

ANNUAL FINANCIAL REPORT
INDEPENDENT SCHOOL DISTRICT NO. 2
PAWHUSKA PUBLIC SCHOOL DISTRICT
OSAGE COUNTY, OKLAHOMA
JULY 1, 2010 TO JUNE 30, 2011

PAWHUSKA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
JUNE 30, 2011

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

COMBINED FINANCIAL STATEMENTS

Combined Statement of Assets, Liabilities, and Equity – Regulatory Basis
All Fund Types and Account Groups
Combined Statement of Revenues Collected, Expenditures Paid, and Changes in Fund
Balances – Regulatory Basis – All Governmental Fund Types
Combined Statement of Revenues, Expenditures and Changes in Fund Balances –
Budget and Actual – Regulatory Basis – Budgeted Governmental Fund Types
Notes to Combined Financial Statements

OTHER SUPPLEMENTARY INFORMATION

Combining Statements of Assets, Liabilities, and Fund Balances – Regulatory
Basis—All Special Revenue Funds
Combining Statements of Revenues Collected, Expenditures Paid, and Changes in
Fund Balances – Regulatory Basis – All Special Revenue Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual – Regulatory Basis – All Special Revenue Funds
Combining Statements of Assets, Liabilities, and Fund Balances – Regulatory
Basis—All Capital Project Funds
Combining Statements of Revenues Collected, Expenditures Paid, and Changes in
Fund Balances – Regulatory Basis – All Capital Project Funds
Combining Statement of Changes in Cash Balances – Regulatory Basis – Activity
Funds
Supporting Schedules
Schedule of Federal Awards Expended
Statutory, Fidelity, and Honesty Bonds

INTERNAL CONTROL AND COMPLIANCE REPORTS

Report on the Internal Control and Compliance over Financial Reporting in
Accordance with Government Auditing Standards
Single Audit Report on Internal Control and Compliance over Major Federal
Programs

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ACCOUNTANTS' PROFESSIONAL LIABILITY INSURANCE AFFIDAVIT

MANAGEMENT LETTER COMMENTS/ MANAGEMENT'S RESPONSE

PAWHUSKA PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
JULY 1, 2010 TO JUNE 30, 2011

SCHOOL DISTRICT BOARD MEMBERS

Justin Sellers
Dr. Mike Priest
David Clifton
Tom Boone
Donnie Smith

SUPERINTENDENT OF SCHOOL DISTRICT

Ben West

CLERK OF THE BOARD

Lori Loftis

SCHOOL DISTRICT TREASURER

Elizabeth Hembree

PUTNAM & COMPANY

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EDMOND, OKLAHOMA 73013

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Pawhuska Independent School District No. 2
Osage County, Oklahoma

We have audited the accompanying fund type and account group financial statements of Pawhuska School District No. 2, Osage County, Oklahoma, as listed in the table of contents as combined financial statements, as of and for the year ended June 30, 2011. These financial statements are the responsibility of the Pawhuska School District, No. 2, Osage County, Oklahoma. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 opinion.

As discussed in Note 1, these financial statements were prepared in conformity with the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising from regulatory basis transactions of each fund type and account group of Pawhuska School District No. 2, Oklahoma, as of June 30, 2011 and the revenues collected, expenditures paid/expenses, and cash flows of each fund type, where applicable, for the year then ended on the regulatory basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2011, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the fund type and account group financial statements within the combined financial statement. The combining fund statements and schedules and other schedules as listed in the table of contents under other supplementary information are presented for purposes of additional analysis. This other supplementary information has been subjected to the auditing procedures applied in the audit of the fund type and account group financial statements within the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole on the regulatory basis of accounting described in Note 1.

This report is intended solely for the information and use of the Board of Education of Pawhuska School District No. 2, Oklahoma State Department of Education, and certain federal regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Putnam & Company
Putnam & Company

Edmond, Oklahoma
December 2, 2011

COMBINED FINANCIAL STATEMENTS

PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
COMBINED STATEMENT OF ASSETS AND LIABILITIES - REGULATORY BASIS
(ALL FUND TYPES AND ACCOUNT GROUPS)
JUNE 30, 2011

	Governmental Fund Types				Fiduciary Fund Types	Account Groups	Totals
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Long-Term Debt	(Memorandum Only)
ASSETS							
Cash and Cash Equivalents	\$1,398,355	285,016	482,176	403,433	124,369		2,693,349
Amount Available for Debt Service						22,846	22,846
Amount to be Provided for General Long-Term Debt						445,634	445,634
Total Assets	\$1,398,355	285,016	482,176	403,433	124,369	468,480	3,161,829
LIABILITIES							
Warrants Payable	\$226,161	10,439		4,963	8,590		250,153
Reserved for Encumbrances	77,900	17,549			1,900		97,349
Long-Term Debt							
Bonds Payable			457,500			457,500	915,000
Interest Payable			1,830			10,980	12,810
Total Liabilities	304,061	27,988	459,330	4,963	10,490	468,480	1,275,312
FUND EQUITY							
Fund Equity:							
Designated for Debt Service			22,846				22,846
Designated for Capital Projects				398,470			398,470
Unreserved Fund Balance	1,094,294	257,028			113,879		1,465,201
Total Fund Equity	1,094,294	257,028	22,846	398,470	113,879	0	1,886,517
Total Liabilities and Fund Equity	\$1,398,355	285,016	482,176	403,433	124,369	468,480	3,161,829

