

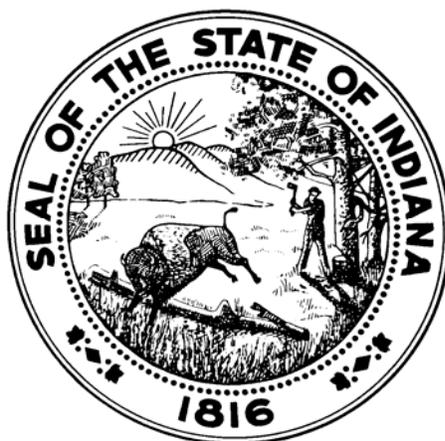
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT

OF

BREMEN PUBLIC SCHOOLS
MARSHALL COUNTY, INDIANA

July 1, 2004 to June 30, 2006



FILED
02/12/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Stephanie K. Pittman	01-01-04 to 12-31-06
Superintendent of Schools	Brent Kaufman Russ Mikel	07-01-04 to 06-30-05 07-01-05 to 06-30-07
President of the School Board	Becky Beron	01-01-04 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE BREMEN PUBLIC SCHOOLS, MARSHALL COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Bremen Public Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

The Schedule of Funding Progress as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT
(Continued)

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Long-Term Debt is presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

December 21, 2006

BREMEN PUBLIC SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 3,744,642
Restricted assets:	
Cash and investments	<u>73,983</u>
Total assets	<u>\$ 3,818,625</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 73,983
Unrestricted	<u>3,744,642</u>
Total net assets	<u>\$ 3,818,625</u>

The accompanying notes are an integral part of the financial statements.

BREMEN PUBLIC SCHOOLS
 STATEMENT OF CASH AND INVESTMENTS
 June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 2,448,803
Restricted assets:	
Cash and investments	<u>8,253</u>
Total assets	<u>\$ 2,457,056</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 8,253
Unrestricted	<u>2,448,803</u>
Total net assets	<u>\$ 2,457,056</u>

The accompanying notes are an integral part of the financial statements.

BREMEN PUBLIC SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 4,335,601	\$ -	\$ 62,333	\$ (4,273,268)
Support services	6,275,215	407,775	127,882	(5,739,558)
Community services	224,261	-	-	(224,261)
Nonprogrammed charges	1,800	-	-	(1,800)
Debt service	4,613,952	-	-	(4,613,952)
Total governmental activities	\$ 15,450,829	\$ 407,775	\$ 190,215	(14,852,839)
General receipts:				
Property taxes				7,625,863
Other local sources				1,603,024
State aid				4,565,856
Grants and contributions not restricted				468,200
Bonds and loans				1,817,639
Adjustments and refunds				106,530
Investment earnings				19,359
Total general receipts				16,206,471
Change in cash and investments				1,353,632
Net assets - beginning				2,464,993
Net assets - ending				\$ 3,818,625

The accompanying notes are an integral part of the financial statements.

BREMEN PUBLIC SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 4,344,914	\$ -	\$ 51,306	\$ (4,293,608)
Support services	6,274,928	385,711	159,482	(5,729,735)
Community services	243,877	-	-	(243,877)
Nonprogrammed charges	8,695	-	-	(8,695)
Debt service	3,225,120	-	-	(3,225,120)
Total governmental activities	\$ 14,097,534	\$ 385,711	\$ 210,788	(13,501,035)
General receipts:				
Property taxes				5,082,702
Other local sources				957,312
State aid				4,816,706
Grants and contributions not restricted				478,152
Bonds and loans				737,708
Adjustments and refunds				14,432
Investment earnings				52,454
Total general receipts				12,139,466
Change in cash and investments				(1,361,569)
Net assets - beginning				3,818,625
Net assets - ending				\$ 2,457,056

The accompanying notes are an integral part of the financial statements.

