

**ANNUAL FINANCIAL REPORT**  
**INDEPENDENT SCHOOL DISTRICT NO. 2**  
**PAWHUSKA PUBLIC SCHOOL DISTRICT**  
**OSAGE COUNTY, OKLAHOMA**  
**JULY 1, 2011 TO JUNE 30, 2012**

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PAWHUSKA PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2  
OSAGE COUNTY, OKLAHOMA  
JUNE 30, 2012

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PAWHUSKA PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2  
OSAGE COUNTY, OKLAHOMA  
JULY 1, 2011 TO JUNE 30, 2012

SCHOOL DISTRICT BOARD MEMBERS

Justin Sellers  
Lori Loftis  
Jeff Bute  
Tom Boone  
John Bighorse

SUPERINTENDENT OF SCHOOL DISTRICT

Dr. Landon Berry

CLERK OF THE BOARD

John Bighorse

SCHOOL DISTRICT TREASURER

Elizabeth Hembree

# PUTNAM & COMPANY

169 S.E. 32<sup>ND</sup>

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 combined fund type and account group financial statements regulatory Basis 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, 2012. 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 generally accepted in the United States of America. The effect on the financial statements resulting from the use of this regulatory basis of accounting and presentation as compared to accounting principles generally accepted in the United States of America cannot be reasonably determined, but is considered material.

In our opinion, because the District's policy is to prepare its combined financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pawhuska School District No. 2, Oklahoma, as of June 30, 2012 and the respective changes in financial position thereof for the year then ended.

The financial statements referred to above do not include the general fixed asset account group, which should be included in order to conform with the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education noted above. The amount that should be recorded in the general fixed asset account group is not shown.

However, in our opinion except for the effects of the omission of the general fixed asset account group as discussed in the fourth paragraph, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balances arising from regulatory basis transactions of each fund type and account group of Pawhuska School District No. 2, Osage County, Oklahoma as of June 30, 2012 and the revenues collected and expenditures paid and encumbered of each fund type 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 reported dated December 4, 2012, on our consideration of the Pawhuska School District No. 2, Osage County, Oklahoma's internal control over financial reporting and our tests of its compliance with certain provisions of laws regulations, contracts, grant agreements, 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 result of that testing, and not to provided an opinion on the internal control over financial reporting or on compliance. That a 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 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 and are not a required part of the combined financial statements of the District. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by United States office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the combined financial statements. The other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting records used to prepare the financial statements. The 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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, Osage County, Oklahoma State Department of Education, and certain federally regulator agencies, and is not intended to be and should not be used by anyone other than these specified parties.



Putnam & Company

Edmond, Oklahoma  
December 4, 2012

## **COMBINED FINANCIAL STATEMENTS**

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PAWHUSKA SCHOOL DISTRICT NO. 2  
 OSAGE COUNTY, OKLAHOMA  
 COMBINED STATEMENT OF ASSETS AND LIABILITIES - REGULATORY BASIS  
 (ALL FUND TYPES AND ACCOUNT GROUPS)  
 JUNE 30, 2012

	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)
<b>ASSETS</b>							
Cash and Cash Equivalents	\$1,460,710	393,039	32,285	386,884	132,283		2,405,201
Amount Available for Debt Service						32,285	32,285
Amount to be Provided for General Long-Term Debt						462,415	462,415
<b>Total Assets</b>	<b>\$1,460,710</b>	<b>393,039</b>	<b>32,285</b>	<b>386,884</b>	<b>132,283</b>	<b>494,700</b>	<b>2,899,901</b>
<b>LIABILITIES</b>							
Warrants Payable	\$244,704	105,791		0	10,530		361,025
Reserved for Encumbrances	111,921	5,602					117,523
Long-Term Debt							
Bonds Payable			0			485,000	485,000
Interest Payable			0			9,700	9,700
<b>Total Liabilities</b>	<b>356,625</b>	<b>111,393</b>	<b>0</b>	<b>0</b>	<b>10,530</b>	<b>494,700</b>	<b>973,248</b>
<b>FUND EQUITY</b>							
Fund Equity:							
Designated for Debt Service			32,285				32,285
Designated for Capital Projects				386,884			386,884
Unreserved Fund Balance	1,104,085	281,646			121,753		1,507,484
<b>Total Fund Equity</b>	<b>1,104,085</b>	<b>281,646</b>	<b>32,285</b>	<b>386,884</b>	<b>121,753</b>	<b>0</b>	<b>1,926,653</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$1,460,710</b>	<b>393,039</b>	<b>32,285</b>	<b>386,884</b>	<b>132,283</b>	<b>494,700</b>	<b>2,899,901</b>