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

PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - REGULATORY BASIS
ALL GOVERNMENTAL FUND TYPES AND SIMILAR TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Governmental Fund Types				Fiduciary Fund Types Trust and Agency	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		
REVENUES:						
Local Sources	804,548	160,093	479,118	0	367,437	1,811,196
Intermediate Sources	147,505	0				147,505
State Sources	4,248,232	34,854				4,283,086
Federal Sources	1,340,692	523,894				1,864,586
Total Revenues	6,540,977	718,841	479,118	0	367,437	8,106,373
EXPENDITURES:						
Instruction	3,910,921	210,072			15,387	4,136,380
Support Services	2,358,026	111,779				2,469,805
Non-Instructional Services	0	349,699		516,865	346,790	1,213,354
Architecture & Engineering Services	0					0
Other Outlays	480	3,000				3,480
DEBT SERVICE:						
Principal Retirement			457,500			457,500
Interest Paid			15,071			15,071
Total Expenditures	6,269,427	674,550	472,571	516,865	362,177	8,295,591
Revenues Over (Under) Expenditures	271,550	44,291	6,547	(516,865)	5,260	(189,218)
OTHER FINANCING SOURCES (USES):						
Deobligation of Prior Year Funds	33,476	40,203				73,679
Total Other Financing Sources (Uses):	33,476	40,203	0	0	0	73,679
Revenue and Other Sources Over (Under) Expenditures and Other Uses	305,026	84,494	6,547	(516,865)	5,260	(115,538)
Fund Balance, Beginning of Year	789,268	172,534	16,299	915,335	108,619	2,002,055
Fund Balance, End of Year	1,094,294	257,028	22,846	398,470	113,879	1,886,517

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

PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - STATUTORY BASIS
BUDGET AND ACTUAL - GENERAL FUND AND BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund				Special Revenue Funds		
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES							
Local Sources	679,152	679,152	804,548	125,396	146,937	160,093	13,156
Intermediate Sources	119,613	119,613	147,505	27,892		0	0
State Sources	4,118,245	4,118,245	4,248,232	129,987	4,762	34,854	30,092
Federal Sources	826,501	826,501	1,340,692	514,191	230,611	523,894	293,283
Total Revenues Collected	5,743,511	5,743,511	6,540,977	797,466	382,310	718,841	336,531
EXPENDITURES							
Instruction	4,186,641	4,186,641	3,910,921	275,720	66,176	0	66,176
Support Services	2,333,170	2,333,170	2,358,026	(24,856)	118,951	111,779	7,172
Non-Instructional Services	0	0	0	0	369,717	352,698	17,019
Facilities Acquisition & Construction Service	0	0	0	0			0
Other Outlays	12,968	12,968	480	12,488	0	210,072	(210,072)
Total Expenditures	6,532,779	6,532,779	6,269,427	263,352	554,844	674,549	(119,705)
Revenues Over (Under) Expenditures	(789,268)	(789,268)	271,550	1,060,818	(172,534)	44,292	216,826
OTHER FINANCING SOURCES (USES):							
Deobligation of Prior Year Funds			33,476	33,476		40,202	40,202
Return of Assets				0			0
Total Other Financing Sources (Uses)	0	0	33,476	33,476	0	40,202	40,202
Revenue and Other Sources Over (Under) Expenditures and Other Uses	(789,268)	(789,268)	305,026	1,094,294	(172,534)	84,494	257,028
Fund Balance, Beginning of Year	789,268	789,268	789,268	0	172,534	172,534	0
Fund Balance, End of Year	0	0	1,094,294	1,094,294	0	257,028	257,028

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

NOTES TO FINANCIAL STATEMENTS

PAWHUSKA SCHOOL DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Pawhuska Public Schools Independent District No. 2, Osage County, Oklahoma (the "District") have been prepared in conformity with an other comprehensive basis of accounting as prescribed by the Oklahoma State Department of Education. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District is a corporate body for public purposes created under Title 70 of the Oklahoma statutes and accordingly is a separate entity for operating and financial reporting purposes.

The District is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and is financially dependent on State of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

The governing body of the District is the Board of Education composed of elected members. The appointed superintendent is the executive officer of the District.

In evaluating how to define the district, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its patrons.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

Based upon the application of these criteria, there are no potential component units included in the District's reporting entity.

B. Fund Accounting and Description of Funds

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain district functions or activities.

PAWHUSKA SCHOOL DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

B. Fund Accounting and Description of Funds – (continued)

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate “fund types.”

Governmental Fund Types

Governmental funds are used to account for all or most of a government’s general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds).

General Fund – The general fund is used to account for all financial transactions, except those required to be accounted for in another fund. Major revenue sources include state and local property taxes and state funding under the Foundation and Salary Incentive Aid program. Expenditures include all costs associated with the daily operations of the schools except for programs funded for building repairs and maintenance, school construction and debt service on bonds and other long-term debt. The general fund includes federal and state restricted monies that must be expended for specific programs.

Special Revenue Fund – The special revenue fund is the District’s Building Fund. The Building Fund consists of monies derived from property taxes levied for the purpose of erecting, remodeling, or repairing buildings and for purchasing furniture and equipment.

The Child Nutrition Fund derives monies from State, Federal and local sources.

