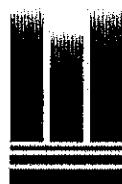


**INDEPENDENT
ACCOUNTANT'S AUDIT REPORT
SOUTHEASTERN PUBLIC LIBRARY SYSTEM
OF OKLAHOMA**

JUNE 30, 2019

BY

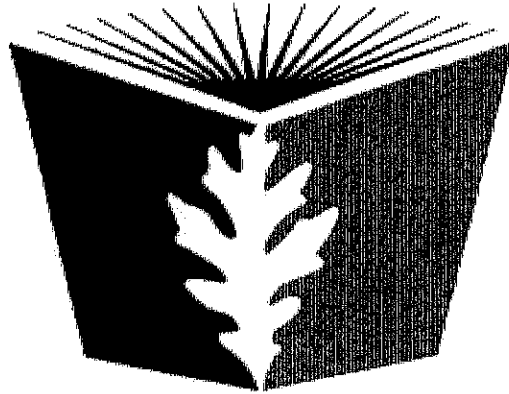


**FURRH
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS**

Southeastern Public Library System of Oklahoma
McAlester, Oklahoma
Year Ended June 30, 2019

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Southeastern Public Library
System of Oklahoma

Prepared by Michael Hull, Executive Director

Management's Discussion and Analysis
Southeastern Public Library System of Oklahoma
For Fiscal Year Ending June 30, 2019

August 27, 2019

For me FY 2019 was a whirlwind, with big project after big project landing on top of my desk. A new classification and pay policy. Updated procedures. Policy updates. Improved internal controls over finances. Recruitment of a successor to our technical services librarian. Then there was the mountain of time working with attorney's on SEPLSO's lawsuit. Somehow, we handled all of the projects and, if I don't mind saying, we came through them looking pretty good. You'll read about those projects in the following pages, but first I want you to thank and recognize the people who made completion and success of those projects possible.

First, I must thank our staff, starting with the administrative team of Admin Manager Rhonda Tidwell and Admin Assistant Charlene McDonald. They both handle many mission critical tasks and barely receive any recognition. They are the backbone of our business. Secondly, my hat goes to our senior management team consisting of Linda Potts, Leslie Langley, June Doyle, Jo Hunt and Ellen Barlow. This team manages our departments, ensuring customers receive great service and that all of our managers and staff have everything they need to be successful in their job.

Above all, I want to express both appreciation and admiration to the SEPLSO Board of Trustees. I boast of our Board everywhere I go. I would challenge anyone to find a governing board more dedicated, more active, and more willing to work than ours. Our Board attends board trainings, works in committee, and shows up for meetings wherever they are scheduled. Their support for myself, our staff and this organization has driven all of our accomplishments the past few years.

The following pages should give you a glimpse of what SEPLSO accomplished this past year. I have focused first on projects, policy changes, and new procedures that relate directly to how funds were spent. Next I provide an overview and assessment of SEPLSO's financial wellbeing. Then finally, I share with you the result of both of these, the statistics that indicate success or failure for our services.

It continues to be an honor to serve as Executive Director of such a fantastic organization with such wonderful people surrounding me at all levels. I hope this reading excites you both for what we have accomplished and for what still lies ahead in the coming years.

Respectfully,

Michael Hull, Executive Director

GOVERNANCE

Multi-County Library Systems were established and are regulated in Oklahoma as set forth by Title 65, Article 4, Sections 101-107 of the Oklahoma Statutes.

The Southeastern Public Library System of Oklahoma (SEPLSO) was established in the late 1960's when four member counties voted to approve ad valorem taxes to support the multi-county library system. Today, SEPLSO has fifteen (15) libraries operating in the seven (7) counties of Choctaw, Coal, Haskell, Latimer, LeFlore, McCurtain, and Pittsburg.

Title 65 of Oklahoma State Statutes establishes a governing Board of Trustees whose membership consists of appointees by the cities and counties constituting SEPLSO. The county commissioners appoint one representative each, and each city SEPLSO for which SEPLSO provides library services appoints a trustee. So with seven counties and fifteen libraries, the SEPLSO Board consists of 22 trustees. Trustees may serve two consecutive three-year terms. An initial partial term of less than eighteen (18) months does not count toward this limit.