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, 2012

	Governmental Fund Types				Fiduciary Fund Types	Totals
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	(Memorandum Only)
<b>REVENUES:</b>						
Local Sources	1,062,280	169,052	476,089	485,752	466,273	2,659,446
Intermediate Sources	157,718	0				157,718
State Sources	4,457,086	44,481				4,501,567
Federal Sources	665,678	492,551				1,158,229
<b>Total Revenues</b>	<b>6,342,762</b>	<b>706,084</b>	<b>476,089</b>	<b>485,752</b>	<b>466,273</b>	<b>8,476,960</b>
<b>EXPENDITURES:</b>						
Instruction	3,812,779	196,952				4,009,731
Support Services	2,558,199	141,882				2,700,081
Non-Instructional Services	1,841	355,484		502,301	460,458	1,320,084
Other Outlays	0	3,000				3,000
<b>DEBT SERVICE:</b>						
Principal Retirement			915,000			915,000
Interest Paid			10,980			10,980
<b>Total Expenditures</b>	<b>6,372,819</b>	<b>697,318</b>	<b>925,980</b>	<b>502,301</b>	<b>460,458</b>	<b>8,958,876</b>
Revenues Over (Under) Expenditures	(30,057)	8,766	(449,891)	(16,549)	5,815	(481,916)
<b>OTHER FINANCING SOURCES (USES):</b>						
Deobligation of Prior Year Funds	40,262	15,852				56,114
Deobligation of Prior Year Funds	(414)					(414)
<b>Total Other Financing Sources (Uses):</b>	<b>39,848</b>	<b>15,852</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>55,700</b>
Revenue and Other Sources Over (Under) Expenditures and Other Uses	9,791	24,618	(449,891)	(16,549)	5,815	(426,216)
Fund Balance, Beginning of Year	1,094,294	257,028	482,176	403,433	115,938	2,352,869
Fund Balance, End of Year	1,104,085	281,646	32,285	386,884	121,753	1,926,653

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, 2012

	General Fund				Special Revenue Funds		
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>							
Local Sources	745,613	745,613	1,062,280	316,667	154,535	169,052	14,517
Intermedicate Sources	132,754	132,754	157,718	24,964		0	0
State Sources	4,155,290	4,193,151	4,456,673	263,522	33,527	44,481	10,954
Federal Sources	408,836	408,836	665,677	256,841	465,044	492,551	27,507
<b>Total Revenues Collected</b>	<b>5,442,493</b>	<b>5,480,354</b>	<b>6,342,348</b>	<b>861,994</b>	<b>653,106</b>	<b>706,084</b>	<b>52,978</b>
<b>EXPENDITURES:</b>							
Instruction	3,977,714	3,977,714	3,812,779	164,935	240,542	196,952	43,590
Support Services	2,557,232	2,595,093	2,558,199	36,894	148,738	141,882	6,856
Non-Instructional Services	1,841	1,841	1,841	0	520,854	358,484	162,370
Facilities Acquisition & Construction Service	0	0	0	0		0	0
Other Outlays	0	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>6,536,787</b>	<b>6,574,648</b>	<b>6,372,819</b>	<b>201,829</b>	<b>910,134</b>	<b>697,318</b>	<b>212,816</b>
Revenues Over (Under) Expenditures	(1,094,294)	(1,094,294)	(30,471)	1,063,823	(257,028)	8,766	265,794
<b>OTHER FINANCING SOURCES (USES):</b>							
Deobligation of Prior Year Funds			40,262	40,262		15,852	15,852
Return of Assets				0			0
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>0</b>	<b>40,262</b>	<b>40,262</b>	<b>0</b>	<b>15,852</b>	<b>15,852</b>
Revenue and Other Sources Over (Under) Expenditures and Other Uses	(1,094,294)	(1,094,294)	9,791	1,104,085	(257,028)	24,618	281,646
Fund Balance, Beginning of Year	1,094,294	1,094,294	1,094,294	0	257,028	257,028	0
<b>Fund Balance, End of Year</b>	<b>0</b>	<b>0</b>	<b>1,104,085</b>	<b>1,104,085</b>	<b>0</b>	<b>281,646</b>	<b>281,646</b>