Debt Service Fund – The debt service fund is the District’s Sinking Fund and is used to account for the accumulation of financial resources for the payment of general long-term debt principal, interest and related costs. The primary revenue sources are local property taxes levied specifically for debt service and interest earnings from temporary investments.

Capital Projects Fund – The capital projects fund is the District’s Bond Fund and is used to account for the proceeds of bond sales to be used exclusively for acquiring school sites, constructing and equipping new school facilities, renovating existing facilities, and acquiring transportation equipment.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the District. When these assets are held under the terms of a trust agreement, trust funds are used for their accounting and reporting. Agency funds generally are used to account for assets that the District holds on behalf of others as their agent and do not involve measurement of results of operations.

PAWHUSKA SCHOOL DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Agency Fund – The Agency fund is the School Activities fund, which is used to account for monies, collected principally through fundraising efforts of the students and District-sponsored groups. The administration is responsible, under the authority of the Board, of collecting, disbursing and accounting for these activity funds.

Account Groups

Account groups are not funds and consist of a self-balancing set of accounts used only to establish accounting control over long-term debt and general fixed assets not accounted for in proprietary funds.

General Long-Term Debt Account Group – This account group was established to account for all long-term debt of the District, which is offset by the amount available in the debt service fund and the amount to be provided in future years to complete retirement of the debt principal. It is also used to account for liabilities for compensated absences and early retirement incentives, which are to be paid from funds provided in future years.

General Fixed Asset Account Group – This account group is used to account for property, plant, and equipment of the school district. The District does not have the information necessary to include this group in its combined financial statements.

Memorandum Only – Total Column - The total column on the general purpose financial statements is captioned “memorandum only” to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

C. Basis of Accounting and Presentation

The District prepares its financial statements in a presentation format that is prescribed by the Oklahoma State Department of Education. This format is essentially the generally accepted form of presentation used by state and local governments prior to the effective date of GASB Statement No. 34, *Basic Financial Statements-Management's Discussion and Analysis-for State and Local Governments*. This format significantly differs from that required by GASB 34.

The basic financial statements are essentially prepared on a basis of cash receipts and disbursements modified as required by the regulations of the Oklahoma State Department of Education (OSDE) as follows:

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies and are recorded as expenditures when approved.
- Investments and inventories are recorded as assets when purchased.
- Capital assets in proprietary funds are recorded when acquired and depreciated over their useful lives.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded when incurred.
- Accrued compensated absences are recorded as an expenditure and liability when the obligation is incurred.

PAWHUSKA SCHOOL DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

C. Basis of Accounting and Presentation – (continued)

This regulatory 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 for governmental fund types; and, when revenues are earned and liabilities are incurred for proprietary fund types and trust funds.

D. Budgets and Budgetary Accounting

The District is required by state law to prepare an annual budget. A preliminary budget must be submitted to the Board of Education by December 31 for the fiscal year beginning the following July 1. If the preliminary budget requires an additional levy, the District must hold an election on the second Tuesday in February to approve the levy. If the preliminary budget does not require an additional levy, it becomes the legal budget. If an election is held and the taxes are approved, then the preliminary budget becomes the legal budget. If voters reject the additional taxes, the District must adopt a budget within the approved tax rate.

The District may upon approval by a majority of the electors of the District voting on the question make the ad valorem levy for emergency levy and local support levy permanent. Under current Oklahoma Statutes, a formal budget is required for all funds except for trust and agency funds. Budgets are presented for all funds that include the originally approved budgeted appropriations for expenditures and final budgeted appropriations as adjusted for supplemental appropriations and approved transfers between budget categories.

E. Assets, Liabilities, and Fund Equity

Cash and Cash Equivalents – For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Investments – Investments consist of direct obligations of the United States Government and Agencies with maturities greater than three months when purchased. All investments are recorded at cost, which approximates market value.

Property Tax Revenues – The district is authorized by state law to levy property taxes, which consist of ad valorem taxes on real and personal property within the district. The county assessor, upon receipt of the certification of tax levies from the County Excise Board, extends the tax levies on the tax roll for submission to the County Treasurer prior to October 1. The county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes are due prior to January 1. The second half is due prior to April 1.

If the first payment is not made timely, the entire tax becomes due and payable on January 2. Second half taxes become delinquent on April 1 of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of taxes due. The owner has two years to redeem the property by paying the taxes and penalty owed. If at the end of two years the owner has not done so, the purchaser is issued a deed to the property.

PAWHUSKA SCHOOL DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

E. Assets, Liabilities, and Fund Equity – (continued)

Inventories – The value of consumable inventories at June 30, 2011 is not material to the basic financial statements.

Capital Assets – The accounting treatment over capital assets (property, plant, and equipment) depends on whether the assets are used in governmental fund-type operations or proprietary fund-type operations. Fixed assets used in governmental fund-type operations (general fixed assets) are recorded for as capital outlay expenditures of the governmental fund-type upon acquisition and are recorded as property, plant, and equipment in the General Fixed Asset Account Group. Fixed assets used in proprietary fund-type operations are accounted for as property, plant, and equipment within the proprietary fund itself.

All fixed assets are valued at historical cost, or estimated cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

Depreciation and accumulated depreciation are not reported against general fixed assets.

Compensated Absences – The district provides vacation and sick leave benefits in accordance with Oklahoma Statutes, which provides for annual sick leave and personal business days. Accrued vacation and sick leave benefits are not reflected in the financial statements because such statements are prepared on the regulatory basis of accounting. This practice differs from generally accepted accounting principles.