BREMEN PUBLIC SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Rainy Day	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 4,364,048	\$ 613,784	\$ -	\$ 1,718,299	\$ 1,507,642	\$ 120,927	\$ 895,906	\$ 9,220,606
Intermediate sources	166	-	-	-	-	-	488	654
State sources	4,608,715	-	-	-	-	-	71,847	4,680,562
Federal sources	7,449	-	-	-	-	-	536,260	543,709
Bonds and loans	1,596,185	-	-	69,011	152,443	-	-	1,817,639
Adjustments and refunds	947	1,927	-	-	-	-	1,160	4,034
Interfund transfers	1,530	-	300,000	-	-	-	50,738	352,268
Total receipts	10,579,040	615,711	300,000	1,787,310	1,660,085	120,927	1,556,399	16,619,472
Disbursements:								
Current:								
Instruction	4,103,852	-	-	-	-	-	231,749	4,335,601
Support services	3,678,427	388,546	109,867	-	816,373	142,911	804,220	5,940,344
Community services	220,647	-	-	-	-	-	3,614	224,261
Nonprogrammed charges	2,132	-	-	-	300,000	-	51,936	354,068
Debt services	2,106,299	155,320	-	1,797,442	400,204	-	154,687	4,613,952
Total disbursements	10,111,357	543,866	109,867	1,797,442	1,516,577	142,911	1,246,206	15,468,226
Excess (deficiency) of total receipts over (under) total disbursements	467,683	71,845	190,133	(10,132)	143,508	(21,984)	310,193	1,151,246
Cash and investments - beginning	1,335,134	167,354	250,000	80,403	664,231	21,977	251,142	2,770,241
Cash and investments - ending	\$ 1,802,817	\$ 239,199	\$ 440,133	\$ 70,271	\$ 807,739	\$ (7)	\$ 561,335	\$ 3,921,487

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ 1,151,246
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>202,386</u>
Change in cash and investments of governmental activities.	<u>\$ 1,353,632</u>

BREMEN PUBLIC SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Rainy Day	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:								
Local sources	\$ 2,980,758	\$ 437,387	\$ -	\$ 1,272,920	\$ 1,130,904	\$ 37,809	\$ 617,897	\$ 6,477,675
Intermediate sources	166	-	-	-	-	-	338	504
State sources	4,850,488	-	-	-	-	-	74,699	4,925,187
Federal sources	7,449	-	-	-	-	-	573,010	580,459
Bonds and loans	737,708	-	-	-	-	-	-	737,708
Adjustments and refunds	3,877	10,161	-	-	-	-	43	14,081
Interfund transfers	153,956	-	-	-	-	-	34,455	188,411
Total receipts	8,734,402	447,548	-	1,272,920	1,130,904	37,809	1,300,442	12,924,025
Disbursements:								
Current:								
Instruction	4,027,909	-	-	-	-	-	317,005	4,344,914
Support services	3,681,134	421,283	-	-	1,260,764	58,252	853,495	6,274,928
Community services	241,087	-	-	-	-	-	2,790	243,877
Nonprogrammed charges	-	-	-	-	-	-	197,106	197,106
Debt services	1,596,185	-	-	1,323,645	152,443	-	152,847	3,225,120
Total disbursements	9,546,315	421,283	-	1,323,645	1,413,207	58,252	1,523,243	14,285,945
Excess (deficiency) of total receipts over (under) total disbursements	(811,913)	26,265	-	(50,725)	(282,303)	(20,443)	(222,801)	(1,361,920)
Cash and investments - beginning	1,802,817	239,199	440,133	70,271	807,739	(7)	561,335	3,921,487
Cash and investments - ending	\$ 990,904	\$ 265,464	\$ 440,133	\$ 19,546	\$ 525,436	\$ (20,450)	\$ 338,534	\$ 2,559,567

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ (1,361,920)
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>351</u>
Change in cash and investments of governmental activities.	<u>\$ (1,361,569)</u>

BREMEN PUBLIC SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
PROPRIETARY FUND
For The Year Ended June 30, 2005

	<u>Internal Service Fund</u>
Receipts:	
Local sources	\$ 434,761
Adjustments and refunds	<u>102,496</u>
Total receipts	<u>537,257</u>
Disbursements:	
Support services	<u>334,871</u>
Changes in cash and investments	202,386
Cash and investments - beginning	<u>(305,248)</u>
Cash and investments - ending	<u>\$ (102,862)</u>

The accompanying notes are an integral part of the financial statements.