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, 2012**

**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, 2012**

**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, 2012**

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, 2012**

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, 2012**

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

Inventories – The value of consumable inventories at June 30, 2012 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, 2012**

F. Revenue, Expenses, and Expenditures – (continued)

After review and verification of reports and supporting documentation, the State Department of Education may adjust subsequent fiscal period allocations of money for prior year errors disclosed by review. Normally, such adjustments are treated as reductions or additions of revenue of the year when the adjustment is made.

The District receives revenue from the state to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided. These rules also require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical programs. The State Department of Education requires that categorical educational program revenues be accounted for in the general fund.

Interfund Transactions – Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditure/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

**2. DEPOSIT AND INVESTMENT RISKS**

***Custodial Credit Risk*** - The District's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100 percent of the uninsured deposits and accrued interest thereon. The investment policy and state law also limits acceptable collateral to U.S. Treasury and agency securities and direct debt obligations of the state, municipalities, counties, and school districts in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee.

At June 30, 2012, the District was not exposed to custodial credit risk as defined above.

***Investment Credit Risk*** – The District's investment policy limits investments to those allowed in state law applicable to school districts as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.

**PAWHUSKA SCHOOL DISTRICT NO. 2**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

*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 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, 2012, 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, 2012.

**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, 2012**

**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, 2012:

	<u>Bonds Payable</u>		<u>Total</u>
Balance, July 1, 2011	\$ 915,000		\$ 915,000
Additions	485,000		485,000
Retirements	( 915,000)		(-915,000)
Balance, June 30, 2012	\$ 485,500		\$ 485,000

A brief description of the outstanding general obligation bond issues at June 30, 2012 is set forth below:

	<u>Amount Outstanding</u>
Independent School District No. 2 Building Bonds, Series 2011, original Issue \$485,000, interest rate of 1.00% to 1.00%, due in one annual installment of \$485,000, final payment of \$485,000 due July 1, 2013.	<u>485,000</u>
<b>TOTAL</b>	<b><u>\$485,000</u></b>

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

<u>Year ending June 30</u>	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2013	485,000	9 700	492,700
	\$ 485,000	\$ 9,700	\$ 492,700

Interest expense on general long-term debt incurred during the current year totaled \$10,980.

## **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, 2012. 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.

## **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 4, 2012, 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, 2012

	BUILDING FUND	CHILD NUTRITION FUND	COOP FUND	TOTALS (Memorandum Only)
<u>ASSETS</u>				
Cash and Cash Equivalents	\$79,804	222,563	90,672	393,039
Total Assets	\$79,804	222,563	90,672	393,039
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Warrants Outstanding	\$2,524	12,681	90,586	105,791
Reserved for Encumbrances	5,342	260	0	5,602
Total Liabilities	7,866	12,941	90,586	111,393
Fund Equity:				
Fund Balance	71,938	209,622	86	281,646
Total Fund Equity	71,938	209,622	86	281,646
Total Liabilities and Fund Equity	\$79,804	222,563	90,672	393,039

