the United States Department of Housing and Urban Development. This funding is subject to federal government appropriations and potential funding reductions.

SUPPLEMENTAL DATA

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2006**

<u>Federal Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Grant Period</u>	<u>Program Amount</u>	<u>Receipts or Revenue Recognized</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of HUD</u>						
Direct Programs:						
Public and Indian Housing*	14.850	C-913	FYE 12/31/06	\$ 405,743	\$ 405,743	\$ 405,743
Housing Choice Vouchers*	14.871	C-2040	FYE 12/31/06	\$ 381,328	\$ 381,328	\$ 381,328
Capital Fund Program*	14.872	C-913	FYE 12/31/06	\$ 1,218,969	\$ 348,220	\$ 348,220
Total Housing Assistance				<u>\$ 2,006,040</u>	<u>\$ 1,135,291</u>	<u>\$ 1,135,291</u>

*Denotes major program.

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS (SEFA)
TWELVE MONTHS ENDED DECEMBER 31, 2006**

Note 1: Expenditures to the Housing Choice Voucher Program are reported as equal to revenues recognized. This method of expenditure recognition does not reconcile to the Housing Authority's financial statements, but is required by HUD.

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

<u>ASSETS</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
CURRENT ASSETS			
Cash	\$ 94,353	\$ 0	\$ 7,311
Accounts receivable	29,900	27,321	0
Accrued interest receivable	2,472	0	402
Investments	282,441	0	45,979
Inventory (net of obsolete inventories)	22,256	0	0
Deferred charges	<u>25,956</u>	<u>0</u>	<u>176</u>
Total Current Assets	<u>\$ 457,378</u>	<u>\$ 27,321</u>	<u>\$ 53,868</u>
CAPITAL ASSETS			
Land, buildings and equipment	\$ 12,769,721	\$ 473,160	\$ 158
Less: Accumulated depreciation	<u>-7,966,753</u>	<u>0</u>	<u>-158</u>
Net Capital Assets	<u>\$ 4,802,968</u>	<u>\$ 473,160</u>	<u>\$ 0</u>
Total Assets	<u>\$ 5,260,346</u>	<u>\$ 500,481</u>	<u>\$ 53,868</u>
 <u>LIABILITIES</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 61,815	\$ 27,321	\$ 0
Accrued liabilities	32,408	0	0
Deferred revenue	<u>1,824</u>	<u>0</u>	<u>0</u>
Total Current Liabilities	<u>\$ 96,047</u>	<u>\$ 27,321</u>	<u>\$ 0</u>
 <u>NET ASSETS</u>			
Invested in capital assets	\$ 4,802,968	\$ 473,160	\$ 0
Unrestricted	<u>361,331</u>	<u>0</u>	<u>53,868</u>
Total Net Assets	<u>\$ 5,164,299</u>	<u>\$ 473,160</u>	<u>\$ 53,868</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF REVENUE AND EXPENDITURES
TWELVE MONTHS ENDED DECEMBER 31, 2006**

