

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT

2005

PUTNAM COUNTY, INDIANA



FILED

08/10/2006

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Cash and Investments	6
Statement of Cash Activities	7
Fund Financial Statements:	
Governmental Funds:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Governmental Funds.....	8
Fiduciary Funds:	
Statement of Additions, Deductions, and Changes in Cash and Investments – Fiduciary Funds.....	9
Notes to Financial Statements	10-22
Required Supplementary Information:	
Schedules of Funding Progress.....	23
Other Reports.....	24
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	26-27
Schedule of Expenditures of Federal Awards.....	28
Notes to Schedule of Expenditures of Federal Awards	29
Schedule of Findings and Questioned Costs.....	30
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	31
Exit Conference.....	32

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Stephanie Campbell	01-01-05 to 12-31-08
Treasurer	Janet Deaton	01-01-03 to 12-31-06
Clerk	Opal Sutherlin	01-01-03 to 12-31-06
Sheriff	Mark Frisbie	01-01-03 to 12-31-06
Recorder	Marty Watts	01-01-03 to 12-31-06
President of the Board of County Commissioners	Gene Beck Dennis O'Hair	01-01-05 to 12-31-05 01-01-06 to 12-31-06
President of the County Council	Mitchell Proctor	01-01-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF PUTNAM COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Putnam County (County), as of and for the year ended December 31, 2005, as listed in the table of contents, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of the County'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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the County prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash 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.

As discussed in Note 1, the financial statements referred to above do not include a number of component units of the County which should have been included to fairly present the financial position of the County.

In our opinion, except that the omission of the component units of the County referred to in the preceding paragraph results in incomplete presentation, the financial statements referred to above present fairly, in all material respects, the cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of December 31, 2005, and the cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

The Schedules of Funding Progress as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

The County has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with Government Auditing Standards, we have also issued a report dated June 1, 2006, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This separate report is an integral part of an audit performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and, in considering the results of the audit, this report should be read along with the auditor's report on the financial statements.

Our audit was performed for the purpose of forming an opinion on the financial statements of the County 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

June 1, 2006



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF PUTNAM COUNTY, INDIANA

We have audited the financial statements of Putnam County (County), as of and for the year ended December 31, 2005, and have issued our report thereon dated June 1, 2006. The opinion to the financial statements was qualified due to the omission of component units of the County. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we 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 our audit and, accordingly, we do not express such an opinion. The results of our 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 our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 1, 2006

PUTNAM COUNTY
STATEMENT OF CASH ACTIVITIES
For The Year Ended December 31, 2005

Functions/Programs	Disbursements	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
General government	\$ 5,778,391	\$ 375,166	\$ 356,063	\$ 967,559	\$ (4,079,603)
Public safety	5,682,919	2,541,771	1,219,888	2,235	(1,919,025)
Highways and streets	3,957,764	-	2,878,090	-	(1,079,674)
Health and welfare	2,691,285	319,373	449,958	2,000	(1,919,954)
Capital outlay	2,177,321	-	-	-	(2,177,321)
Total primary government	\$ 20,287,680	\$ 3,236,310	\$ 4,903,999	\$ 971,794	(11,175,577)
General receipts:					
Property taxes					7,243,764
Economic development income taxes					400,000
Excise taxes					864,833
Financial institution tax					24,419
Unrestricted investment earnings					280,546
Other general receipts					2,573,783
Total general receipts					11,387,345
Change in net assets					211,768
Net assets - beginning					10,192,411
Net assets - ending					\$ 10,404,179

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

PUTNAM COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2005

	General	Hazardous Waste	County Highway	Cumulative Bridge	Other Governmental Funds	Totals
Cash and investments - January 1	\$ -	\$ 2,754,103	\$ 889,500	\$ 1,746,827	\$ 4,801,981	\$ 10,192,411
Operating receipts:						
Taxes	5,010,790	-	507,464	1,052,916	3,130,532	9,701,702
Intergovernmental	361,746	932,824	2,204,638	136,027	2,128,203	5,763,438
Charges for services	827,702	-	-	-	2,380,893	3,208,595
Fines and forfeits	-	-	-	-	154,747	154,747
Other	679,173	4,632	137,320	71,665	778,176	1,670,966
Total receipts	<u>6,879,411</u>	<u>937,456</u>	<u>2,849,422</u>	<u>1,260,608</u>	<u>8,572,551</u>	<u>20,499,448</u>
Operating disbursements:						
General government	3,520,651	-	-	-	2,257,740	5,778,391
Public safety	3,054,058	51,639	-	-	2,577,222	5,682,919
Highways and streets	-	-	2,990,793	-	966,971	3,957,764
Health and welfare	304,702	-	-	-	2,386,583	2,691,285
Capital outlay	-	-	-	853,864	1,323,457	2,177,321
Total disbursements	<u>6,879,411</u>	<u>51,639</u>	<u>2,990,793</u>	<u>853,864</u>	<u>9,511,973</u>	<u>20,287,680</u>
Excess (deficiency) of total receipts over (under) total disbursements	<u>-</u>	<u>885,817</u>	<u>(141,371)</u>	<u>406,744</u>	<u>(939,422)</u>	<u>211,768</u>
Cash and investments - December 31	<u>\$ -</u>	<u>\$ 3,639,920</u>	<u>\$ 748,129</u>	<u>\$ 2,153,571</u>	<u>\$ 3,862,559</u>	<u>\$ 10,404,179</u>