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, 2012

	BUILDING FUND	CHILD NUTRITION FUND	COOP FUND	TOTALS (Memorandum Only)
Revenues:				
Local Sources	118,691	50,361	0	169,052
State Sources	0	44,481	0	44,481
Federal Sources	0	302,090	190,461	492,551
<b>Total Revenues Collected</b>	<b>118,691</b>	<b>396,932</b>	<b>190,461</b>	<b>706,084</b>
Expenditures:				
Instruction	6,491		190,461	196,952
Support Services	141,882	0		141,882
Operation of Non-Instruction Services		355,484	0	355,484
Other Outlays	3,000		0	3,000
<b>Total Expenditures</b>	<b>151,373</b>	<b>355,484</b>	<b>190,461</b>	<b>697,318</b>
Excess of Revenues Over (Under) Expenditures	(32,682)	41,448	0	8,766
OTHER FINANCING SOURCES (USES)				
Deobligation of Prior Year Funds	9,961	5,891	0	15,852
<b>Total Other Financing Sources (Uses)</b>	<b>9,961</b>	<b>5,891</b>	<b>0</b>	<b>15,852</b>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Uses	(22,721)	47,339	0	24,618
Fund Balance, Beginning of Year	94,659	162,283	86	257,028
Fund Balance, End of year	71,938	209,622	86	281,646

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, 2012**

	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)
<b>REVENUES:</b>									
Local Sources	106,516	118,691	12,175	48,019	50,361	2,342	0	0	
Intermediate Sources			0	0		0	0		0
State Sources			0	33,527	44,481	10,954	0		0
Federal Sources			0	274,025	302,090	28,065	191,019	190,461	(558)
<b>Total Revenues</b>	<b>106,516</b>	<b>118,691</b>	<b>12,175</b>	<b>355,571</b>	<b>396,932</b>	<b>41,361</b>	<b>191,019</b>	<b>190,461</b>	<b>(558)</b>
<b>EXPENDITURES :</b>									
Instruction	49,437	6,491	42,946	0		0			0
Support Services	148,738	141,882	6,856	0		0	0		0
Operation of Non-Instructional Services	3,000	3,000	0	517,854	355,484	162,370	0	0	0
Other Outlays			0			0	191,105	190,461	644
<b>Total Expenditures</b>	<b>201,175</b>	<b>151,373</b>	<b>49,802</b>	<b>517,854</b>	<b>355,484</b>	<b>162,370</b>	<b>191,105</b>	<b>190,461</b>	<b>644</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(94,659)</b>	<b>(32,682)</b>	<b>61,977</b>	<b>(162,283)</b>	<b>41,448</b>	<b>203,731</b>	<b>(86)</b>	<b>0</b>	<b>86</b>
<b>OTHER FINANCING SOURCES (USES):</b>									
Return of Assets			0		0	0		0	0
Deobligation of Prior Year Funds		9,961	9,961		5,891	5,891		0	0
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>9,961</b>	<b>9,961</b>	<b>0</b>	<b>5,891</b>	<b>5,891</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Revenue and Other Sources Over (Under) Expenditures and Other Uses</b>	<b>(94,659)</b>	<b>(22,721)</b>	<b>71,938</b>	<b>(162,283)</b>	<b>47,339</b>	<b>209,622</b>	<b>(86)</b>	<b>0</b>	<b>86</b>
<b>Fund Balance, Beginning of Year</b>	<b>94,659</b>	<b>94,659</b>	<b>0</b>	<b>162,283</b>	<b>162,283</b>	<b>0</b>	<b>86</b>	<b>86</b>	<b>0</b>
<b>Fund Balance, End of Year</b>	<b>0</b>	<b>71,938</b>	<b>71,938</b>	<b>0</b>	<b>209,622</b>	<b>209,622</b>	<b>0</b>	<b>86</b>	<b>86</b>

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, 2012

	BUILDING BOND FUND #37	BUILDING BOND FUND #38	BUILDING BOND FUND #39	TOTALS (Memorandum Only)
<u>ASSETS</u>				
Cash and Cash Equivalents	\$0	0	386,884	386,884
 Total Assets	<u>0</u>	<u>0</u>	<u>386,884</u>	<u>386,884</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Warrants Outstanding				
Reserved for Encumbrances			0	0
Total Liabilities	0	0	0	0
Fund Equity:				
Fund Balance	0	0	386,884	386,884
Total Fund Equity	0	0	386,884	386,884
Total Liabilities and Fund Equity	<u>\$0</u>	<u>\$0</u>	<u>\$386,884</u>	<u>386,884</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, 2012