<u>Operating Income</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Tenant rental revenue	\$ 560,032	\$ 0	\$ 0
Tenant revenue - other	<u>80,470</u>	<u>0</u>	<u>0</u>
Total Rental Income	\$ 640,502	\$ 0	\$ 0
HUD grants - operating	405,743	75,848	381,328
Fraud recovery	0	0	2,093
Other revenue	5,225	0	185
Gain (loss) on sale of fixed assets	<u>437</u>	<u>0</u>	<u>0</u>
Total Operating Income	\$ <u>1,051,907</u>	\$ <u>75,848</u>	\$ <u>383,606</u>
 <u>Operating Expenses</u>			
Administration	\$ 287,967	\$ 39,848	\$ 56,853
Tenant services	49,561	0	0
Utilities	255,581	0	0
Ordinary maintenance and operation	377,090	0	0
Extraordinary maintenance	3,320	0	0
General expense	102,804	0	819
Housing assistance payments	0	0	321,516
Depreciation	<u>462,708</u>	<u>0</u>	<u>0</u>
Total Operating Expenses	\$ <u>1,539,031</u>	\$ <u>39,848</u>	\$ <u>379,188</u>
Net Operating Income (Loss)	\$ <u>-487,124</u>	\$ <u>36,000</u>	\$ <u>4,418</u>
 <u>Nonoperating Income (Expense)</u>			
HUD grants - capital	\$ 0	\$ 272,372	\$ 0
Interest income	8,749	0	1,433
Transfer	<u>36,000</u>	<u>-36,000</u>	<u>0</u>
Total Nonoperating Income (Expense)	\$ <u>44,749</u>	\$ <u>236,372</u>	\$ <u>1,433</u>
Changes in Net Assets	\$ <u>-442,375</u>	\$ <u>272,372</u>	\$ <u>5,851</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF CHANGES IN NET ASSETS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

<u>Invested in Capital Assets</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Balance at December 31, 2005	\$ 4,876,969	\$ 542,410	\$ 0
Transfer	341,622	-341,622	0
Current year net income (loss)	<u>-415,623</u>	<u>272,372</u>	<u>0</u>
Balance at December 31, 2006	<u>\$ 4,802,968</u>	<u>\$ 473,160</u>	<u>\$ 0</u>
 <u>Unrestricted</u>			
Balance at December 31, 2005	\$ 388,083	\$ 0	\$ 23,389
Current year net income (loss)	-26,752	0	5,851
Prior year adjustment	<u>0</u>	<u>0</u>	<u>24,628</u>
Balance at December 31, 2006	<u>\$ 361,331</u>	<u>\$ 0</u>	<u>\$ 53,868</u>
Net Assets	<u>\$ 5,164,299</u>	<u>\$ 473,160</u>	<u>\$ 53,868</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

<u>Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Operating grants	\$ 405,743	\$ 91,124	\$ 381,328
Tenant revenue	639,999	0	0
Other revenue	5,662	0	2,278
Housing assistance payments	0	0	-321,516
Payments to employees	-290,324	-27,893	-33,347
Payments to suppliers and contractors	<u>-761,850</u>	<u>-27,231</u>	<u>687</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -770</u>	<u>\$ 36,000</u>	<u>\$ 29,430</u>
 <u>Investing Activities</u>			
Investments (purchased) redeemed	\$ 58,119	\$ 0	\$ 9,461
Interest income	<u>8,749</u>	<u>0</u>	<u>1,433</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ 66,868</u>	<u>\$ 0</u>	<u>\$ 10,894</u>
 <u>Capital and Related Financing Activities</u>			
HUD grants - capital	\$ 0	\$ 272,372	\$ 0
(Additions) deletions to fixed assets	-47,085	-272,372	0
Transfer	<u>36,000</u>	<u>-36,000</u>	<u>0</u>
Net Cash Provided (Used) by Financing Activities	<u>\$ -11,085</u>	<u>\$ -36,000</u>	<u>\$ 0</u>
Net Change in Cash	\$ 55,013	\$ 0	\$ 40,324
Cash Balance at December 31, 2005	<u>39,340</u>	<u>0</u>	<u>-33,013</u>
Cash Balance at December 31, 2006	<u><u>\$ 94,353</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 7,311</u></u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED DECEMBER 31, 2006**

Reconciliation of Operating Income (Loss) to Net Cash

<u>Provided (Used) by Operating Activities</u>	<u>Low Rent</u>	<u>Capital Funds</u>	<u>Voucher</u>
Net operating income (loss)	\$ -487,124	\$ 36,000	\$ 4,418
Adjustment to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Depreciation	462,708	0	0
Adjustments to net assets	0	0	24,628
(Increase) decrease in accounts receivable	14,335	15,276	0
(Increase) decrease in deferred charges	12,880	0	-8
(Increase) decrease in inventories	-3,569	0	0
(Increase) decrease in other assets	2,404	0	392
Increase (decrease) in accounts payable	-5,374	-15,276	0
Increase (decrease) in accrued liabilities	2,861	0	0
Increase (decrease) in deferred revenues	<u>109</u>	<u>0</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ -770</u>	<u>\$ 36,000</u>	<u>\$ 29,430</u>

