

**OSAGE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

March 28, 2007

TO THE CITIZENS OF
OSAGE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Osage County, Oklahoma, for the fiscal year ended June 30, 2005. A report of this type is critical in nature; however, we do not intend to imply that our audit failed to disclose commendable features in the present accounting and operating procedures of the County.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our audit.

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMahon". The signature is stylized with a large, flowing "J" and "M".

JEFF A. McMAHAN
State Auditor and Inspector

OSAGE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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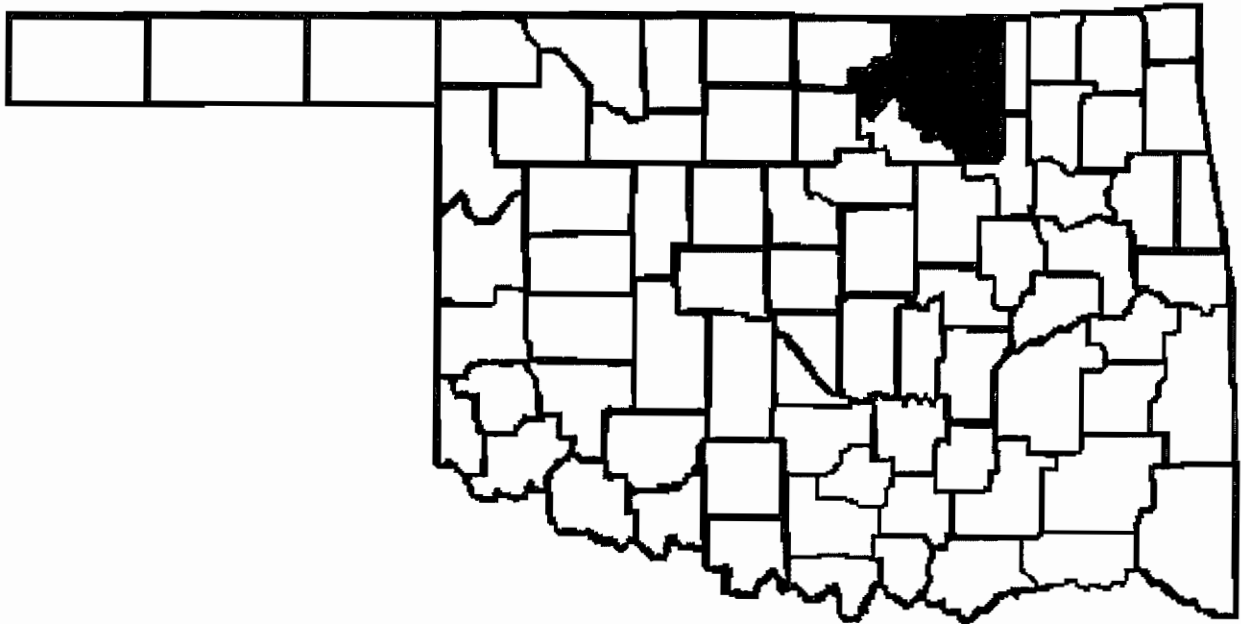
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OSAGE COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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REPORT TO THE CITIZENS
OF
OSAGE COUNTY, OKLAHOMA



In 1872, the United States Government purchased land from the Cherokee Nation for the Osage Nation and it was then that the tribe moved to Indian Territory. At statehood, in 1907, this Osage Reservation became Osage County, the largest county in Oklahoma. Oil and gas, as well as horse and cattle ranching on the famous bluestem grass, contribute to the economy of Osage County. Attractions include Indian and western cultural activities, museums, lakes, creeks, rivers, the Tall Grass Prairie Reserve, the Osage Tribal Museum and Headquarters in Pawhuska, and Osage Hills State Park.

County Seat – Pawhuska

Area–2,303.80 Square Miles

County Population – 45,181
(2004 est.)

Farms – 1,420

Land in Farms – 1,186,354 Acres

Primary Source: Oklahoma Almanac 2005-2006

See independent auditor's report.

**OSAGE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

COUNTY ASSESSOR

Gail Hedgcoth
(D) Pawhuska

The County Assessor has the responsibility to appraise and assess the real and personal property within the county for the purpose of ad valorem taxation. Also, the County Assessor is required to compute the ad valorem taxes due on all taxable property. The County Assessor appraises all the taxable real and personal property according to its fair cash value for which the property is actually being used as of January 1 of the taxable year at the percentages provided for in Article 10, § 8 of the Oklahoma Constitution.

The County Assessor is required to build and maintain permanent records of the taxable real property and tax exempt real property within the county. Information entered on each record includes the property's legal description, owner's name and address, and the homestead exemption status of the owner.