	BOND FUND #37	BOND FUND #38	BOND FUND #39	TOTALS (Memorandum Only)
<u>Revenues:</u>				
Interest	\$0	0	0	0
Sale of Bonds			485,752	485,752
Total Revenues Collected	0	0	485,752	485,752
<u>Expenditures:</u>				
Instruction	0	0	0	0
Operation & Maintenance Plant Services	0	0	502,301	516,865
Student Transportation Services				0
Architecture & Engineering Services	0			0
Total Expenditures	0	0	502,301	516,865
Excess of Revenues Over (Under) Expenditures	0	0	-16,549	-31,113
<u>Other Financing Sources (Uses):</u>				
Deobligation of Prior Year Funds				0
Revenues and Other Sources Over/ (Under) Expenditures and Other Uses	0	0	-16,549	(31,113)
Fund Balance, Beginning of Year	0	0	403,433	403,433
Fund Balance, End of Year	\$0	\$0	386,884	386,884

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, 2012

	ACTIVITY FUND	INSURANCE FUND	GIFTS & ENDOWMENT FUND	TOTALS (Memorandum Only)
<u>ASSETS</u>				
Cash and Cash Equivalents	\$115,040	1,197	16,046	132,283
 Total Assets	 \$115,040	 1,197	 16,046	 132,283
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Warrants Outstanding	\$10,530		0	10,530
Reserves for Encumbrances			0	0
 Total Liabilities	 10,530	 0	 0	 10,530
Fund Equity:				
Fund Balance	104,510	1,197	16,046	121,753
 Total Fund Equity	 104,510	 1,197	 16,046	 121,753
 Total Liabilities and Fund Equity	 \$115,040	 1,197	 16,046	 132,283

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 FUND  
 FOR THE YEAR ENDED JUNE 30, 2012

	ACTIVITY FUND	INSURANCE FUND	GIFT & ENDOWMENT FUND	TOTALS (Memorandum Only)
<u>Revenues:</u>				
Interest	\$0	0	0	0
Local Sources	\$310,254	130,688	25,331	466,273
<b>Total Revenues Collected</b>	<b>310,254</b>	<b>130,688</b>	<b>25,331</b>	<b>466,273</b>
<u>Expenditures:</u>				
Instruction	0	130,621	20,085	130,621
Operation & Maintenance Plant Services	309,752	0		329,837
<b>Total Expenditures</b>	<b>309,752</b>	<b>130,621</b>	<b>20,085</b>	<b>460,458</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>502</b>	<b>67</b>	<b>5,246</b>	<b>5,815</b>
<u>Other Financing Sources (Uses):</u>				
Deobligation of Prior Year Funds				0
<b>Revenues and Other Sources Over/ (Under) Expenditures and Other Uses</b>	<b>502</b>	<b>67</b>	<b>5,246</b>	<b>5,815</b>
<b>Fund Balance, Beginning of Year</b>	<b>104,008</b>	<b>1,130</b>	<b>10,800</b>	<b>115,938</b>
<b>Fund Balance, End of Year</b>	<b>\$104,510</b>	<b>\$1,197</b>	<b>16,046</b>	<b>121,753</b>