Fiscal Year 2018 Trustees were as follows:

<u>Board Member</u>	<u>Represents</u>	<u>Location</u>
Carol Burgess	City	Arkoma
Paulette LaGasse	City	Broken Bow
Martha Gann	County	Choctaw
DeeAnn Miles	County	Coal
Janice Griffin	City	Coalgate
Patricia Warden	City	Hartshorne
Terri Moss	County	Haskell
Ron Evans	City	Heavener
Miriam Costilow	City	Hugo
Trilla Frazier	City	Idabel
Maryellen Mooney	County	Latimer
Elise Mitchell	County	LeFlore
Steve Harrison	City	McAlester
Betty Pollard	County	McCurtain
Jayna Santine	County	Pittsburg
Sarma Retchloff	City	Poteau
Britney Hambright	City	Spiro
Karen Holt	City	Stigler
Kaben Smallwood	City	Talihina
Dena Rymel	City	Valliant
Kay Warren	City	Wilburton
Roberta Lynch	City	Wister

FY 2019 In Review

From the outside, the inner working of SEPLSO may have appeared calm in FY 2019. SEPLSO introduced no splashy new services or updates. Primarily, management worked diligently to update financial policies and internal controls over receipt and handling of money. In addition, management worked with the Board to add or update policies that will allow future growth. This section will detail those policies, as well as other significant activities management handled that significantly affect SEPLSO's operations or budget.

Updates and Additions to Financial Policies

When our auditor completed her job last year, she left management with a large to-do list that included policy changes. We worked hard throughout the year to either update or add policies that improved internal controls or improved practices of SEPLSO.

Updated: Funds Management and Investment Policy

Reduced the collateral required for bank accounts from 115% to 100%.

Added: Fixed Asset and Capitalization Policy

This new policy established the threshold cost at which SEPLSO capitalizes expenses and established a depreciation schedule and procedure for capitalized expenditures.

Updated: Online Payments Policy

Although SEPLSO does not currently accept online payments, changes made to this policy allow for the possibility of doing so in the future while eliminating language that does not allow customers to use credit cards for payment while physically in SEPLSO libraries.

Added: Cash Handling Policy

Our auditor recommended creating a petty cash policy if we continued to use petty cash in branches. As management considered the procedures necessary to comply with the auditor's request, we decided to eliminate petty cash and instead asked the board to approve a new policy encompassing cash handling. In short, the Cash Handling Policy defines basic procedures for collecting cash from customers and moving it to the Service Center, requires all locations to securely store cash, and details the rare instances in which staff may make expenses from cash on hand.

Updated: Board Travel Policy

A new clause requires Trustees to provide copies of liability insurance and driver's license before SEPLSO will reimburse mileage.

Other Policy Updates

Other policies updated were:

Behavior Policy

Because of new medical marijuana laws in Oklahoma, the Board followed the recommendations of SEPLSO's attorney to add prohibitions of using or being under the

influence of medical marijuana while at the library, as well as prohibiting possession of marijuana without a license or in excess of legal limits with a license.

Service Recognition Policy

I appointed several employees from various level of SEPLSO to a committee to develop a complete overhaul of this policy, which provides the recognition of employees reaching milestone years. I could not be prouder of the work they accomplished. In this new policy, employees receive recognition of their time with SEPLSO after every five years of employment, as well as upon completion of their first and third years. Each recognition includes a monetary bonus and a gift, with the employee selecting the gift from a catalog. Furthermore, employees who work for SEPLSO at least ten years are considered to have retired upon leaving SEPLSO's employment, earning yet another cash bonus.

Meeting Facility Policy

Upon the recommendation of the Operating Policy Committee, the board approved changes that allow private or for-profit use of SEPLSO meeting rooms for a small fee, contingent upon a lack of prohibitions for such use from the building's owner.

Classification and Pay Policy

SEPLSO's pay scales had never been compared and contrasted with our neighboring library systems or other similar institutions. This past year, management took salary survey data received from Mid Continent Public Library System and created new salary tables based upon that data. We identified positions equivalent to ours, and then plugged them into the new table. We found that 60% of SEPLSO employees made less than market value. The Board approved the policy management presented and subsequently approved a five-step, two-year implementation plan to phase all employees into the new pay tables. In Phase One, approved in January, all employees received a raise. Phase Two, a 1.5% cost-of-living-adjustment, went to all employees at the start of FY 2020 in July. Phase Three, Four and Five are scheduled for January 2020, July 2020, and January 2021.