COUNTY CLERK

Denny Hutson
(D) Pawhuska

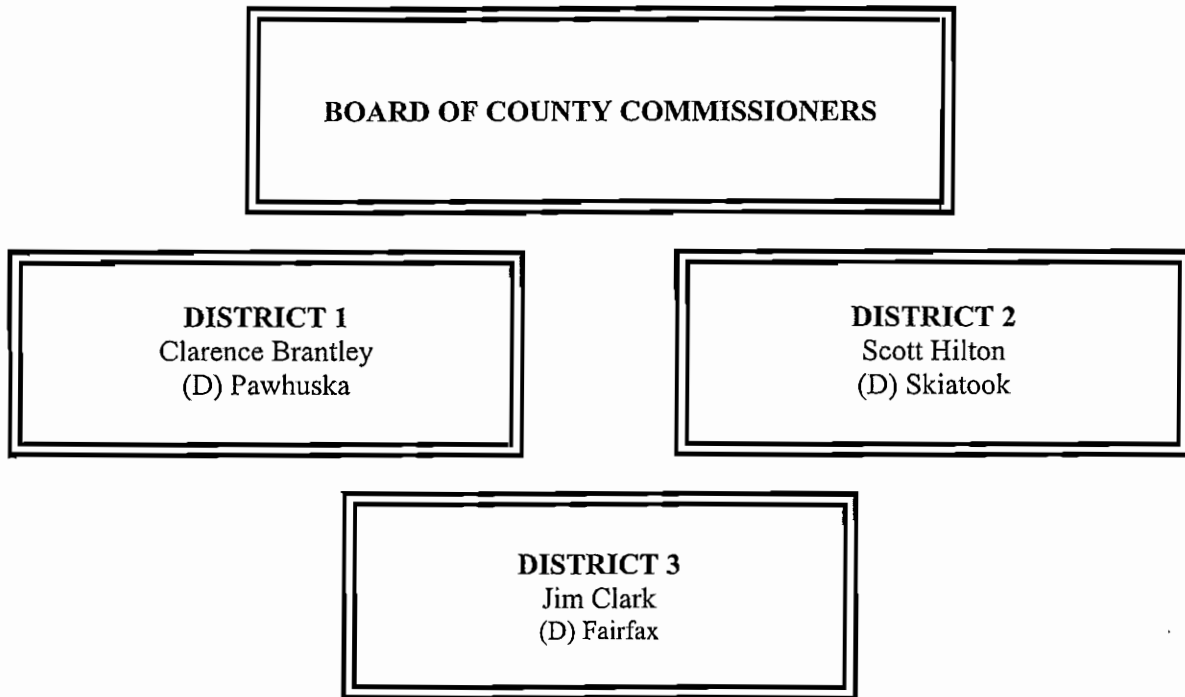
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

The County Clerk reviews all the claims for payment of goods and services purchased or contracted by the county, and prepares the proper warrants for payment of those goods and services and the county payroll. The County Clerk, or his or her designated deputy, serves as the purchasing agent for the county. This system is a means to ensure the public that tax dollars are being spent appropriately.

Various records within the different county offices are classified as "open records." As such, they can be reviewed and mechanically copied by the public.

See independent auditor's report.

**OSAGE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**



The Board of County Commissioners is the chief administrative body for the county. County Commissioners are also responsible for maintaining and constructing the county roads and bridges.

The Commissioners must act as a Board when entering into contracts or other agreements affecting the county's welfare. Thus, actions taken by the Board are voted on and approved by a majority of the Commissioners. The Board of County Commissioners' business meetings are open to the public.

As the county's chief administrative body, the three County Commissioners must make major financial decisions and transactions. The Board has the official duty to ensure the fiscal responsibility of the other county officers who handle county funds. The review and approval procedures empowered to the Board of County Commissioners are a means to provide the public with a fiscally efficient system of county government.

See independent auditor's report.

**OSAGE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

COUNTY SHERIFF

Ty Koch
(D) Pawhuska

The County Sheriff is responsible for preserving the peace and protecting life and property within the county's jurisdiction. As the county's chief law enforcement officer, the Sheriff has the power and authority to suppress all unlawful disturbances, to apprehend and secure persons charged with felony or breach of peace, and to operate the county jail.

The County Sheriff has the responsibility of serving warrants and processing papers ordered by the District Court.

COUNTY TREASURER

Joyce Hathcoat
(D) Pawhuska

All collections by county government from ad valorem taxes and other sources are deposited with the County Treasurer. The County Treasurer collects ad valorem taxes for the county and its political subdivisions. The County Treasurer is authorized to issue delinquent personal property tax warrants and to impose tax liens on real property for delinquent taxes.

To account for county collections and disbursements, the County Treasurer is required to maintain an accurate record of all the monies received and disbursed. The State Auditor and Inspector's Office prescribes all the forms used by the County Treasurer, and at least twice a year inspects the County Treasurer's accounts.

See independent auditor's report.

**OSAGE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

COURT CLERK

Angie Bruce
(D) Pawhuska

The Court Clerk has the primary responsibility to record, file, and maintain as permanent records the proceedings of the District Court.

Court proceedings are recorded in the appropriate journal or record docket. All the court proceedings are public information except those related to juvenile, guardianship, adoption, and mental health cases.

The Court Clerk issues marriage licenses, passports, notary certificates, beer and pool hall licenses, and private process server licenses.