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

PUTNAM COUNTY
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended December 31, 2005

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments - January 1	\$ 1,301,327	\$ 25,038	\$ 2,338,915
Additions:			
Contributions:			
Employer	96,105	-	-
Plan members	<u>18,066</u>	<u>-</u>	<u>-</u>
Total contributions	<u>114,171</u>	<u>-</u>	<u>-</u>
Investment earnings:			
Net increase in fair value of investments	79,376	-	-
Interest and dividends	<u>690</u>	<u>202</u>	<u>-</u>
Total investment earnings	80,066	202	-
Less investment expense	<u>-</u>	<u>-</u>	<u>-</u>
Net investment earnings	<u>80,066</u>	<u>202</u>	<u>-</u>
Other receipts	15,396	-	-
Agency fund additions	<u>-</u>	<u>-</u>	<u>119,254,747</u>
Total additions	<u>209,633</u>	<u>202</u>	<u>119,254,747</u>
Deductions:			
Benefits	54,193	-	-
Administrative expense	4,945	-	-
Other deductions	4,200	240	-
Agency fund deductions	<u>-</u>	<u>-</u>	<u>117,270,189</u>
Total deductions	<u>63,338</u>	<u>240</u>	<u>117,270,189</u>
Excess (deficiency) of total additions over (under) total deductions	<u>146,295</u>	<u>(38)</u>	<u>1,984,558</u>
Cash and investments - December 31	<u>\$ 1,447,622</u>	<u>\$ 25,000</u>	<u>\$ 4,323,473</u>

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

PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The County was established under the laws of the State of Indiana. The County operates under a Council-Commissioner form of government and provides the following services: public safety (police), highways and streets, health welfare and social services, culture and recreation, public improvements, planning and zoning, and general administrative services.

These financial statements present the County (primary government).

Management has chosen to omit from these financial statements component units which have significant operational or financial relationships with the County. Accordingly, the financial statements do not include the data of all of the County's component units necessary to fairly present the financial position of the County.

B. Government-Wide and Fund Financial Statements

Government-wide financial statements, (i.e., the Statement of Cash and Investments and the Statement of Cash Activities) report information on all of the nonfiduciary activities of the County. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. However, there are no business-type activities to report at this time.

The Statement of Cash Activities demonstrates the degree to which direct disbursements of a given function or segment are offset by program receipts. Direct disbursements are clearly identifiable with a specific function or segment. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program receipts are reported instead as general receipts.

Separate financial statements are provided for governmental 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 County has not established any enterprise funds.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide, governmental fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash 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. Receipts are recorded when received and disbursements are recorded when paid.

The cash basis of accounting differs from accounting principles generally accepted in the United States 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.

PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

The County reports the following major governmental funds:

The general fund is the County's primary operating fund and accounts for all financial resources of the County, except those required to be accounted for in another fund.

The hazardous waste fund accounts for the County's portion of the State tax imposed on the disposal of taxable hazardous waste in a facility located in the County. Indiana Code 6-6-6.6-3 outlines exactly for what purposes the fund may be used.

The county highway fund is used for the construction, reconstruction and maintenance of the county's highways, including the purchase, rental and repair of equipment, acquisition of rights of way, and purchase of supplies necessary to carry out the construction, reconstruction and maintenance of the highways.

The cumulative bridge fund accounts for the cost of the construction, repair and maintenance of bridges, approaches, and grade separations.

Additionally, the County reports the following fund types:

The pension trust funds account for the activities of the sheriff's pension trust and the sheriff's benefit pension funds, which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the school corporations in Putnam County.