Local Checking Accounts

When I arrived at SEPLSO in 2015, SEPLSO maintained checking accounts for all fifteen branches. At any point in time, those accounts held nearly \$90,000 amongst them. In addition to the problem of accounting for seventeen bank accounts, the transaction made to and from these local accounts did not fall under any Board approved budget categories, nor did the Service Center maintain documentation of transactions from these accounts. Management had no clear knowledge of where the money in these accounts originated, nor any controls over what kind of expenses for which managers wrote checks. Also, while requiring two signatures, some of the signatures on the accounts were former trustees or members of a local friends of the library organization, people with no official connection to SEPLSO.

Over the past several years, management introduced proper internal controls over these accounts and provided additional purchasing mechanisms for managers. Eventually, use of these accounts grew less frequent and unnecessary. In January 2019, the SEPLSO Board voted to close each of these local accounts.

Closing of these accounts simplified our accounting and lowered the cost for CPA service. It also eliminated many hours necessary to update signature cards as employees or trustees rotated in and out of the system. Most importantly, closing them eliminated a large liability caused by the difficulties of overseeing the accounts.

Poteau Lawsuit

Throughout FY 2019 I contributed large amounts of time toward SEPLSO's lawsuit against remediation specialists who helped clean the library after a sewage backup in May 2017 and contractors who failed to install a backflow preventer when the library was built in 2014. My time on this project included providing documents, answering requests for information, and providing a deposition. All parties reached a settlement in July 2019.

New CPA Firm

This winter, SEPLSO contracted with a new firm to handle CPA services. The quality of reporting produced by this firm, BKD, immediately left a strong impression. The real test will be come as our auditor reviews their work and creates her own end-of-year reports for comparison.

Managerial Accountability for Cash Handling

Our auditor heaped great praise upon our Cash Register Weekly Logs last year. However, she criticized the lack of accuracy in the use of this form. We spent much time during the first half of the fiscal year training all levels of staff in the process and importance of this form. In January we emphasized consequences for failure to completely or accurately complete this form. As a result, a few level 1 warnings have been issued to managers and staff alike who have struggled with the forms. Overall, the quality and accuracy of the forms have drastically improved.

Long Range Plan

The Long Range Planning Committee met and discussed annual updates with the intention of presenting said updates to the Board in September 2018. However, once the committee looked at the document they quickly made the decision to completely overhaul the plan, which they deemed bulky, confusing, and out of touch. The resulting process, while taking several months and many hours of labor, produced a new, clean and concise document with clear goals, objectives and tasks. The format of the new plan allows the Long Range Planning Committee to set due dates, making the plan more dynamic and open to feedback from staff. It also creates a new mechanism by which the Executive Director reports progress toward goals. Approved in June 2019, the new Long Range Plan has generated considerable excitement among all levels of staff.

McAlester Downtown TIF

Throughout FY 2019, I worked with the McAlester Downtown TIF committee. The proposed TIF would take any increases in our ad valorem collections for a specified area of downtown and then use that money to invest in special projects for the business or the city. It would do the same for the other entities who receive ad valorem from the specified area: McAlester Public Schools, Kiamichi Technology Center, Pittsburg County, and Pittsburg County Health Department. Despite negative votes from the ad valorem entities, the committee passed a TIF Plan that then went to the McAlester City Council for approval. Fortunately, the council rejected the plan as presented.

Work toward creating a TIF are for downtown McAlester continues, and as the representative for an ad valorem entity I will continue to have membership in the planning committee. The importance of this lies in the fact that if approved, a TIF will affect how many tax dollars we receive in Pittsburg County.

SEPLSO Nexus

After two years of using Google Drive as common storage location for files and documents, we launched a new (Google-based) tool we call SEPLSO Nexus. Nexus is a web interface that contains all of the forms, files, policies and procedures a staff member may need, all easily organized and searchable. Because of its clean and simple interface, Nexus has proven very popular among staff.