Monies from the court fund are identified for distribution by the Court Clerk to the appropriate units of county and state government. Court Clerks use forms and follow procedures prescribed by the Court Administrator's Office, the Oklahoma Supreme Court, and the State Auditor and Inspector.

DISTRICT ATTORNEY

Larry D. Stuart
(D) Hominy

As the chief attorney for county government, the District Attorney acts as the legal advisor to the county officers on matters related to their duties. The District Attorney represents the county in civil litigation. County officials may call upon the District Attorney to clarify a law or request an official interpretation from the Attorney General.

See independent auditor's report.

**OSAGE COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

ELECTION BOARD SECRETARY

Renee Weyl

(D) Burbank

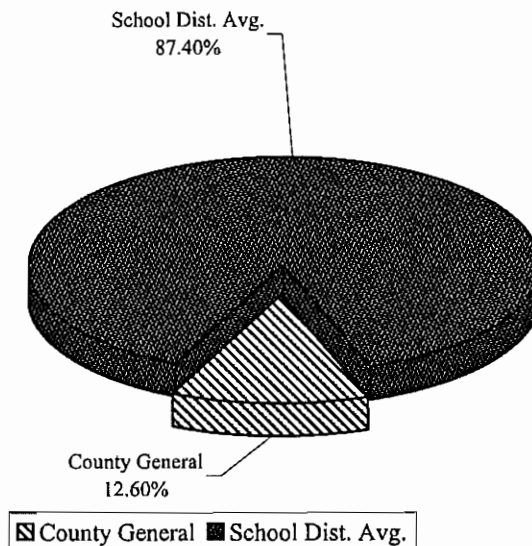
The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within the county.

To finance the operation of the County Election Board, the County Excise Board must appropriate sufficient funds annually. The state and counties split the election costs, but counties must pay for any county elections not held concurrently with state elections.

See independent auditor's report.

**OSAGE COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



County-Wide Millages			School District Millages					
Co. General	10.00		Gen.	Bldg.	Skg.	Career Tech	Common	Total
		Pawhuska	I-1	35.00	5.00	17.29		61.29
		Osage Hills	I-5	35.00	5.00	5.67	15.00	64.67
		Bowring	I-9	35.00	5.00			44.00
		Shidler	I-35	35.00	5.00	7.33		51.33
<u>Towns and Cities</u>								
Tulsa	10.11	Barndall	I-48	35.00	5.00	14.40	15.00	73.40
Sand Springs	10.11	Wyona	I-54	35.00	5.00	18.97	15.00	77.97
Anderson	7.92	Avant	J-1	35.00	5.00	2.62	15.00	61.62
Dewey	9.6	Hominy	J-2	35.00	5.00	24.02	13.00	81.02
Bartlesville	9.6	Prue	J-10	35.00	5.00	20.31		64.31
		Anderson	J-15	35.00	5.00	9.85		53.85
		McCord	J-31	35.00	5.00	9.47	15.00	68.47
		Woodland		35.00	5.00	7.66		51.66
		Tulsa		35.00	5.00	23.71	13.00	80.71
		Sand Springs		35.00	5.00	31.19	13.00	88.19
		Skiatook		35.00	5.00	19.47	13.00	76.47
		Sperry		35.00	5.00	24.37	13.00	81.37
		Dewey		35.00	5.00	17.62	15.00	76.62
		Cleveland		35.00	5.00	29.61	13.00	86.61
		Caney Valley		35.00	5.00	11.61	15.00	70.61
		Bartlesville		35.00	5.00	19.24	15.00	78.24
		Ponca City		35.00	5.00	19.60		63.60

See independent auditor's report.

**OSAGE COUNTY, OKLAHOMA
COMPUTATION OF LEGAL DEBT MARGIN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

Total net assessed value as of January 1, 2004		<u>\$ 176,843,065</u>
Debt limit - 5% of total assessed value		8,842,153
Total bonds outstanding	-	
Total judgments outstanding	-	
Less cash in sinking fund	<u>2,111</u>	<u>-</u>
Legal debt margin		<u>\$ 8,842,153</u>

See independent auditor's report.

OSAGE COUNTY, OKLAHOMA
**RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
 VALUE AND NET BONDED DEBT PER CAPITA
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005
 (UNAUDITED)**

	<u>2005</u>
Estimated population	<u>45,181</u>
Net assessed value as of January 1, 2004	<u>\$ 176,843,065</u>
Gross bonded debt	-
Less available sinking fund cash balance	<u>2,111</u>
Net bonded debt	<u>\$ -</u>
Ratio of net bonded debt to assessed value	<u>0.00%</u>
Net bonded debt per capita	<u>\$ -</u>

See independent auditor's report.

**OSAGE COUNTY, OKLAHOMA
ASSESSED VALUE OF PROPERTY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

<u>Valuation Date</u>	<u>Personal</u>	<u>Public Service</u>	<u>Real Estate</u>	<u>Homestead Exemption</u>	<u>Net Value</u>	<u>Estimated Fair Market Value</u>
1/1/2004	\$27,424,033	\$26,600,321	\$133,201,876	\$10,383,165	\$176,843,065	\$1,473,692,208

See independent auditor's report.