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. There are no amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources.

Long-Term Debt – Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Fund Balance – Fund balance represents the cash and investments not encumbered by purchase order, legal contracts, and outstanding warrants.

F. Revenue, Expenses, and Expenditures

State Revenues – Revenues from state sources for current operations are primarily governed by the state aid formula under the provisions of Article XVIII, Title 70, Oklahoma Statutes. The State Board of Education administers the allocation of state aid funds to school districts based on information accumulated from the districts.

**PAWHUSKA SCHOOL DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Investment Credit Risk (continued) - Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investments. Unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy limits investments to those with a short-term maturities, as a means of managing exposure to fair value losses arising from increasing interest rates. The District discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments.

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the District (any over 5 percent are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The District's investment policy requires diversification of investments.

At June 30, 2011, the District had no concentration of credit risk as defined above.

3. INTERFUND RECEIVABLES AND PAYABLES

There were no Interfund receivables or payables at June 30, 2011.

4. GENERAL LONG-TERM DEBT

State statutes prohibit the District from becoming indebted in an amount exceeding the revenue to be received for any fiscal year without approval by the District's voters. Bond issues have been approved by the voters and issued by the District for various capital improvements. These bonds are required to be fully paid serially within 25 years from the date of issue.

PAWHUSKA SCHOOL DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

4. GENERAL LONG-TERM DEBT -(continued)

General long-term debt of the District consists of bonds payable, obligations for compensated absences, and capital leases. Debt service requirements for bonds are payable solely from fund balance and future revenues of the debt service fund.

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2011:

	<u>Bonds Payable</u>	<u>Total</u>
Balance, July 1, 2010	\$ 1,195,000	\$ 1,195,000
Additions		
Retirements	(280,000)	(280,000)
Balance, June 30, 2011	<u>\$ 915,000</u>	<u>\$ 915,000</u>

A brief description of the outstanding general obligation bond issues at June 30, 2011 is set forth below:

	<u>Amount Outstanding</u>
Independent School District No. 2 Building Bonds, Series 2010, original Issue \$915,000, interest rate of 1.20% to 1.20%, due in one annual installment of \$915,000, final payment of \$915,000 due May 1, 2012.	<u>915,000</u>
TOTAL	<u>\$915,000</u>

The annual debt service requirements for retirement of bond principal and payment of interest are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	915,000	10,980	925,980
	<u>\$ 915,000</u>	<u>\$ 10,980</u>	<u>\$ 925,980</u>

Interest expense on general long-term debt incurred during the current year totaled \$15,071.

PAWHUSKA SCHOOL DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

5. EMPLOYEE RETIREMENT SYSTEM

The District participates in the state-administered Oklahoma Teachers' Retirement System (the "System"), which is a cost-sharing, multiple-employer Public Employee Retirement System. Under the System, the District, the State of Oklahoma, and the participating employees make contributions. Participation is required for all teachers and other certified employees and is optional for all other regular employees of public educational institutions who work at least 20 hours per week. A participant's date of membership is the date the first contribution is made to the System. The System is administered by a board of trustees which acts as a fiduciary for investing the funds and governing the administration of the System. The District has no responsibility or authority for the operation and administration of the System nor has it any liability, except for the current contribution requirements.

The System issues an independent financial report, financial statements, and required supplementary information that can be obtained in writing at the Teachers' Retirement System of Oklahoma, Post Office Box 53524, Oklahoma City, OK 73152 or by calling 405-521-2387.

A participant with ten years of creditable service may retire with a normal retirement allowance at the age of sixty-two or with reduced benefits as early as age fifty-five. The normal retirement allowance paid monthly for life and then to beneficiaries, if certain options are exercised, equals two percent of the average of the highest three earning years of contributory service multiplied by the number of years of credited service. A participant leaving employment before attaining retirement age, but completing ten years of service, may elect to vest his accumulated contributions and defer receipt of a retirement annuity until a later date. When a participant dies in active service and has completed ten years of credited service, the beneficiary is entitled to a death benefit, and the participant's contributions plus interest. If the beneficiary is a surviving spouse, the surviving spouse may, in lieu of the death benefit, elect to receive, subject to the surviving spousal options, the participant's retirement benefits accrued at the time of death. The contribution rates for the Districts, which are not actuarially determined, and its employees are established by statute and applied to the employee's earnings, plus employer-paid fringe benefits.

The System's accounting records are maintained on the cash basis of accounting, except for accruals of interest income.

Ten-year historical trend information is presented in the Teachers' Retirement System of Oklahoma Annual Report for the year ended June 30, 2011. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

6. CONTINGENCIES

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

PAWHUSKA SCHOOL DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

7. RISK MANAGEMENT AND LITIGATION

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, employees' health and life, and natural disasters. The District manages these various risks of loss through the purchase of commercial insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

8. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 2, 2011, which is the date the financial statements were issued.