Agency funds account for assets held by the County as an agent for other local governmental units and the State of Indiana and serve as control of accounts for certain cash transactions during the time they are a liability to the County.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

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

D. Assets and Net Assets or Equity

1. Deposits and Investments

State statute (IC 5-13-9) authorizes the County to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Governmental and Fiduciary Funds

Investments are stated at cost. Any changes in the 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 County 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 County on or prior to December 31 of the year collected.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 6 days per year. Unused sick leave may be accumulated to a maximum of 60 days. Accumulated sick leave earned after January 1, 1999, is paid to employees through cash payments upon retirement.

b. Vacation Leave

Employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 20 days. Accumulated vacation leave is paid to employees through cash payments upon termination.

c. Personal Leave

Employees earn personal leave at the rate of 2 days per year. Personal leave does not accumulate from year to year.

4. Reclassified Prior Year Data

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

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. All annual appropriations lapse at calendar year end.

PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

On or before August 31, the fiscal officer of the County submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the County receives approval of the Indiana Department of Local Government Finance.

The County's management cannot transfer budgeted appropriations without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the total appropriations for any budgeted fund or any department of the general fund. The legal level of budgetary control is by function for all budgeted funds.

B. Cash and Investment Balance Deficits

Cash and investment balance deficits for governmental and fiduciary funds arise primarily from disbursements exceeding receipts due to the underestimate of current requirements. These deficits are not shown on the financial statements since they have been offset by temporary loans from other funds. The cash and investment balance deficits at December 31, 2005, are:

Fund	Amount
General	\$ 299,571
County Health	28,051
Local Health Maintenance	4,660
Community Transition	2,635
Vicitms Assistance	1,572
Bioterrorism Coordinator Grant	8,948
Payroll Withholdings	76,639
Total	\$ 422,076

III. Detailed Notes on All Funds

A. Deposits and Investments

1. 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.

PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2005, the County had the following investments:

Investment Type	Sheriff's Retirement and Benefit Pension Plans Market Value	Investment Maturities (in Years)		
		Less Than 1	1-2	More Than 2
U.S. Treasuries and Securities	\$ 72,777	\$ 50,637	\$ -	\$ 22,140
U.S. Agencies	144,511	19,769	46,178	78,564
Corporate Bonds	498,871	39,962	55,035	403,874
Corporate Stock	826,385	-	-	-
Totals	<u>\$ 1,542,544</u>	<u>\$ 110,368</u>	<u>\$ 101,213</u>	<u>\$ 504,578</u>

Investment Policies

Indiana Code 5-13-9 authorizes the County to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the County and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise; or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the County may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a formal investment policy for custodial credit risk for investments. At December 31, 2005, the County held investments in U.S. Government securities, corporate stocks and bonds, in the amount of \$1,286,073. Of these investments none were held by the counterparty's trust department or agent.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The County must follow state statute and limit the stated final maturities of the investments to no more than two years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below.

<u>Standard and Poor's Rating</u>	<u>Moody's Rating</u>	<u>Corporate Bonds</u>
AAA	Aaa	\$ 60,212
AA	Aa	115,134
A	A	111,262
BBB	Baa	20,097
		<u>185,085</u>
Total		<u>\$ 491,790</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The County does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

Foreign Currency Risk

The County does not have a formal policy in regards to foreign currency risk.

PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Capital Assets

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

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), are as follows:

	Capitalization Threshold
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Machinery and equipment	1,000

Capital asset activity for the year ended December 31, 2005, follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 500,000	\$ -	\$ -	\$ 500,000
Buildings	7,714,701	-	-	7,714,701
Machinery and equipment	4,805,540	-	-	4,805,540
Construction in progress	12,354	-	-	12,354
Total governmental activities, capital assets not being depreciated	\$ 13,032,595	\$ -	\$ -	\$ 13,032,595

The County has decided to delay the retroactive reporting of infrastructure until January 2007.

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2005</u>	<u>Committed</u>	<u>Required Future Funding</u>
Airport Improvement Project - Taxiway	\$ 2,920,329	\$ 1,673,193	\$ -	\$ -

PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Leases

Capital Leases

The County has entered into various capital leases for buildings and several pieces of equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2005, for the years ended December 31, are as follows:

2006	\$	644,268
2007		640,848
2008		638,161
2009		706,735
2010		812,525
2011-2015		2,389,970
2016-2018		<u>1,204,360</u>
Total minimum lease payments		7,036,867
Less amount representing interest		<u>1,640,307</u>
Present value of net minimum lease payments		<u><u>\$ 5,396,560</u></u>

The assets acquired through capital leases still in effect are as follows:

		<u>Governmental Activities</u>
Buildings	\$	6,199,700
Machinery and equipment		<u>1,210,228</u>
Total	\$	<u><u>7,409,928</u></u>