FINANCIAL SECTION



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

Independent Auditor's Report

TO THE OFFICERS OF
OSAGE COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Osage County, Oklahoma, as of and for the year ended June 30, 2005, listed in the table of contents as the basic financial statement. This financial statement is the responsibility of Osage County's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 opinion. Oklahoma Statutes, in addition to audit responsibilities, assign other responsibilities to the State Auditor and Inspector's Office. Those responsibilities include providing various information technology (IT) support for county government.

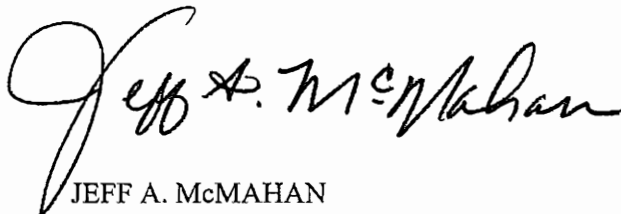
As described in Note 1, this financial statement was prepared using accounting practices prescribed or permitted by Oklahoma state law, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Osage County as of June 30, 2005, or changes in its financial position for the year then ended.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash of Osage County, for the year ended June 30, 2005, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2006, on our consideration of Osage County's internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the combined total of all funds within the basic financial statement taken as a whole. The combining information is presented for purposes of additional analysis rather than to present the receipts, disbursements, and cash balances of the individual funds. Also, the other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the basic financial statement. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 basic financial statement. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statement taken as a whole. The information listed in the table of contents under Introductory Section has not been audited by us, and accordingly, we express no opinion on it.

A handwritten signature in black ink, reading "Jeff A. McMahon". The signature is written in a cursive, flowing style with a large initial "J".

JEFF A. McMAHAN
State Auditor and Inspector

October 23, 2006

Basic Financial Statement

OSAGE COUNTY, OKLAHOMA
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
(WITH COMBINING INFORMATION)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Combining Information:	Beginning Cash Balances July 1, 2004	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2005
County General Fund	\$ 1,591,804	\$ 2,712,645	\$ 3,088,780	\$ 1,215,669
T-Highway	2,360,289	5,957,218	6,182,388	2,135,119
Resale Property	572,627	200,474	128,880	644,221
County Health for the Elderly	33,065	1,288	34,163	190
Special Insurance	48,697		1	48,696
Sheriff Equipment	832			832
Sheriff B-4	85,139	198,618	131,800	151,957
Records Mgmt & Preserv Fund	115,905	55,571	27,160	144,316
Clerk's ML Fund	32,125	13,126	588	44,663
Treasurer's Mortgage Cert Fee	52,199	12,545	2,377	62,367
Special E-911 Fund	33,288	12,836	9,725	36,399
CDBG Water Grant		6,396	6,396	
Community Service	6,715	120	1,305	5,530
Capital Outlay and Equipment	1,037			1,037
Osage Co. Nutrition Program	63,230	160,422	221,650	2,002
County Assessor Cash Fund	14,833	8,524	13,732	9,625
Nutrition Program 04/05 FY		434,034	381,168	52,866
Nutrition Program 02/03 FY	7			7
Sheriff Cash/Jail Account	176,375	195,820	244,927	127,269
Osage Co. Trash Cop	240			240
Law Enforcement Block Grant	5,882		4,018	1,864
County Building Fund	1,013			1,013
County Sinking Fund	2,099	12		2,111
Sales Tax (1%)	6,672,172	2,815,215	2,407,006	7,080,380
Use Tax	777,188	808,513	781,897	803,804
Emergency Mgmt EOP Grant	24			24
Emergency Mgmt (EMPG)	6,215		6,215	
Combined Total--All County Funds	\$ 12,653,000	\$ 13,593,377	\$ 13,674,176	\$ 12,572,201

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

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. Summary of Significant Accounting Policies

A. Reporting Entity

Counties were created by the Constitution of Oklahoma. One county officer is appointed; however, most county officers are locally elected by their constituents. All county powers are delegated by the state.

The accompanying basic financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds of Osage County, Oklahoma. The funds presented as line items are not a part of the basic financial statement, but have been included as supplementary information within the basic financial statement. These separate funds are established by statute, and their operations are under the control of the County officials. The general fund is the County's general operating fund, accounting for all financial resources except those required to be accounted for in another fund. The other funds presented account for financial resources whose use is restricted for specified purposes.

B. Fund Accounting

The County uses funds to report on receipts, disbursements, and changes in cash balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Following are descriptions of the funds included as supplementary information within the financial statement:

County General Fund - revenues are from ad valorem taxes, officers' fees, interest earnings, and miscellaneous collections of the County. Disbursements are for the general operations of the County.

T-Highway - revenues are from state imposed fuel taxes and disbursements are for the maintenance and construction of county roads and bridges.

Resale Property - revenues are from interest and penalties on delinquent ad valorem taxes. Disbursements are to offset the expense of collecting delinquent ad valorem taxes.

County Health for the Elderly - accounts for monies collected for performing health and related services for the elderly. Disbursements are for expenditures for performing these services.