Programming Coordination

Over the past year we have provided branches with new deadlines to ensure programs receive adequate planning and promotion. In FY 2019 we created a Programs Coordinator position to help assist branches with planning and development of programs in order to meet deadlines and quality expectations. The Program Coordinator has worked heavily on grant projects such as Let's Talk About It, and worked closely with the Oklahoma Humanities Council to bring guest speakers to southeastern Oklahoma. I look forward to watching our programming grow in the coming months.

Anonymous Children's Grant and Author Visit

For the past four years, SEPLSO has been expending funds from a large grant given for children's services. This grant allowed SEPLSO to add large quantities of children's materials and supported several new programs. In FY 2019, the remainder of the donation went toward an author visit from Sequoyah Award winning author Lois Ruby. Ms. Ruby visited all areas of our system and provided many discussions of her work. We received several accolades and much publicity thanks to her wonderful talks.

Continuing Education

New In-Service Format

For SEPLSO's Spring 2019 In Service Meeting, all of SEPLSO's employees gathered in Poteau where management completely replaced the format of the experience by creating a small conference experience. Outside of general opening and closing sessions, staff could choose from six to eight sessions for each time slot of the day. These sessions, presented by staff members from all levels locations of the organization, covered a multitude of topics. Evaluations proved the day to be a resounding success. Although it took more time and attention, we hope to duplicate this format in FY 2020.

Annual OLA Conference

For this year's annual Oklahoma Library Association conference, held in Norman, SEPLSO sent all branch managers and, thanks to travel grants from the Oklahoma Department of Libraries, sent four library assistants. During the conference's award ceremony, Hugo Library Assistant Toni Love received the Library Service Award. During the conference, I and several other SEPLSO staff led or participated in sessions organized

by the new Small Oklahoma Library Roundtable, an association roundtable for which SEPLSO led the creation.

ALA Conference

For three consecutive years now, the SEPLSO Board has authorized manager attendance to the annual American Library Association conference (the Executive Director's attendance has long been part of his contract). For this year's conference, four managers attended the conference in Washington, DC. Two SEPLSO trustees also attended and joined me in meeting with our legislators and their offices. SEPLSO also rented booth space in the career development center in order to recruit our next Technical Services Librarian.

Staff Meetings

In order to improve the efficiency in which important information and changes in policy and procedure are communicated to all staff, we now require all managers to hold monthly staff meeting. Managers must copy and paste into their agendas topics and clarifying points created by administration. Employees receive copies of the agendas and then sign that they have received the information. Confirmations are held on record by the Administrative Manager. Thanks to this process, management has certainty that all employees receive notice of any change to policy or procedure.

Other Trainings

This year all senior managers attended employment law trainings provided by Oklahoma's top law firms. In addition, other managers took advantage of opportunities to learn more about wage and hour law, FMLA, ADA and other employment issues at free workshops provided in the region.

Employee Handbook

Our Employee Handbook received its second update in March. Management worked with the employment law firm Crowe & Dunlevy to make any changes necessary due to changes in employment law or court rulings. The most significant change this year related to SEPLSO's drug-testing policy and medical marijuana. Recent changes in Oklahoma law provided certain protections to licensed medical marijuana users. Now, licensed medical marijuana card holders cannot be disciplined solely for receiving a positive test for consuming marijuana, clearly documented symptoms of use must accompany and preclude any testing. One thing that did not change is that employees may not possess marijuana in the workplace nor report to work under the influence of marijuana.

Our attorney also removed language that referred to SEPLSO as an at-will employer. As a political subdivision of the state, SEPLSO must provide due process to demoted or terminated employees. Related to these changes, the Board updated the disciplinary section to clarify the types of disciplinary action management may use and how employees can appeal those actions.

For years, our policies stated that all out-of-state travel requires Board approval. For many of our managers, cities in Arkansas and Texas are closer to travel to than any city in Oklahoma for

purchasing supplies. In Arkoma's case, the local checking account rested in a Ft. Smith bank. As conducting business and running errands across state lines has been cheaper and more efficient in these situations, management had been violating this policy for many years. The Board modified the Business Travel section to allow out-of-state travel for up to thirty miles with the approval of the Executive Director, thus allowing current practices to continue without violating policy.