OTHER SUPPLEMENTARY INFORMATION

PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
COMBINING STATEMENT OF ASSETS AND LIABILITIES - REGULATORY BASIS
SPECIAL REVENUE FUNDS
JUNE 30, 2011

	BUILDING FUND	CHILD NUTRITION FUND	COOP FUND	TOTALS (Memorandum Only)
<u>ASSETS</u>				
Cash and Cash Equivalents	<u>\$107,235</u>	<u>177,695</u>	<u>86</u>	<u>285,016</u>
Total Assets	<u>\$107,235</u>	<u>177,695</u>	<u>86</u>	<u>285,016</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Warrants Outstanding	\$993	9,446	0	10,439
Reserved for Encumbrances	<u>11,583</u>	<u>5,966</u>	<u>0</u>	<u>17,549</u>
Total Liabilities	<u>12,576</u>	<u>15,412</u>	<u>0</u>	<u>27,988</u>
Fund Equity:				
Fund Balance	<u>94,659</u>	<u>162,283</u>	<u>86</u>	<u>257,028</u>
Total Fund Equity	<u>94,659</u>	<u>162,283</u>	<u>86</u>	<u>257,028</u>
Total Liabilities and Fund Equity	<u>\$107,235</u>	<u>177,695</u>	<u>86</u>	<u>285,016</u>

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

PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - REGULATORY BASIS
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	BUILDING FUND	CHILD NUTRITION FUND	COOP FUND	TOTALS (Memorandum Only)
Revenues:				
Local Sources	106,709	53,384	0	160,093
State Sources		34,854	0	34,854
Federal Sources		313,822	210,072	523,894
Total Revenues Collected	106,709	402,060	210,072	718,841
Expenditures:				
Instruction	0		210,072	210,072
Support Services	111,779			111,779
Operation of Non-Instruction Services		349,699	0	349,699
Other Outlays	3,000		0	3,000
Total Expenditures	114,779	349,699	210,072	674,550
Excess of Revenues Over (Under) Expenditur	(8,070)	52,361	0	44,291
OTHER FINANCING SOURCES (USES)				
Deobligation of Prior Year Funds	11,709	28,494	0	40,203
Total Other Financing Sources (Uses)	11,709	28,494	0	40,203
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Uses	3,639	80,855	0	84,494
Fund Balance, Beginning of Year	91,020	81,428	86	172,534
Fund Balance, End of year	94,659	162,283	86	257,028

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

PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BUDGETED SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

	Building Fund			Child Nutrition Fund			Coop Fund		
	Original/ Final Budget	Actual	Variance Favorable (Unfavorable)	Original/ Final Budget	Actual	Variance Favorable (Unfavorable)	Original/ Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Local Sources	97,021	106,709	9,688	49,916	53,384	3,468	0	0	
Intermediate Sources			0	0		0	0		0
State Sources			0	4,762	34,854	30,092	0		0
Federal Sources			0	230,611	313,822	83,211	0	210,072	210,072
Total Revenues	97,021	106,709	9,688	285,289	402,060	116,771	0	210,072	210,072
EXPENDITURES									
Instruction	66,090	0	66,090	0		0	86		86
Support Services	118,951	111,779	7,172	0		0	0		0
Operation of Non-Instructional Services	3,000	3,000	0	366,717	349,698	17,019	0	0	0
Other Outlays			0			0	0	210,072	(210,072)
Total Expenditures	188,041	114,779	73,262	366,717	349,698	17,019	86	210,072	(209,986)
Revenues Over (Under) Expenditures	(91,020)	(8,070)	82,950	(81,428)	52,362	133,790	(86)	0	86
OTHER FINANCING SOURCES (USES):									
Return of Assets			0		0	0		0	0
Deobligation of Prior Year Funds		11,709	11,709		28,493	28,493		0	0
Total Other Financing Sources (Uses)	0	11,709	11,709	0	28,493	28,493	0	0	0
Revenue and Other Sources Over (Under) Expenditures and Other Uses	(91,020)	3,639	94,659	(81,428)	80,855	162,283	(86)	0	86
Fund Balance, Beginning of Year	91,020	91,020	0	81,428	81,428	0	86	86	0
Fund Balance, End of Year	0	94,659	94,659	0	162,283	162,283	0	86	86

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

PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
COMBINING STATEMENT OF ASSETS AND LIABILITIES
REGULATORY BASIS
CAPITAL PROJECTS FUNDS
JUNE 30, 2011

	BUILDING BOND FUND #37	BUILDING BOND FUND #38	BUILDING BOND FUND #39	TOTALS (Memorandum Only)
<u>ASSETS</u>				
Cash and Cash Equivalents	<u>\$0</u>	<u>0</u>	<u>403,433</u>	<u>403,433</u>
Total Assets	<u>0</u>	<u>0</u>	<u>403,433</u>	<u>403,433</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Warrants Outstanding				
Reserved for Encumbrances			<u>4,963</u>	<u>4,963</u>
Total Liabilities	<u>0</u>	<u>0</u>	<u>4,963</u>	<u>4,963</u>
Fund Equity:				
Fund Balance	<u>0</u>	<u>0</u>	<u>398,470</u>	<u>398,470</u>
Total Fund Equity	<u>0</u>	<u>0</u>	<u>398,470</u>	<u>398,470</u>
Total Liabilities and Fund Equity	<u>\$0</u>	<u>\$0</u>	<u>\$403,433</u>	<u>403,433</u>