Special Insurance - accounts for insurance reimbursements received for damages to county property. Disbursements were for repairs to county property.

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Sheriff Equipment - accounts for donations received for the purpose of purchasing special equipment for the Sheriff's department.

Sheriff B-4 - accounts for the collection and disbursement of sheriff process service fees as restricted by statute.

Records Management & Preservation Fund - revenues are from a fee charged by the County Clerk for recording instruments. Disbursements are for the maintenance and preservation of public records.

Clerk's ML Fund - revenues are from a fee charged by the County Clerk for filing liens. Disbursements are for any lawful expense of the County Clerk's office.

Treasurer's Mortgage Certification Fee - revenues are from a fee for certifying mortgages. Disbursements are for any lawful expense of the Treasurer's office.

Special E-911 Fund - accounts for the collection of fees charged on telephone bills for the County's emergency 911 system. Disbursements are for expenditures related to providing these services.

CDBG Water Grant - accounts for grant funds received for community development of water district projects.

Community Service - revenues are from state funds for reimbursement of administrative expenses for people sentenced to community service.

Capital Outlay and Equipment - accounts for the collection and disbursement of funds collected to support capital improvements.

Osage County Nutrition Program - accounts for the collection and disbursement of funds collected to support capital improvements.

County Assessor Cash Fund - revenues are from fees charged by the County Assessor (copies, etc.). Disbursements are for any legal expense of the Assessor's office.

Nutrition Program FY 04/05 - accounts for the collection and disbursement of federal and state funds received for the nutrition program during fiscal year 2004/2005.

Nutrition Program FY 02/03 - accounts for the collection and disbursement of federal and state grant funds received for the nutrition program during fiscal year 2002/2003.

OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Sheriff Cash/Jail Account - accounts for the collection and disbursement of money supplied to the Sheriff's office for the housing of prisoners for towns, tribes and other counties. This money can be used for any lawful sheriff expenditure.

Osage County Trash COP - accounts for monies collected from fines and apportionments used to prevent the dumping of trash throughout the County.

Law Enforcement Block Grant - accounts for the collection and disbursement of grant money supplied to the County by the Department of Justice for local law enforcement agencies.

County Building Fund - accounts for funds remaining from building projects.

County Sinking Fund - revenues are from any special ad valorem tax levies, interest, and flood control funds from the state. Disbursements are for the payment of principal and interest on any judgments against the County.

Sales Tax 1% - accounts for sales tax collections received for operating and maintaining the County jail.

Use Tax - accounts for receipts of Oklahoma Tax Commission collections of county use tax. Disbursements are made for the construction, purchase, and/or maintenance of county buildings.

Emergency Management EOP Grant - accounts for the receipt and disbursement of funds from federal and state sources for emergency management and other civil defense purposes.

Emergency Management (EMPG) - accounts for the receipt and disbursement of funds from state and local governments for emergency management and other civil defense purposes.

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including school districts and cities and towns. The cash receipts and disbursements attributable to those other entities do not appear in funds on the County's financial statement; those funds play no part in the County's operations.

C. Basis of Accounting

The basic financial statement is prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred. This cash basis financial presentation is not a comprehensive measure of economic condition or changes therein.

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

D. Budget

Under current Oklahoma Statutes, the general fund and the county health department fund are the only funds required to adopt a formal budget. On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved by fund, office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

For the highway funds and other funds, which are not required to adopt a formal budget, appropriations are made on a monthly basis, according to the funds then available.

E. Cash

The County pools the cash of its various funds in maintaining its bank accounts. However, cash applicable to a particular fund is readily identifiable on the County's books. The balance in the pooled cash accounts is available to meet current operating requirements.

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County's deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

F. Investments

The County Treasurer has been authorized by the County's governing board to make investments. By statute (62 O.S. § 348.1 and § 348.3), the following types of investments are allowed:

- U.S. Government obligations
- Certificates of deposit
- Savings accounts
- G.O. bonds issued by counties, municipalities or school districts
- Money judgments against counties, municipalities or school districts
- Bonds and revenue notes issued by a public trust when the beneficiary of the trust is a county, municipality or school district
- Negotiable certificates of deposit
- Prime bankers acceptance which are eligible for purchase by the Federal Reserve System
- Prime commercial paper with a maturity of 180 days or less
- Repurchase agreements
- Money market funds regulated by the Securities and Exchange Commission and which investments consist of the above-mentioned types of investments

All investments must be backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured.

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

G. Compensated Absences

Vacation benefits are earned by the employee during the year and may not be accumulated. Employees with service up to 5 years earn 10 days per year. Employees with service between 6 years and 20 years earn 15 days per year. Employees with service of 21 years or more earn 20 days per year. Vacation leave accrues annually at each employee's date of hire.

Sick leave benefits are accrued at the rate of 10 hours per month and employees may accumulate up to 1040 hours. Sick leave is not paid upon termination.

2. Ad Valorem Tax

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

The assessed property value as of January 1, 2004, was approximately \$176,843,065.