F. Long-Term Liabilities

1. Notes and Loans Payable

The County has entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$16,774, \$1,893 and \$31,289, respectively, as of December 31, 2005, for the years ended December 31, are as follows:

PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>Highway Equipment</u>	<u>Aviation Hangar</u>	<u>Aviation Fuel Farm</u>	<u>Total</u>
2006	\$ 84,319	\$ 8,343	\$ 16,106	\$ 108,768
2007	80,591	8,342	16,107	105,040
2008	76,864	8,342	16,106	101,312
2009	-	-	16,107	16,107
2010	-	-	16,107	16,107
Thereafter	-	-	80,533	80,533
Totals	<u>\$ 241,774</u>	<u>\$ 25,027</u>	<u>\$ 161,066</u>	<u>\$ 427,867</u>

2. Changes in Long-Term Debt

Long-term debt activity for the year ended December 31, 2005, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Capital leases	\$ 5,697,379	\$ 267,723	\$ 568,542	\$ 5,396,560	\$ 420,934
Loans payable	470,522	-	92,611	377,911	93,151
Total governmental activities long-term liabilities	<u>\$ 6,167,901</u>	<u>\$ 267,723</u>	<u>\$ 661,153</u>	<u>\$ 5,774,471</u>	<u>\$ 514,085</u>

G. Restatements and Reclassifications

For the year ended December 31, 2005, certain changes have been made to the financial statements to more appropriately reflect financial activity of the County. The following schedule presents a summary of restated beginning balances by fund type.

<u>Fund Type</u>	<u>Balance as Reported December 31, 2004</u>	<u>Fund Reclassification</u>	<u>Balance as Restated January 1, 2005</u>
Welfare Family and Children	\$ 638,347	\$ (638,347)	\$ -
Other governmental funds	4,163,634	638,347	4,801,981

IV. Other Information

A. Risk Management

The County 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.

PUTNAM COUNTY
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.

B. Administration of Welfare Programs

The County is required to provide certain funding for administrative costs of welfare programs, the Hospital Care for Indigent Program, Medical Assistance to Wards and Children with Special Health Care Needs through local property tax levies. The County remits those taxes to the State, which pays the cost.

C. Pension Plans

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

a. Public Employees' Retirement Fund

Plan Description

The County 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 County 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 three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

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 County's annual pension cost and related information, as provided by the actuary, is presented in this note.

PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

b. County Police Retirement Plan

Plan Description

The primary government contributes to the County Police Retirement Plan, which is a single-employer defined benefit pension plan. With the approval of the primary government's fiscal body, the plan is administered by the sheriff's department and an appointed trustee as authorized by state statute (IC 36-8-10-12) for full-time police officers. The plan provides retirement, death, and disability benefits to plan members and beneficiaries. The trustee issues a publicly available financial report that includes financial statements and required supplementary information of the plan. The report may be obtained by contacting the County Sheriff.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the County Police Retirement Plan are established by state statute. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

c. County Police Benefit Plan

Plan Description

The primary government contributes to the County Police Benefit Plan which is a single-employer defined benefit pension plan. With the approval of the primary government's fiscal body, the plan is administered by the sheriff's department and an appointed trustee as authorized by state statute (IC 36-8-10-12) for full-time police officers. The plan provides dependent pensions, life insurance, and disability benefits to plan members and beneficiaries. The trustee issues a publicly available financial report that includes financial statements and required supplementary information of the plan. The report may be obtained by contacting the County Sheriff.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the County Police Benefit Plan are established by state statute. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plans

	<u>PERF</u>	<u>County Police Retirement Plan</u>	<u>County Police Benefit Plan</u>
Annual required contribution	\$ 189,480	\$ 79,770	\$ 9,463
Interest on net pension obligation	(5,166)	203	-
Adjustment to annual required contribution	<u>5,887</u>	<u>(313)</u>	<u>-</u>
Annual pension cost	190,201	79,660	9,463
Contributions made	<u>192,450</u>	<u>85,876</u>	<u>9,463</u>
Decrease in net pension obligation	(2,249)	(6,216)	-
Net pension obligation, beginning of year	<u>(71,256)</u>	<u>2,899</u>	<u>-</u>
Net pension obligation, end of year	<u>\$ (73,505)</u>	<u>\$ (3,317)</u>	<u>\$ -</u>

	<u>PERF</u>	<u>County Police Retirement Plan</u>	<u>County Police Benefit Plan</u>
Contribution rates:			
County	4.5%	16%	2%
Plan members	3%	none	none
Actuarial valuation date	07-01-05	01-01-05	01-01-05
Actuarial cost method	Entry age	Aggregate	Aggregate
Amortization method	Level percentage of projected payroll, closed	*	*
Amortization period	40 years	*	*
Amortization period (from date)	07-01-97	*	*
Asset valuation method	4 year smoothed market	Market	Market

*The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities. The actuarial present value of projected benefits of the group in excess of the actuarial value of assets is allocated on a level basis over the earning of the group.