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**PHA's STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST
PHASE IN36P035501-04**

1. The Actual Modernization Costs of Phase IN36P035501-04 are as follows:

Funds approved	\$ 417,036
Funds expended	<u>417,036</u>
Excess of Funds Approved	<u>\$ 0</u>
Funds advanced	
Project notes, non-HUD	\$ 417,036
Funds expended	<u>417,036</u>
Excess of Funds Advanced	<u>\$ 0</u>

2. The distribution of costs by project, as shown on the final Statement of Modernization Cost, dated August 30, 2006, accompanying the Actual Modernization Cost Certificate submitted to HUD for approval, is in agreement with the PHA's records.
3. All modernization costs have been paid and all related liabilities have been discharged through payment.

PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD
DECATUR, ILLINOIS 62526
(217) 872-1908

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Commissioners
Brazil Housing Authority
Brazil, Indiana

I have audited the financial statements of Brazil Housing Authority as of and for the year ended December 31, 2006, and have issued my report thereon dated July 30, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

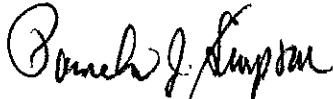
As part of obtaining reasonable assurance about whether Brazil Housing Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Brazil Housing Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information of management, the Board of Commissioners and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Decatur, Illinois
July 30, 2007


Certified Public Accountant

PAMELA J. SIMPSON, C.P.A.

433 WEST PERSHING ROAD

DECATUR, ILLINOIS 62526

(217) 872-1908

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Commissioners
Brazil Housing Authority
Brazil, Indiana

Compliance

I have audited the compliance of Brazil Housing Authority with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Brazil Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Brazil Housing Authority's management. My responsibility is to express an opinion on Brazil Housing Authority's compliance based on my audit.

I conducted my 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 I 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 Brazil Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Brazil Housing Authority's compliance with those requirements.

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

Internal Control Over Compliance

The management of Brazil Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Brazil Housing Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Brazil Housing Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Decatur, Illinois
July 30, 2007


Certified Public Accountant

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - SUMMARY
FOR THE YEAR ENDED DECEMBER 31, 2006**

Summary of Auditor's Results

Low Risk Auditee _____ yes X no

Financial Statements

Type of auditor's report: Unqualified

* Material weakness(es) identified? _____ yes X no

* Reportable condition(s) identified that are not
considered to be material weaknesses? _____ yes X none
reported

Noncompliance material to financial statements noted _____ yes X no

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? _____ yes X no

* Reportable condition(s) identified that are not
considered to be material weaknesses? _____ yes X none
reported

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

Any audit findings disclosed that are required to be reported in
accordance with section 510(a) of Circular A-133? _____ yes X no

Major Programs: (Threshold \$300,000)

CFDA Number(s)

Public and Indian Housing	14.850
Housing Choice Voucher Program	14.871
Capital Funds Program	14.872

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report for the period ended December 31, 2005 contained one finding.

Finding 1: Section 8 Funds Over Requisitioned

HUD rules and regulations require that housing authorities submit budget revisions in order to receive no more than 105% of the amount earned in the Section 8 program. During the fiscal year ended December 31, 2005, the Housing Authority requisitioned more than 107% of the funds earned for the year.

For the fiscal year ended December 31, 2006, HUD remitted subsidy based on a formula, therefore, the Housing Authority no longer requisitions funds for the Section 8 program. This finding is considered closed.