The County levied 10.00 mills (the legal maximum) for general fund operations. In addition, the County collects the ad valorem taxes assessed by cities and towns and school districts and remits the ad valorem taxes collected to the appropriate taxing units.

Taxes are due on November 1 following the levy date, although they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year.

Unpaid delinquent personal property taxes are published usually in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

Current year tax collections for the year ended June 30, 2005, were approximately 93.6 percent of the tax levy.

3. Fuel Tax

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads and highways only and are accounted for in the county highway fund.

4. Risk Management

The County is exposed to the various risks of loss shown in the following table:

Types of Loss	Method of Management	Risk of Loss Retained
General Liability <ul style="list-style-type: none"> • Torts • Errors and Omissions • Law Enforcement Officers Liability • Vehicle 	The County participates in a public entity risk pool: Association of County Commissioners of Oklahoma-Self-Insurance Group. (See ACCO-SIG.)	If claims exceed the authorized deductibles, the County could have to pay its share of any pool deficit. A judgment could be assessed for claims in excess of the pool's limits.
Physical Plant <ul style="list-style-type: none"> • Theft • Damage to Assets • Natural Disasters 		
Workers' Compensation <ul style="list-style-type: none"> • Employees' Injuries 	The County carries commercial insurance.	A judgment could be assessed for claims in excess of coverage.
Employee <ul style="list-style-type: none"> • Medical • Disability • Dental • Life 	The County carries commercial insurance.	None

ACCO-SIG - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. Each participating county chooses a \$10,000, \$25,000, or a \$50,000 deductible amount. The County has chosen a \$50,000 deductible for each insured event as stated in the County's "Certificate of Participation." The risk pool will pay legitimate claims in excess of the deductible amount for replacement value up to \$100,000 for property, and up to \$500,000 for general liability. The pool has acquired commercial reinsurance in the amount of \$1,000,000 to cover claims that exceed the pool's risk retention limits. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Commercial Insurance - The County obtains commercial insurance coverage to pay legitimate workers' compensation claims and employees' insurance. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

5. Long-term Obligations

Capital Leases

The County acquires road machinery and equipment through lease-purchase agreements financed by the Oklahoma Department of Transportation and/or the equipment vendors or their assignees pursuant to the provisions of 69 O.S. § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest free. However, starting in January 1997, ODOT began charging a one-time fee of 3% on all pieces of machinery subsequently acquired.

6. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. County employees are required to contribute between 3.5% and 8.5% of earned compensation. The County contributes between 5.0% and 10.0% of earned compensation. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributes 10.0% of earned compensation for elected officials. The County's contributions to the plan for the years ending June 30, 2005, 2004, and 2003 were \$479,251.89, \$411,491.63, and \$385,834.44, respectively, equal to the required contributions for each year.

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

7. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in the Pension Plan note, OPERS provides post-retirement health care benefits of up to \$105 each for retirees who are members of an eligible group plan. These benefits are funded on a pay-as-you-go basis as part of the overall retirement benefit. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the County is not available nor can it be reasonably estimated.

8. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although, the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in management's opinion, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

9. Sales Tax

On February 8, 1994, Osage County voters approved a 1% (one-cent) county-wide sales tax. The sales tax is to be used as follows:

- | | |
|-----|---|
| 1% | Collection and enforcement of the sales tax. |
| 99% | For the payment of debt service incurred for the construction of new county jail facilities and for maintenance and operation of the new jail and increased personnel, equipment, and operation costs of the Osage County Sheriff's Office. |

Annual collections are first applied to fully satisfy annual debt service payments and the remainder of annual collections to be applied towards the other specified purposes. The sales tax became effective July 1, 1994, and has a duration of 20 years.

**OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

10. Related Party Transactions

One member of the Board of County Commissioners currently leases a substantial amount of pasture land from one of the County's major suppliers of road material. These transactions have been reviewed and approved by the District Attorney.

The District Attorney has determined that no conflict of interest exists and that this relationship will have no effect on the County's financial statements for the year ended June 30, 2005.

OTHER SUPPLEMENTARY INFORMATION

OSAGE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 1,591,804	\$1,591,804	\$1,591,804	\$ -
Less: Prior Year Outstanding Warrants	(201,097)	(201,097)	(201,097)	
Less: Prior Year Encumbrances	(117,386)	(117,386)	(114,835)	2,551
Beginning Cash Balances, Budgetary Basis	1,273,321	1,273,321	1,275,872	2,551
Receipts:				
Ad Valorem Taxes	1,607,664	1,607,664	1,731,902	124,238
Charges for Services	264,486	264,486	290,657	26,171
Intergovernmental Revenues	498,757	501,198	574,611	73,413
Miscellaneous Revenues	80,922	80,922	115,475	34,553
Total Receipts, Budgetary Basis	2,451,829	2,454,270	2,712,645	258,375
Expenditures:				
District Attorney	116,752	116,752	111,947	4,805
Total District Attorney	116,752	116,752	111,947	4,805
County Sheriff	60,881	60,881	53,797	7,084
Total County Sheriff	60,881	60,881	53,797	7,084
County Treasurer	144,000	144,000	141,482	2,518
Total County Treasurer	144,000	144,000	141,482	2,518
County Commissioners	164,642	164,642	156,188	8,454
Total County Commissioners	164,642	164,642	156,188	8,454
OSU Extension	91,992	91,992	51,791	40,201
Capital Outlay	2,000	2,000	1,890	110
Total OSU Extension	93,992	93,992	53,681	40,311
County Clerk	228,101	228,101	204,469	23,632
Capital Outlay	2,000	2,000		2,000
Total County Clerk	230,101	230,101	204,469	25,632