PUTNAM COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions	PERF	County Police Retirement Plan	County Police Benefit Plan
Investment rate of return	7.25%	7%	7%
Projected future salary increases:			
Total	5%	5%	5%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	1%	1%
Cost-of-living adjustments	2%	2%	0%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 190,674	90%	\$ (51,320)
	06-30-04	163,926	112%	(71,256)
	06-30-05	190,201	117%	(73,505)
County Police Retirement Plan	12-31-02	45,007	71%	(3,848)
	12-31-03	62,321	89%	2,899
	12-31-04	79,770	108%	(3,317)
County Police Benefit Plan	12-31-02	7,867	100%	-
	12-31-03	6,888	100%	-
	12-31-04	9,463	100%	-

PUTNAM COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES 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)
07-01-02	\$ 2,747,335	\$ 2,950,759	\$ (203,424)	93%	\$ 3,466,878	(6%)
07-01-03	2,801,838	2,770,812	31,026	101%	3,720,905	1%
07-01-04	2,875,746	3,023,334	(147,588)	95%	3,896,124	(4%)

County Police Retirement Pension Plan

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)
01-01-03	\$ 1,270,688	\$ 1,270,688	-	100%	\$ 421,044	0%
01-01-04	1,284,767	1,284,767	-	100%	431,731	0%
01-01-05	1,348,400	1,348,400	-	100%	490,042	0%

PUTNAM COUNTY
OTHER REPORTS

The annual report presented herein was prepared in addition to other official reports prepared for the individual County offices listed below:

County Auditor
Board of County Commissioners
County Department of Aviation
County Home
County Planning Commission
County Sheriff

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF PUTNAM COUNTY, INDIANA

Compliance

We have audited the compliance of the Putnam County (County) 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, 2005. The County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County 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, 2005.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 1, 2006

PUTNAM COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2005

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Pass-Through Indiana Criminal Justice Institute Juvenile Accountability Incentive Block Grant	16.523	03-JB-050	\$ 14,467
Crime Victim Assistance	16.575	04-VA-132 05-VA-109	15,374 <u>16,709</u>
Total for program			<u>32,083</u>
Violence Against Women Formula Grants Program	16.588	04ST047 04ST048 05ST045	7,483 14,473 <u>13,533</u>
Total for program			<u>35,489</u>
Total for federal grantor agency			<u>82,039</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Direct grant Airport Improvement Program	20.106	3-18-0030-06 3-18-0030-07 3-18-0030-08	1,692 307,676 <u>319,242</u>
Total for program			<u>628,610</u>
Pass-Through Indiana Department of Transportation Highway Planning and Construction	20.205	BRO-9967(018) BR-NBIS(495)	98,337 <u>43,056</u>
Total for program			<u>141,393</u>
Total for federal grantor agency			<u>770,003</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana State Department of Health Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	BPRS-166-1 BPRS-166-2	14,856 <u>41,817</u>
Total for program			<u>56,673</u>
Pass-Through Indiana Family and Social Services Administration Child Support Enforcement Child Support Expenditures Incentive Expenditures Indirect Costs	93.563		137,006 43,519 <u>24,755</u>
Total for program			<u>205,280</u>
Total for federal grantor agency			<u>261,953</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security State Domestic Preparedness Equipment Support Program	97.004		<u>355,337</u>
Public Assistance Grants	97.036	Disaster No. 1573	<u>177,248</u>
Total for federal grantor agency			<u>532,585</u>
Total federal awards expended			<u>\$ 1,646,580</u>

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

PUTNAM COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Putnam County (County) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the County provided federal awards to subrecipients as follows for the year ended December 31, 2005:

Program Title	Federal CFDA Number	2005
STOP Violence Against Women Formula Grants Program	16.588	\$ 35,489

PUTNAM COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Qualified

Internal control over financial reporting:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:
 Material weaknesses identified? no
 Reportable conditions identified that are not considered to be material weaknesses? 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? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program
97.004	State Domestic Preparedness Equipment Support

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

PUTNAM COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

PUTNAM COUNTY
EXIT CONFERENCE

The contents of this report were discussed on June 1, 2006, with Gene Beck, Commissioner; and Stephanie Campbell, Auditor.