BREMEN PUBLIC SCHOOLS
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH AND INVESTMENTS
 PROPRIETARY FUND
 For The Year Ended June 30, 2006

	Internal Service Fund
Receipts:	
Sale of property, adjustments and refunds	\$ 351
Changes in cash and investments	351
Cash and investments - beginning	(102,862)
Cash and investments - ending	\$ (102,511)

The accompanying notes are an integral part of the financial statements.

BREMEN PUBLIC SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUND
For The Year Ended June 30, 2005

	Pension Trust Fund
Additions:	
Sale of property, adjustments and refunds	\$ 127,203
Deductions:	
Support services	122,890
Excess of total additions over total deductions	4,313
Cash and investments - beginning	(127,203)
Cash and investments - ending	\$ (122,890)

The accompanying notes are an integral part of the financial statements.

BREMEN PUBLIC SCHOOLS
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH AND INVESTMENTS
 FIDUCIARY FUND
 For The Year Ended June 30, 2006

	Pension Trust Fund
Additions: Sale of property, adjustments and refunds	\$ <u>130,059</u>
Deductions: Support services	<u>107,469</u>
Excess of total additions over total deductions	22,590
Cash and investments - beginning	<u>(122,890)</u>
Cash and investments - ending	\$ <u><u>(100,300)</u></u>

The accompanying notes are an integral part of the financial statements.

BREMEN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation financial reporting entity is composed of the following:

Primary Government: Bremen Public Schools

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

Joint Ventures

The School Corporation is a participant with numerous schools in a joint venture to operate the Northern Indiana Educational Services (NIESC) which was created to provide educational services to the member schools. The School Corporation is obligated by contract to remit an annual fee based upon a formula per ADM to supplement NIESC. NIESC's continued existence depends on continued funding by the School Corporation. Complete financial statements for the NIESC can be obtained from the administrative office of NIESC, 56535 Magnetic Drive, Mishawaka, IN 46545.

The School Corporation is a participant with four other school corporations in a joint venture to operate North Central Indiana Special Education Cooperative (NCI) which was created to implement jointly operated services for the education of students with disabilities. The NCI's continued existence depends on continued funding through a federal grant program. Participating school corporations employ personnel and provide facilities for local special education programs housed within its boundaries. No fees are assessed member school corporations for the operation of this program, unless personnel or facilities are shared with another member school corporation. The School Corporation may be obligated for the debts of the Consortium should they not be covered by the grant. As of June 30, 2006, the NCI had \$546,208 payable to member school corporations. This balance resulted from selling the administration building and other sources. The School Corporation's share of this balance was \$40,226. Complete financial statements for the NCI can be obtained from its administrative office at One Administration Drive, Warsaw, IN 46581.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. However, there are no business-type activities to report at this time.

BREMEN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The rainy day fund is to account for transfers unused and unencumbered funds in accordance with Indiana Code 36-1-8-5 and a locally adopted resolution. The fund is subject to the same appropriation process as funds that receive tax money.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

Additionally, the School Corporation reports the following fund types:

The internal service fund is used to account for the payments of medical claims.

The pension trust fund accounts for receipts and disbursements concerning retirement/severance benefits authorized by statute.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

BREMEN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% 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 become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Compensated Absences

a. Sick Leave

Certified employees are authorized 9 days per year. Noncertified employees earn sick leave at the rate of 1 day per month. Unused sick leave may be accumulated to a maximum of 80 days plus current year's allotment for noncertified employees and 180 days for current year's allotment for certified teachers. Accumulated sick leave is paid to employees through cash payments upon retirement with at least 15 years of service in Bremen Public Schools.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 15 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

c. Personal Leave

School Corporation employees earn personal leave at the rate of 3 days per year. Unused personal leave may be added to an employee's sick leave balance provided it does not cause accumulated sick leave to exceed maximum.

BREMEN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

BREMEN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Cash and Investment Balance Deficits

At June 30, 2005 and 2006, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines and state statute.