**BRAZIL HOUSING AUTHORITY
BRAZIL, INDIANA**

FINDINGS AND RECOMMENDATIONS

There were no audit findings discussed with Michael K. Hagemeyer, Executive Director, during the course of the audit or at an exit conference held July 12, 2007.

PHA: IN035 FYED: 12/31/2006

Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
111	Cash - Unrestricted	\$63,403	\$7,311	\$0	\$70,714
114	Cash - Tenant Security Deposits	\$30,950	\$0	\$0	\$30,950
100	Total Cash	\$94,353	\$7,311	\$0	\$101,664
122	Accounts Receivable - HUD Other Projects	\$0	\$0	\$27,321	\$27,321
125	Accounts Receivable - Miscellaneous	\$79	\$0	\$0	\$79
126	Accounts Receivable - Tenants - Dwelling Rents	\$17,975	\$0	\$0	\$17,975
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$-15,475	\$0	\$0	\$-15,475
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0
128	Fraud Recovery	\$0	\$157	\$0	\$157
128.1	Allowance for Doubtful Accounts - Fraud	\$0	\$-157	\$0	\$-157
129	Accrued Interest Receivable	\$2,472	\$402	\$0	\$2,874
120	Total Receivables, net of allowances for doubtful accounts	\$5,051	\$402	\$27,321	\$32,774
131	Investments - Unrestricted	\$282,441	\$45,979	\$0	\$328,420
142	Prepaid Expenses and Other Assets	\$25,956	\$176	\$0	\$26,132
143	Inventories	\$25,205	\$0	\$0	\$25,205
143.1	Allowance for Obsolete Inventories	\$-2,949	\$0	\$0	\$-2,949
144	Interprogram Due From	\$27,321	\$0	\$0	\$27,321
150	Total Current Assets	\$457,378	\$53,868	\$27,321	\$538,567
161	Land	\$173,525	\$0	\$0	\$173,525
162	Buildings	\$12,120,802	\$0	\$0	\$12,120,802
163	Furniture, Equipment & Machinery - Dwellings	\$214,725	\$0	\$110,070	\$324,795
164	Furniture, Equipment & Machinery - Administration	\$260,669	\$158	\$17,422	\$278,249
165	Leasehold Improvements	\$0	\$0	\$0	\$0
166	Accumulated Depreciation	\$-7,966,753	\$-158	\$0	\$-7,966,911
167	Construction In Progress	\$0	\$0	\$345,668	\$345,668
160	Total Fixed Assets, Net of Accumulated Depreciation	\$4,802,968	\$0	\$473,160	\$5,276,128
180	Total Non-Current Assets	\$4,802,968	\$0	\$473,160	\$5,276,128
190	Total Assets	\$5,260,346	\$53,868	\$500,481	\$5,814,695

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Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
312	Accounts Payable <= 90 Days	\$30,865	\$0	\$0	\$30,865
333	Accounts Payable - Other Government	\$32,408	\$0	\$0	\$32,408
341	Tenant Security Deposits	\$30,950	\$0	\$0	\$30,950
342	Deferred Revenues	\$1,824	\$0	\$0	\$1,824
347	Interprogram Due To	\$0	\$0	\$27,321	\$27,321
310	Total Current Liabilities	\$96,047	\$0	\$27,321	\$123,368
350	Total Noncurrent Liabilities	\$0	\$0	\$0	\$0
300	Total Liabilities	\$96,047	\$0	\$27,321	\$123,368
508	Total Contributed Capital	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$4,802,968	\$0	\$473,160	\$5,276,128
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$0	\$0	\$0
512.1	Unrestricted Net Assets	\$361,331	\$53,868	\$0	\$415,199
513	Total Equity/Net Assets	\$5,164,299	\$53,868	\$473,160	\$5,691,327
600	Total Liabilities and Equity/Net Assets	\$5,260,346	\$53,868	\$500,481	\$5,814,695