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

PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - REGULATORY BASIS
CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	BOND FUND #37	BOND FUND #38	BOND FUND #39	TOTALS (Memorandum Only)
<u>Revenues:</u>				
Interest	\$0	0	0	0
Sale of Bonds				0
Total Revenues Collected	0	0	0	0
<u>Expenditures:</u>				
Instruction	0	0	0	0
Operation & Maintenance Plant Services	0	0	516,865	516,865
Student Transportation Services				0
Architecture & Engineering Services	0			0
Total Expenditures	0	0	516,865	516,865
Excess of Revenues Over (Under) Expenditures	0	0	-516,865	-516,865
<u>Other Financing Sources (Uses):</u>				
Deobligation of Prior Year Funds				0
Revenues and Other Sources Over/ (Under) Expenditures and Other Uses	0	0	-516,865	(516,865)
Fund Balance, Beginning of Year	0	0	915,335	915,335
Fund Balance, End of Year	\$0	\$0	398,470	398,470

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

PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
COMBINING STATEMENT OF ASSETS AND LIABILITIES
REGULATORY BASIS
TRUST AND AGENCY FUNDS
JUNE 30, 2011

	ACTIVITY FUND	INSURANCE FUND	GIFTS & ENDOWMENT FUND	TOTALS (Memorandum Only)
<u>ASSETS</u>				
Cash and Cash Equivalents	\$112,439	1,130	10,800	124,369
Total Assets	<u>\$112,439</u>	<u>1,130</u>	<u>10,800</u>	<u>124,369</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Warrants Outstanding	\$8,430		160	8,590
Reserves for Encumbrances			1,900	1,900
Total Liabilities	<u>8,430</u>	<u>0</u>	<u>2,060</u>	<u>10,490</u>
Fund Equity:				
Fund Balance	<u>104,009</u>	<u>1,130</u>	<u>8,740</u>	<u>113,879</u>
Total Fund Equity	<u>104,009</u>	<u>1,130</u>	<u>8,740</u>	<u>113,879</u>
Total Liabilities and Fund Equity	<u>\$112,439</u>	<u>1,130</u>	<u>10,800</u>	<u>124,369</u>

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

PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - REGULATORY BASIS
TRUST AND AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	ACTIVITY FUND	INSURANCE FUND	GIFTS & ENDOWMENT FUND	TOTALS (Memorandum Only)
<u>Revenues:</u>				
Local Sources	<u>\$308,166</u>	<u>43,561</u>	<u>15,710</u>	<u>367,437</u>
 Total Revenues Collected	 <u>308,166</u>	 <u>43,561</u>	 <u>15,710</u>	 <u>367,437</u>
<u>Expenditures:</u>				
Instruction			15,387	15,387
Support Services				0
Operation of Noninstructional Services	302,750	44,040		346,790
Other Outlays				0
 Total Expenditures	 <u>302,750</u>	 <u>44,040</u>	 <u>15,387</u>	 <u>362,177</u>
Excess of Revenues Over (Under) Expenditures	<u>5,416</u>	<u>-479</u>	<u>323</u>	<u>5,260</u>
OTHER FINANCING SOURCES (USES)				
Repayments				0
Deobligation of Prior Year Funds				0
 Total Other Financing Sources (Uses)	 <u>0</u>	 <u>0</u>	 <u>0</u>	 <u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>5,416</u>	<u>-479</u>	<u>323</u>	<u>5,260</u>
 Fund Balance, Beginning of Year	 <u>98,593</u>	 <u>1,609</u>	 <u>8,417</u>	 <u>108,619</u>
 Fund Balance, End of Year	 <u>\$104,009</u>	 <u>1,130</u>	 <u>8,740</u>	 <u>113,879</u>

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

**PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
SCHOOL ACTIVITY FUNDS
RECEIPTS, TRANSFERS, DISBURSEMENTS AND SUBACCOUNT BALANCES
JULY 1, 2010 TO JUNE 30, 2011**

	<u>Balance</u> <u>7/01/10</u>	<u>Deposits</u>	<u>Transfers</u>	<u>Disbursed</u>	<u>Balance</u> <u>6/30/11</u>
Annual	\$6,448.03	12,040.37	0.00	11,511.27	6,977.13
Arts and Crafts	181.87	150.00	0.00	132.65	199.22
Band-Color Guard	494.52	0.00	0.00	127.85	366.67
Band	162.28	2,292.00	0.00	1,931.18	523.10
Special Band Account	73.34	4,949.61	0.00	2,142.44	2,880.51
Baseball	1,991.09	24,072.18	0.00	17,358.73	8,704.54
Basketball, Boys	18,131.70	17,498.26	0.00	22,940.37	12,689.59
Basketball, Girls	11,818.77	14,442.83	0.00	13,995.70	12,265.90
Desktop Publishing	255.81	0.00	0.00	0.00	255.81
Builder's Club	185.28	361.20	0.00	205.00	341.48
Jr. High Cheer	275.98	7,671.02	0.00	7,907.50	39.50
Key Club	3,074.86	2,171.65	0.00	1,534.41	3,712.10
English 1 Pre-Ap	0.00	0.00	0.00	0.00	0.00
Elementary Media Center	2,826.24	9,999.91	0.00	10,291.84	2,534.31
Elementary	4,586.96	19,733.83	0.00	15,967.02	8,353.77
BPA	714.67	1,082.56	0.00	1,128.85	668.38
FCA	0.00	0.00	0.00	0.00	0.00
Alternative Education	443.26	8.30	0.00	51.99	399.57
Football	2,564.87	49,192.87	0.00	47,967.99	3,789.75
General	1,209.63	1,127.61	0.00	1,836.33	500.91
Golf	422.78	1,328.60	0.00	1,464.96	286.42
High School Newspaper	161.53	820.00	0.00	812.79	168.74
Soccer, Boys & Girls	0.00	3,340.00	0.00	2,840.66	499.34
Indian Camp	5,002.94	4,725.15	0.00	7,431.87	2,296.22
Jr. High Quiz Bowl	0.00	0.00	0.00	0.00	0.00
Junior High	1,191.25	2,469.73	0.00	2,155.49	1,505.49
Mu Alpha Theta	554.20	70.00	0.00	70.00	554.20
NASA	845.25	0.00	0.00	0.00	845.25
Cheerleaders	1,344.41	14,940.49	0.00	15,883.01	401.89
Refund	0.00	0.00	0.00	0.00	0.00
SADD/Peer Helpers	0.00	0.00	0.00	0.00	0.00
Softball	7,875.81	13,647.90	0.00	12,989.10	8,534.61
Spanish Club	0.00	0.00	0.00	0.00	0.00
Special Olympics	2,348.15	17.01	0.00	1,079.92	1,285.24
Speech	2,236.41	0.00	0.00	0.00	2,236.41
Student Council	207.03	14,124.84	0.00	14,042.52	289.35

**PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
SCHOOL ACTIVITY FUNDS
RECEIPTS, TRANSFERS, DISBURSEMENTS AND SUBACCOUNT BALANCES
JULY 1, 2010 TO JUNE 30, 2011**

	<u>Balance</u> <u>7/01/10</u>	<u>Deposits</u>	<u>Transfers</u>	<u>Disbursed</u>	<u>Balance</u> <u>6/30/11</u>
Technical Trades	0.00	0.00	0.00	0.00	0.00
Tennis	299.92	669.75	0.00	790.00	179.67
Boy's Track	499.39	4,057.77	0.00	4,220.93	336.23
Girl's Track	525.04	2,858.67	0.00	3,068.95	314.76
Vending	8,815.29	9,642.99	0.00	7,950.58	10,507.70
Track Maintenance	0.00	0.00	0.00	0.00	0.00
Vocal	3,236.54	13,195.29	0.00	13,780.27	2,651.56
Wrestling	3,573.54	27,719.15	0.00	29,533.98	1,758.71
FFA	4,003.59	22,766.68	0.00	23,964.04	2,806.23
Agriculture Education	6.17	0.00	0.00	0.00	6.17
All Sports Banquet	5.00	4,977.50	0.00	3,640.32	1,342.18
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	<u>\$98,593.40</u>	<u>308,165.72</u>	<u>0.00</u>	<u>302,750.51</u>	<u>104,008.61</u>

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

PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

	Project Number	Federal CFDA Number	Program or Award Amount	Cash/ Beginning Balance at July 1, 2010	Federal Receipts	Federal Expenditures	Refunded to SDE	Cash/ Ending Balance at June 30, 2011
<u>U.S. Department of Education:</u>								
Direct Programs								
Indian Ed	561	84.060	\$210,687		210,072	210,072		0
Impact Aid - P.L. 874	591	84.041	180,361		180,361	180,361		0
Impact Aid-P.L. 874	592	84.041	8,989		8,989	8,989		0
Subtotal			391,048		390,433	390,433		0
Passed through the Department of Education:								
Title I -Basic Program	511	84.010	225,868		201,056	201,056		0
Title I, Part A-ARRA	516	84.389	10,805		10,803	10,803		0
Title I Neglected/Delinquent	532	84.013	51,584		491	491		0
21st Century	553	84.287	194,979		136,633	136,633		0
21st Century, Prior Year	799	84.287		(95,136)	95,136			0
IDEA-Flowthrough	621	84.027	222,927		199,205	199,205		0
IDEA-B Flowthrough	799	84.391		-136,247	136,247			0
Early Intervening	623	84.027		-4,509	4,509			0
Preschool	641	84.173	6,868		6,000	6,000		0
Preschool	799	84.173		-4,874	4,874			0
Foundation & Salaries Incentive - ARRA	782	84.394	192,631		192,631	192,631		0
Education Jobs	790	84.397	163,797		163,755	163,755		0
Preschool-ARRA			1,069,459	(240,766)	1,151,341	910,574		0
<u>U.S. Department of Agriculture:</u>								
<u>Passed Through State Department of Education:</u>								
Food Service Programs - Breakfasts	385	10.555	78,764		78,764	78,764		0
Food Service Programs - Lunches	385	10.553	225,707		225,707	225,707		0
Food Service Programs - Commodities	385	10.557	16,255		16,255	16,255		0
Summer Food Program	385	10.559	8,953		8,953	8,953		0
Subtotal			329,679	0	329,679	329,679		0
Total Federal Financial Assistance			\$1,790,186	-240,766	1,871,453	1,630,686		0

Note A: Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Pawhuska Public Schools District and is presented on another comprehensive basis of accounting conforming with the accounting practices prescribed or permitted by the Oklahoma State Department of Education which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, expenditures are recognized when an approved purchase order is issued.

Note B: Commodities representing non-cash expenditures have been included in the Schedule of Federal Awards which is an exception to the prescribed basis of accounting.