Library Updates

Two libraries received physical updates last year. In Talihina, the Friends of the Library provided funding to help replace the carpet with tile and repainted the entire library interior. In Spiro, a plumbing leak soaked the entire carpet. The Town of Spiro used money from its insurance claim payout to replace drywall, lay down new carpet, and paint the interior.

Inventory and Capital Replacement Plan

Late in FY 2019, management updated SEPLSO's entire inventory, moving it from long Excel spreadsheets to a cloud-based software. The new software allows us to take pictures and assign barcodes to items. Currently, staff are working to conduct SEPLSO's first inventory, during which time all property will be labeled and photographed. Upon completion, management will possess the data necessary to prepare a Capital Replacement Plan for Board consideration.

Staff

FY 2019 saw several long-term staff members retiring. Most prominently, June Doyle, Technical Services Librarian, announced that she would begin retirement in December 2019. With this announcement, management postponed plans to hire an acquisitions librarian and instead conducted an exhaustive search for June's successor. That search included renting space in the career development center at the annual ALA conference. Our presence in the career center led to our connection with Miranda Wisor, a candidate from Gettysburg, PA whom we subsequently invited to interview for the position. Miranda will join us in October and work beside June Doyle through December, when June will retire to part-time cataloging status after forty years (thirty consecutive) of service.

Financial Discussion and Analysis of Fiscal Year 2019*

Revenue

SEPLSO receives its primary funding from a voter-approved millage levy (ad valorem tax) that originally passed in the late 1960s. At that time, voters approved a tax rate of two mills, the maximum then allowed under Oklahoma statutes. In the 1990s, the state law changed and raised the maximum library system mill rate from two to four mills. Upon this change in statute, then Executive Director Wayne Hanway led campaigns in all seven SEPLSO counties to raise the mill rate to the new limit. Throughout elections held in 1997-1998, voters in each SEPLSO county approved the millage increase.

Besides ad valorem funds, SEPLSO budgets for three other income types. State Aid generally constitutes the second largest form of revenue. State aid comes from the Oklahoma Department of Libraries (ODL) and, depending upon the budget appropriated to ODL, is based upon population and community size. Fees and charges for services and lost or damaged materials constitute SEPLSO's third largest revenue source. Finally, SEPLSO earns interest from several CDs and a money market checking account. Together, these three revenue sources constitute less than 5% of SEPLSO's budget.

In addition, each year SEPLSO receives funds from unbudgeted sources in form of donations or grants. Typically, these funds carry with them restrictions for use and must be spent within a specified timeframe. The number and amounts of these gifts vary from year to year.

Ad Valorem

FY 2019 saw SEPLSO ad valorem collections grow for the 6th consecutive year. This growth has allowed us to improve salaries, add services and replace much furniture and equipment. Since 2014, collections have increased by 18% (2.68% from FY 2018 to FY 2019). The greatest part of this growth occurred in McCurtain and Pittsburg Counties. In Pittsburg County, rising property values and growing business led the increase. In McCurtain County, SEPLSO and other ad valorem-funded entities continue to benefit from new properties built to accommodate expanding tourism that have just now started to pay their property taxes. Strong growth should continue, though I anticipate the wild and rapid growth we have benefitted from the past three years will slow down within a few years.

While Choctaw, Haskell and LeFlore Counties experienced smaller yet solid growth, Coal and Latimer Counties' collections decreased from FY 2018. In Coal County, decline in the oil and gas industry has doubtlessly brought property values lower. Latimer County's woes stem from the closure of the Wilburton hospital a few years ago. The loss of hospital service in the county affected jobs, businesses, and ultimately property value. While I hope the decline in Latimer County collections stabilize, SEPLSO should prepare for the possibility that collections will continue to decline over the next year or two.

Combined, and not including \$144,000 received in FY 2018 for incorrectly calculated valuations, our collections increased by 2.68% in FY 2019, or \$125,760. The table below compares regular

*Numbers used reflect our CPA's end-of-year work and not any additional adjustments made by our auditor.

collections in FY 2018 versus regular collections in FY 2019. Growth in Choctaw, Haskell, LeFlore, McCurtain and Pittsburg Counties more than compensated for declines in Coal and Latimer Counties.