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

OSAGE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Court Clerk	140,201	140,201	133,206	6,995
Total Court Clerk	140,201	140,201	133,206	6,995
County Assessor	281,686	283,586	278,958	4,628
Capital Outlay	1,900			
Total County Assessor	283,586	283,586	278,958	4,628
Revaluation of Real Property	467,074	467,074	455,501	11,573
Total Revaluation of Real Property	467,074	467,074	455,501	11,573
School Treasurer	30,000	30,000	30,000	
Total School Treasurer	30,000	30,000	30,000	-
General Government	554,500	535,460	268,315	267,145
Capital Outlay	129,529	129,529	14,499	115,030
Total General Government	684,029	664,989	282,814	382,175
Excise-Equalization Board	7,000	7,000	6,904	96
Total Excise-Equalization Board	7,000	7,000	6,904	96
County Election Board	90,145	90,081	90,392	418
Total County Election Board	90,145	90,810	90,392	418
Insurance	555,713	552,343	455,907	96,437
Total Insurance	555,703	552,343	455,907	96,437
County Purchasing Agent	21,100	21,100	21,000	100
Total County Purchasing Agent	21,100	21,100	21,000	100
Data Processing	35,000	35,000	19,975	15,025
Total Data Processing	35,000	35,000	19,975	15,025
Charity	4,000	6,441	1,750	4,691
Total Charity	4,000	6,441	1,750	4,691
Emergency Management	27,400	39,100	36,611	2,489
Total Emergency Management	27,400	39,100	36,611	2,489

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

OSAGE COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Planning and Zoning	99,900	100,300	93,715	6,585
Total Planning and Zoning	<u>99,900</u>	<u>100,300</u>	<u>93,715</u>	<u>6,585</u>
Fairgrounds	50,900	52,244	44,212	8,032
Capital Outlay	20,000	20,000	3,750	16,250
Total Fairgrounds	<u>70,900</u>	<u>72,244</u>	<u>47,962</u>	<u>24,282</u>
Civil Defense	8,000	8,000	5,315	2,685
Total Civil Defense	<u>8,000</u>	<u>8,000</u>	<u>5,315</u>	<u>2,685</u>
Safety and Hazard	4,000	12,300	12,162	138
Total Safety and Hazard	<u>4,000</u>	<u>12,300</u>	<u>12,162</u>	<u>138</u>
E-911	364,050	364,050	337,334	26,716
Total E-911	<u>364,050</u>	<u>364,050</u>	<u>337,334</u>	<u>26,716</u>
County Audit Budget	17,684	17,684	17,684	
Total Audit Budget	<u>17,684</u>	<u>17,684</u>	<u>17,684</u>	<u>-</u>
Provision for Interest on Warrants	5,000	5,000	-	5,000
Total Expenditures Budgetary Basis	<u>3,725,150</u>	<u>3,727,590</u>	<u>3,048,754</u>	<u>678,836</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	939,763	<u>\$ 939,763</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Encumbrances			95,546	
Add: Current Year Outstanding Warrants			180,128	
Add: Estopped Warrants			232	
Ending Cash Balance			<u>\$1,215,669</u>	

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

OSAGE COUNTY, OKLAHOMA
DETAILED SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES—SINKING FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Beginning Cash Balance	<u>\$ 2,099</u>
Receipts:	
Miscellaneous	<u>12</u>
Total Receipts	<u>2,111</u>
Disbursements:	
Total Disbursements	<u>-</u>
Ending Cash Balance	<u><u>\$ 2,111</u></u>

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

**OSAGE COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. Budgetary Schedules

The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis, for the General Fund present comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Receipts, Disbursements, and Changes in Cash Balances with Combining Information because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in these funds. At the end of the year, unencumbered appropriations lapse.

2. Sinking Fund Schedule

Debt service receipts are derived generally from a special ad valorem tax levy and from interest earned on investments of cash not immediately required for debt service payments.

See independent auditor's report.

**OSAGE COUNTY, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through City of Tulsa:			
Special Programs for the Aging - Title III-B-Grants for Supportive Services and Senior Centers	93.044*		\$ 20,290
Special Programs for the Aging - Title III-C-Nutrition Services	93.045*		133,653
Nutrition Services Incentive Program	93.053*		41,344
Special Programs for the Aging - Title III-D-Disease Prevention and Health Promotion Services	93.043		6,522
Total U.S. Department of Health and Human Services			<u>201,809</u>
* Indicates a cluster program			
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Local Law Enforcement Block Grant Program	16.592		<u>4,018</u>
Total U.S. Department of Justice			<u>4,018</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed Through Bureau of Indian Affairs:			
Highway Planning and Construction	20.205		<u>681,634</u>
Total U.S. Department of Transportation			<u>681,634</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Community Development Block Grants/Small Cities Program	14.219		<u>6,396</u>
Total U.S. Department of Housing and Urban Development			<u>6,396</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Emergency Management Performance Grants	97.042		<u>6,215</u>
Total U.S. Department of Homeland Security			<u>6,215</u>
Total Expenditures of Federal Awards			<u><u>\$ 900,072</u></u>

The accompanying notes are an integral part of this schedule.
See independent auditor's report.