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, 2011 TO JUNE 30, 2012**

	<u>Balance</u> <u>7/01/11</u>	<u>Deposits</u>	<u>Transfers</u>	<u>Disbursed</u>	<u>Balance</u> <u>6/30/12</u>
Annual	\$6,977.13	9,889.71	0.00	9,980.03	6,886.81
Arts and Crafts	\$199.22	240.00	0.00	420.68	18.54
Band-Color Guard	\$366.67	0.00	0.00	0.00	366.67
Band	\$523.10	1,642.22	0.00	1,681.59	483.73
Special Band Account	\$2,880.51	0.00	0.00	1,801.60	1,078.91
Baseball	\$8,704.54	19,825.61	0.00	22,405.04	6,125.11
Basketball, Boys	\$12,689.59	23,086.41	0.00	23,534.78	12,241.22
Basketball, Girls	\$12,265.90	15,924.60	0.00	15,455.76	12,734.74
Desktop Publishing	\$255.81	0.00	0.00	0.00	255.81
Builder's Club	\$341.48	309.65	0.00	139.48	511.65
Jr. High Cheer	\$39.50	5,554.57	0.00	5,491.90	102.17
Key Club	\$3,712.10	646.25	0.00	989.73	3,368.62
Elementary Media Center	\$2,534.31	13,531.25	0.00	12,843.17	3,222.39
Elementary	\$8,353.77	19,313.26	0.00	17,665.48	10,001.55
BPA	\$668.38	1,087.68	0.00	1,077.16	678.90
FCA	\$0.00	100.00	0.00	0.00	100.00
Alternative Education	\$399.57	21.48	0.00	0.00	421.05
Football	\$3,789.75	60,586.08	0.00	61,652.22	2,723.61
General	\$500.91	876.38	0.00	777.00	600.29
Golf	\$286.42	2,478.05	0.00	1,416.56	1,347.91
High School Newspaper	\$168.74	550.00	0.00	383.05	335.69
Soccer, Boys & Girls	\$499.34	14,521.88	0.00	14,945.93	75.29
Indian Camp	\$2,296.22	9,701.38	0.00	6,675.11	5,322.49
Junior High	\$1,505.49	4,526.20	0.00	3,841.55	2,190.14
Mu Alpha Theta	\$554.20	70.00	0.00	120.00	504.20
NASA	\$845.25	0.00	0.00	0.00	845.25
Cheerleaders	\$401.89	17,263.73	0.00	16,270.63	1,394.99
Refund	\$0.00	0.00	0.00	0.00	0.00
Softball	\$8,534.61	7,623.10	0.00	8,788.65	7,369.06
Special Olympics	\$1,285.24	703.20	0.00	476.91	1,511.53
Speech	\$2,236.41	0.00	0.00	0.00	2,236.41
Student Council	\$289.35	3,872.40	0.00	3,233.92	927.83

**PAWHUSKA SCHOOL DISTRICT NO. 2**  
**OSAGE COUNTY, OKLAHOMA**  
**SCHOOL ACTIVITY FUNDS**  
**RECEIPTS, TRANSFERS, DISBURSEMENTS AND SUBACCOUNT BALANCES**  
**JULY 1, 2011 TO JUNE 30, 2012**

	<u>Balance</u> <u>7/01/11</u>	<u>Deposits</u>	<u>Transfers</u>	<u>Disbursed</u>	<u>Balance</u> <u>6/30/12</u>
Tennis	179.67	150.00	0.00	229.98	99.69
Boy's Track	336.23	9,691.98	0.00	7,827.62	2,200.59
Girl's Track	314.76	7,576.56	0.00	5,799.80	2,091.52
Vending	10,507.70	4,741.17	0.00	8,406.75	6,842.12
Vocal	2,651.56	3,084.13	0.00	3,533.46	2,202.23
Wrestling	1,758.71	18,035.22	0.00	16,680.86	3,113.07
FFA	2,806.23	29,306.85	0.00	31,222.08	891.00
Agriculture Education	6.17	0.00	0.00	0.00	6.17
All Sports Banquet	1,342.18	3,723.00	0.00	3,983.75	1,081.43
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL</b>	<b><u>\$104,008.61</u></b>	<b><u>310,254.00</u></b>	<b><u>0.00</u></b>	<b><u>309,752.23</u></b>	<b><u>104,510.38</u></b>

**PAWHUSKA SCHOOL DISTRICT NO. 2  
OSAGE COUNTY, OKLAHOMA  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2012**

	Project Number	Federal CFDA Number	Program or Award Amount	Cash/ Beginning Balance at July 1, 2011	Federal Receipts	Federal Expenditures	Cash/ Ending Balance at June 30, 2012
<u>U.S. Department of Education:</u>							
Direct Programs							
Indian Ed	561	84.060	\$191,019		190,461	191,019	(558)
Impact Aid - P.L. 874	591	84.041	0		102,451	102,451	(0)
Impact Aid-Titl III	592	84.041	0		5,931	5,931	0
Subtotal			191,019	0	298,843	299,401	(558)
Passed through the Department of Education:							
Title I -Basic Program	511	84.010	227,512		205,346	205,346	0
Title I, School Improvement	515	84.010	7,540		7,540	7,540	0
Title I Neglected/Delinquent	532	84.010	6,754		815	815	0
21st Century	553	84.287	155,983		138,339	138,339	(0)
IDEA-Flowthrough	621	84.027	215,154		198,521	198,521	(0)
Preschool	641	84.173	6,735		6,735	6,735	0
Preschool-ARRA			619,678	0	557,296	557,296	(0)
<u>U.S. Department of Agriculture:</u>							
<u>Passed Through State Department of Education:</u>							
Food Service Programs - Breakfasts	385	10.555	77,963		77,963	77,963	(0)
Food Service Programs - Lunches	385	10.553	216,314		216,314	216,314	0
Food Service Programs - Commodities	385	10.557	17,679		17,679	17,679	0
Summer Food Program	385	10.559	19,917		7,813	19,917	(12,104)
Subtotal			331,873	0	319,769	331,873	(12,105)
Total Federal Financial Assistance			\$1,142,570	0	1,175,907	1,188,571	(12,663)