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

**PAWHUSKA SCHOOL DISTRICT NO. 2
SCHEDULE OF STATUTORY, FIDELITY, AND HONESTY BONDS
FOR THE YEAR ENDED JUNE 30, 2011**

Elizabeth Hembree – Treasurer
Michelle Malaske – Assistant Treasurer
Sara Pitts – Deputy Minutes and Encumbrance Clerk
Linda West – Minutes and Encumbrance Clerk
Dee Demoss – Activity Fund Custodian
Christina Camargo – Child Nutrition Fund Custodian
Ben West - Superintendent

Employee Dishonesty Bond
Tolson Agency Inc. - Policy No. FID8001202
\$304,000.00 Limit
Effective: March 8, 2010 to March 8, 2012

INTERNAL CONTROL AND COMPLIANCE REPORTS

PUTNAM & COMPANY

169 S.E. 32ND

EDMOND, OKLAHOMA 73013

(405) 348-3800

Fax (405) 348-7965

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*

The Honorable Board of Education
Pawhuska School District No. 2
Osage County, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pawhuska School District No. 2, Osage County, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the District's financial statements and have issued our report thereon dated December 2, 2011. The report on these financial statements is adverse with respect to the presentation of financial statements in conformity with accounting principles generally accepted in the United States of America because the District has elected to prepare its financial statements in conformity with a regulatory basis of accounting. 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 the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose prescribed in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are 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.

We noted certain matters that we reported to management of Pawhuska School District No. 2 in a separate letter dated December 2, 2011.

This report is intended solely for the information and use of management, the audit committee and others within the organization, 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. However, though restricted in use, this report is a matter of public record, and its distribution is not limited.


Putnam & Company

Edmond, Oklahoma
December 2, 2011

PUTNAM & COMPANY

169 S.E. 32ND

EDMOND, OKLAHOMA 73013

(405) 348-3800

Fax (405) 348-7965

Report on Compliance with Requirements Applicable to Each Major Program and Internal Controls over Compliance In Accordance with *Office of Management and Budget Circular A-133*

The Honorable Board of Education
Pawhuska School District No. 2
Osage County, Oklahoma

Compliance

We have audited the compliance of Pawhuska School District No. 2, 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, 2011. District'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 District's management. Our responsibility is to express an opinion on District'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 District'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 District's compliance with those requirements.

In our opinion, the District 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, 2011.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District'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.

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

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 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 the School Board, management, federal awarding agencies, pass-through entities, all applicable state agencies, and those other Governments from which financial assistance was received, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Putnam & Company".

Putnam & Company

Edmond, Oklahoma
December 2, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Qualified due to regulatory basis presentation.

Internal control over financial reporting:

* Material weakness(es) identified? Yes X No
* Significant Deficiency(ies) identified
not considered to be material weakness(es)? Yes X None Reported

Noncompliance material to financial statement noted? Yes X No

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? Yes X No
* Significant Deficiency(ies) identified
not considered to be material weakness(es)? Yes X None Reported

Type of auditors' 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 OMB Circular A-133?

 Yes X No

Identification of major programs:

CFDA Number

Name of Federal Program

84.010

Title I

10.553, 555, 557, 559

Food Service Programs

Dollar threshold used to distinguish between type
A and type B programs

\$300,000

Auditee qualified as low-risk auditee?

 Yes X No

**PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Section II – Findings Relating to the Financial Statements

None

Section III – Findings and Questioned Costs for Federal Awards

N/A

Section IV – Status of Prior Year Audit Findings

None related to the financial statements or questioned costs for federal awards.

Section V – Management's Corrective Action Plan

N/A

ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE AFFIDAVIT

Schedule of Accountants' Professional Liability Insurance Affidavit For the Year Ending June 30, 2011

MANAGEMENT LETTER AND COMMENTS

PUTNAM & COMPANY

169 S.E. 32ND
EDMOND, OKLAHOMA 73013
(405) 348-3800
fax (405) 348-7965

December 2, 2011

The Honorable Board of Education
Pawhuska School District No. 2
Osage County, Oklahoma

We have audited financial statements of Pawhuska School District No. 2, Osage County, Oklahoma, as of and for the year ended June 30, 2011, as listed in the table of contents, and have issued our report thereon dated December 2, 2011. As a part of our audit, we made a study and evaluation of the District's system of internal accounting control to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, and we do not express such an opinion.

However, during our audit we became aware of some matters that, while not involving material weaknesses in internal accounting control, are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 2, 2011 on the financial statements of Pawhuska School District No. 2.

We will review the status of these comments during our next audit engagement. We would be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

We also wish to express our appreciation of the courteous attention and cooperation which we received from staff members during our engagement.

Sincerely,

A handwritten signature in cursive script, appearing to read "J. W. Putnam", written in dark ink.

Jerry W. Putnam

**PAWHUSKA SCHOOL DISTRICT NO. 2
OSAGE COUNTY, OKLAHOMA
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

PRIOR YEAR'S COMMENTS AND RECOMMENDATIONS

The prior year's comments have been addressed and resolved.

CURRENT YEAR'S COMMENTS AND RECOMMENDATIONS

REVIEW OF PURCHASE ORDERS AND PAYMENTS

Our review of the purchase orders indicated that in almost every instance the purchase orders were properly approved and supported with adequate documentation. However we noted the following during our review:

Findings

No. of Instances

Invoice Date Before P.O. Date

2

DISTRICT'S RESPONSE TO AUDIT COMMENTS/CORRECTIVE ACTION PLAN

The District is generally in agreement with the finding and recommendations above and will review current procedures in order to implement necessary changes.