BREMEN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund	2005	2006
Health Insurance	\$ 102,862	\$ 102,511
Retirement/ Severance Bond	122,890	100,300

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

Transfer From	Transfer To	2005	2006
General fund	Other governmental	\$ 2,132	\$ -
Capital Projects	Rainy Day	300,000	-
Other governmental	General fund	1,530	-
Other governmental	General fund	-	153,956
Other governmental	Other governmental	48,606	34,455
Totals		\$ 352,268	\$ 188,411

The School Corporation typically uses transfers to fund ongoing operating subsidies and to transfer the portion of state-shared revenues from the General Fund to the debt service fund for current-year debt service requirements.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

BREMEN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

The School Corporation unit has maintained a self insurance fund with a negative balance awaiting reimbursement from an insurance carrier. The unit no longer carries self insurance but will maintain this fund until an agreement is reached between the insurance carrier and the unit.

B. Holding Corporations

The School Corporation has entered into a capital lease with Bremen Middle School Corporation and the Bremen Public School Building Corporation (the lessors). The lessors were organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the government. Lease payments during the 2005-06 school year totaled \$1,173,578.

C. Subsequent Events

The School Corporation has taken bids and will be issuing bonds for the renovation of the K-8 and the high schools for an approximate cost of \$15,000,000.

D. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment medical benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 with at least 15 years of service. Currently, 13 retirees meet these eligibility requirements. The School Corporation provides the same portion of the monthly premium cost as it does for employees. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. Disbursements for postemployment benefits cannot be reasonably estimated.

E. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

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

BREMEN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

Annual required contribution	\$	41,739
Interest on net pension obligation		(6,370)
Adjustment to annual required contribution		7,259
Annual pension cost		42,628
Contributions made		72,089
Decrease in net pension obligation		(29,461)
Net pension obligation, beginning of year		(87,862)
Net pension obligation, end of year	\$	(117,323)
Contribution rates:		
School Corporation		5.88%
Plan members		3%
Actuarial valuation date		07-01-05
Actuarial cost method		Entry age
Amortization method		Level percentage of projected payroll, closed
Amortization period		40 years
Amortization period (from date)		07-01-97
Asset valuation method		75% of expected actuarial value plus 25% of market value

BREMEN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06-30-03	\$ 53,819	109%	\$ (61,200)
06-30-04	40,580	166%	(87,862)
06-30-05	42,628	178%	(117,323)

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

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF 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:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula,

BREMEN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$150,638, \$139,697, and \$136,983, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

BREMEN PUBLIC SCHOOLS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,087,798	\$ 1,097,320	\$ (9,522)	99%	\$ 840,354	(1%)
07-01-04	1,113,355	1,057,844	55,511	105%	969,276	6%
07-01-05	1,170,788	1,310,065	(139,277)	89%	1,128,474	(12%)

BREMEN PUBLIC SCHOOL CORPORATION
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF DEBT
 June 30, 2006

Description of Debt	Ending Balance	Within One Year
Governmental activities:		
Short-term:		
Tax anticipation warrants	\$ 737,708	\$ 737,708
Long-term:		
Capital leases:		
Elementary and middle school	1,515,000	537,318
High school	1,200,000	641,050
Notes and loans payable	187,500	83,438
Bonds payable:		
Retirement and severance	<u>1,670,000</u>	<u>153,818</u>
Total governmental activities long-term debt	<u>\$ 5,310,208</u>	<u>\$ 2,153,332</u>

BREMEN PUBLIC SCHOOLS
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The Pension Trust Fund was overdrawn, ending balances for June 30, 2005 and 2006 were \$122,890 and \$100,300, respectively.

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CAPITAL ASSET RECORDS

Information presented for audit did not indicate an inventory or record of capital assets was prepared.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

DEPOSIT INTACT (Elem-Middle and High Schools)

The textbook rental receipts did not indicate how monies were received, i.e. cash, check, or money order. We were unable to determine if monies were deposited in the same form they were received.

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

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

BREMEN PUBLIC SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 3, 2007, with Becky Beron, President of the School Board; Stephanie K. Pittman, Treasurer; and Russ Mikel, Superintendent of Schools. The officials concurred with our audit findings.