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Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
703	Net Tenant Rental Revenue	\$560,032	\$0	\$0	\$560,032
704	Tenant Revenue - Other	\$80,470	\$0	\$0	\$80,470
705	Total Tenant Revenue	\$640,502	\$0	\$0	\$640,502
706	HUD PHA Operating Grants	\$405,743	\$381,328	\$75,848	\$862,919
706.1	Capital Grants	\$0	\$0	\$272,372	\$272,372
711	Investment Income - Unrestricted	\$8,749	\$1,433	\$0	\$10,182
714	Fraud Recovery	\$0	\$2,093	\$0	\$2,093
715	Other Revenue	\$5,225	\$185	\$0	\$5,410
716	Gain/Loss on Sale of Fixed Assets	\$437	\$0	\$0	\$437
700	Total Revenue	\$1,060,656	\$385,039	\$348,220	\$1,793,915

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Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
911	Administrative Salaries	\$150,238	\$33,347	\$27,893	\$211,478
912	Auditing Fees	\$2,720	\$500	\$0	\$3,220
915	Employee Benefit Contributions - Administrative	\$78,440	\$4,673	\$11,955	\$95,068
916	Other Operating - Administrative	\$56,569	\$18,333	\$0	\$74,902
924	Tenant Services - Other	\$49,561	\$0	\$0	\$49,561
931	Water	\$51,797	\$0	\$0	\$51,797
932	Electricity	\$156,416	\$0	\$0	\$156,416
933	Gas	\$47,368	\$0	\$0	\$47,368
941	Ordinary Maintenance and Operations - Labor	\$140,086	\$0	\$0	\$140,086
942	Ordinary Maintenance and Operations - Materials and Other	\$52,856	\$0	\$0	\$52,856
943	Ordinary Maintenance and Operations - Contract Costs	\$110,867	\$0	\$0	\$110,867
945	Employee Benefit Contributions - Ordinary Maintenance	\$73,281	\$0	\$0	\$73,281
961	Insurance Premiums	\$62,414	\$819	\$0	\$63,233
963	Payments in Lieu of Taxes	\$32,408	\$0	\$0	\$32,408
964	Bad Debt - Tenant Rents	\$7,982	\$0	\$0	\$7,982
969	Total Operating Expenses	\$1,073,003	\$57,672	\$39,848	\$1,170,523
970	Excess Operating Revenue over Operating Expenses	\$-12,347	\$327,367	\$308,372	\$623,392
971	Extraordinary Maintenance	\$3,320	\$0	\$0	\$3,320
973	Housing Assistance Payments	\$0	\$321,516	\$0	\$321,516
974	Depreciation Expense	\$462,708	\$0	\$0	\$462,708
900	Total Expenses	\$1,539,031	\$379,188	\$39,848	\$1,958,067
1001	Operating Transfers In	\$36,000	\$0	\$0	\$36,000
1002	Operating Transfers Out	\$0	\$0	\$-36,000	\$-36,000
1010	Total Other Financing Sources (Uses)	\$36,000	\$0	\$-36,000	\$0
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$-442,375	\$5,851	\$272,372	\$-164,152

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Line Item No.	Account Description	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$5,265,052	\$23,389	\$542,410	\$5,830,851
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$341,622	\$24,628	\$-341,622	\$24,628
1113	Maximum Annual Contributions Commitment (Per ACC)	\$0	\$405,956	\$0	\$405,956
1114	Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months	\$0	\$0	\$0	\$0
1115	Contingency Reserve, ACC Program Reserve	\$0	\$0	\$0	\$0
1116	Total Annual Contributions Available	\$0	\$405,956	\$0	\$405,956
1120	Unit Months Available	3,089	1,201	0	4,290
1121	Number of Unit Months Leased	3,020	1,078	0	4,098
1117	Administrative Fee Equity	\$0	\$76,858	\$0	\$76,858
1118	Housing Assistance Payments Equity	\$0	\$-22,990	\$0	\$-22,990

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