**OSAGE COUNTY, OKLAHOMA
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Osage County, and is presented on the *cash basis of accounting*. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

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

TO THE OFFICERS OF
OSAGE COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Osage County, Oklahoma, as of and for the year ended June 30, 2005, which comprises Osage County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated October 23, 2006. Our report on the basic financial statement was adverse because the statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. Also, our report describes certain responsibilities of the State Auditor and Inspector's Office other than audit responsibilities. 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.

Internal Control Over Financial Reporting

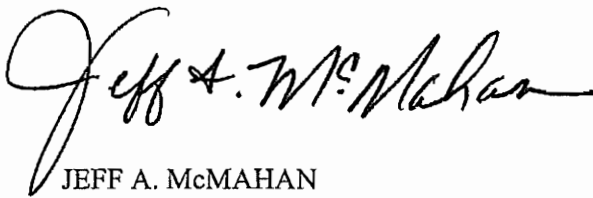
In planning and performing our audit, we considered Osage County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Osage County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2000-1.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of the management of Osage County, federal awarding agencies, and pass-through entities and should not be used for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S., section 24A.1 et seq.), and shall be open to any person for inspection and copying.

A handwritten signature in black ink, reading "Jeff A. McMahar". The signature is stylized with a large, looping "J" and a cursive "A".

JEFF A. McMAHAN
State Auditor and Inspector

October 23, 2006



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

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

TO THE OFFICERS OF
OSAGE COUNTY, OKLAHOMA

Compliance

We have audited the compliance of Osage County, Oklahoma, 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 June 30, 2005. Osage 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 Osage County's management. Our responsibility is to express an opinion on Osage County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Osage 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 on Osage County's compliance with those requirements.

In our opinion, Osage 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 June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 2005-2.

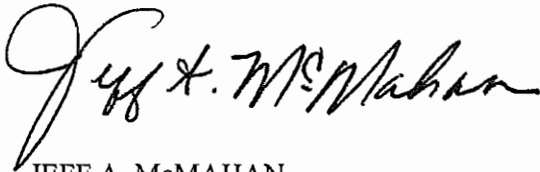
Internal Control Over Compliance

The management of Osage 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 Osage 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 the internal control over compliance in accordance with OMB Circular A-133.

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 reportable 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 caused by error or fraud 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 Osage County, federal awarding agencies and pass-through entities and should not be used for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S., section 24A.1 et seq.), and shall be open to any person for inspection and copying.

A handwritten signature in black ink, reading "Jeff A. McMAHAN". The signature is written in a cursive, flowing style with a large initial "J".

JEFF A. McMAHAN
State Auditor and Inspector

October 23, 2006

OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SECTION 1—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Adverse as to GAAP; unqualified as to statutory presentation

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Reportable condition(s) 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 weakness(es) identified? No
- Reportable condition(s) identified that are not
considered to be material weakness(es)? 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

Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction

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

Auditee qualified as low-risk auditee? No

**OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

SECTION 2—Findings related to the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Finding 2000-1—Segregation of Duties (Repeat Finding)

Criteria: Segregation of duties over asset custody, transaction authorization, bookkeeping and reconciliation is an important element of effective internal control over government assets and resources.

Condition: The limited number of office personnel within several County offices prevents a proper segregation of accounting functions, which is necessary to assure adequate internal control structure.

Recommendation: We recommend management be aware of this condition and realize the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge of office operations and periodic review of operations.

Views of responsible officials and planned corrective actions: We concur with the State Auditor's findings. Management does have knowledge of office operations and will perform a periodic review of these operations.

SECTION 3—Findings related to the Report on Compliance With Requirements Applicable to Each Major Programs and on Internal Control Over Compliance in Accordance With OMB Circular A-133.

Finding 2005-2—Bidding Procedures

Criteria: Title 19 O.S. §1501.A.3. states, "The county purchasing agent shall make purchases and rental or lease-purchase agreements only after following the bidding procedures as provided for by law, except : a. when the purchase does not exceed Five Thousand Dollars (\$5,000.00)..."

Condition: During our review of federal expenditures, we noted one purchase order #50897 for road and bridge materials in the amount of \$34,775.00 that was not competitively bid.

Recommendation: We recommend management take steps to ensure that purchases exceeding \$5,000 be competitively bid as required by 19 O.S. § 1501.A.3.

Views of responsible officials and planned corrective actions: This was a mistake and the purchase should have been bid. We are aware of the condition and have taken steps to assure it will not happen again.