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, 2012**

Elizabeth Hembree – Treasurer  
Michelle Malaske – Assistant Treasurer  
Sara Pitts – Deputy Minutes and Encumbrance Clerk  
Heidi Unruh – Payroll Clerk  
Dee Demoss – Activity Fund Custodian  
Christina Camargo – Child Nutrition Fund Custodian  
Dr. Landon Berry - Superintendent

Employee Dishonesty Bond  
Tolson Agency Inc. - Policy No. FID8001202  
\$304,000.00 Limit  
Effective: March 8, 2011 to March 8, 2012

## **INTERNAL CONTROL AND COMPLIANCE REPORTS**

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# PUTNAM & COMPANY

169 S.E. 32<sup>ND</sup>

EDMOND, OKLAHOMA 73013

(405) 348-3800

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## 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 accompanying fund type and account group financial statements-regulatory basis of Pawhuska School District No. 2, Osage County, Oklahoma as listed in the Table of Contents as of and for the year ended June 30, 2012 and have issued our report thereon dated December 4, 2012, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. However, our report was qualified due to a departure related to the omission of general fixed asset account groups with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education. 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 Pawhuska School District No. 2'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 Pawhuska School District No. 2 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pawhuska School District No. 2'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.

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

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

This report is intended solely for the information and use of the Pawhuska School Board of Education, State Department of Education, management, and all applicable federal and state agencies and is not intended to be and should not be used by anyone other than these specific parties.

*Putnam & Company*

Putnam & Company

Edmond, Oklahoma  
December 4, 2012

# PUTNAM & COMPANY

169 S.E. 32<sup>ND</sup>

EDMOND, OKLAHOMA 73013

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## 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, 2012. Pawhuska School District No. 2's 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 Pawhuska School District No. 2's management. Our responsibility is to express an opinion on Pawhuska School District No. 2'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 Pawhuska School District No. 2'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 Pawhuska School District No. 2's compliance with those requirements.

In our opinion, the Pawhuska School District No. 2 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, 2012.

### ***Internal Control Over Compliance***

The management of the Pawhuska School District No. 2 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 Pawhuska School District No. 2'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 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance. .

A *control deficiency* entity's internal control over compliance exist 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 entity's internal control.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pawhuska School District No. 2'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.

This report is intended solely for the information and use of the Board of Education management, all applicable federal and state agencies, and those other governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specific parties.

*Putnam & Company*

Putnam & Company

Edmond, Oklahoma  
December 4, 2012

## **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, 2012**

**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**



## **MANAGEMENT LETTER AND COMMENTS**

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**PUTNAM & COMPANY**

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

December 4, 2012

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, 2012, as listed in the table of contents, and have issued our report thereon dated December 4, 2012. 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 4, 2012 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,



Jerry W. Putnam

**PAWHUSKA SCHOOL DISTRICT NO. 2  
OSAGE COUNTY, OKLAHOMA  
MANAGEMENT LETTER COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**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:

<b><u>Findings</u></b>	<b><u>No. of Instances</u></b>
Invoice Date Before P.O. Date	2

**REVIEW OF ACTIVITY FUND**

Our review of the Activity fund indicated that the Activity fund records were very good. However, in our review of Activity Fund purchases we noted that some purchases did not have a signed purchase order and some payments did not have proper documentation attached. We recommend that all Activity fund purchases be handled by an approved purchase order and proper documentation.

**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.