County Ad Valorem Collections Growth

<u>County</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>\$ Change</u>	<u>% Change</u>
Choctaw	\$278,638	\$292,177	\$13,539	4.86%
Coal	\$448,052	\$395,278	\$(52,773)	-11.78%
Haskell	\$250,636	\$259,788	\$9,152	3.65%
Latimer	\$256,509	\$245,758	\$(10,751)	-4.2%
LeFlore	\$1,005,805	\$1,029,590.95	\$23,785	2.40%
McCurtain	\$903,427	\$965,589	\$62,161	6.88%
Pittsburg	\$1,552,531	\$1,633,178	\$80,646	5.19%
TOTAL	\$4,695,599	\$4,821,359	\$125,760	2.68%

The table below compares our budgeted ad valorem collections, based upon county assessor valuations and our 4-mill levy, with what we actually received. In most counties we received a surplus. Coal County collections alone collected less than budgeted because one large corporation has not yet paid its taxes, of which SEPLSO will collect approximately \$10,000.

County Ad Valorem Budget vs Actual

<u>County</u>	<u>FY 2019 Budgeted</u>	<u>FY 2019 Actual</u>	<u>\$ Change</u>	<u>% Change</u>
Choctaw	\$290,000	\$292,177	\$2,177	0.75%
Coal	\$400,000	\$395,278 [†]	\$(4,721)	-1.18%
Haskell	\$249,000	\$259,788	\$10,788	4.33%
Latimer	\$243,000	\$245,758	\$2,758	1.13%
LeFlore	\$1,022,000	\$1,029,590.95	\$7,591	0.74%
McCurtain	\$940,000	\$965,589	\$25,589	2.72%
Pittsburg	\$1,604,000	\$1,633,178	\$29,178	1.82%
TOTAL	\$4,748,000	\$4,821,359	\$73,359	1.55%

State Aid

Management overestimated the amount of state aid SEPLSO would receive in FY 2019 by approximately \$12,000. With the state coming out of years of budget woes, we anticipated ODL would receive at least flat funding. However, in FY 2018 Tulsa City-County Library (TCCL) did not qualify for state aid funding, resulting in ODL dividing its portion among the remaining eligible libraries. For FY 2019, TCCL once again qualified for and received state aid, thereby lessening the amount of funds available to other libraries.

Fees and Charges

Although traffic into libraries increases, the demand for traditional services such as copying, printing and faxing decreases. With every passing year, more users own technology such as laptops, tablets or smartphones that allow for digital storage and transmission of documents, thus

[†] Coal County collections appear negative because one large corporation has not yet paid its taxes, of which SEPLSO will collect approximately \$10,000.

decreasing the need for analog storage and transmission. As a result, libraries collect less for these services. In addition, the increase in digital circulation equates to fewer overdue or lost/damaged material charges. The collection of fees and charges has decreased by \$4,000-\$5,000 each of the past several years.

Interest

In the past two years CD rates have increased. Whereas the best rates we could find three years ago hovered around 2%, our local Edward Jones representative has found CDs that offer rates of 2.25% or higher. Therefore, we have put more and more money into CDs, going from \$400,000 invested in CDs to \$1,497,000. As a result, we have exceeded prior year and budget expectations for interest by \$27,000.

Fingerprinting

For the past year and a half, the Patrick Lynch Public Library has piloted a fingerprinting program. The company behind this approached the library when they could not find another community partner to conduct the fingerprinting required of all state employees, including teachers. Although the library receives a fee for every individual processed through the system, we offered this service primarily as a service to the community. In FY 2019, the fees collected for this service amounted to \$4,100. Unfortunately, this program requires excessive staff time that prevents staff from focusing on other duties that does not justify the small fee received. The Patrick Lynch Public Library will cease conducting the fingerprinting service in fall 2019.

Expenses

SEPLSO’s budgeted expenses fall within four categories: payroll, operating, informational materials, and capital projects. The SEPLSO Board approves budget totals for these categories; management presented and prepared the line items discussed below as part of the budget packet, but they are not part of the approved budget.

Payroll Expenses

Payroll Expenses includes all salaries, taxes, retirement contributions, payroll and healthcare costs. In January the Board approved phase one of implementing the new policy. In this first phase, all employees received a minimum ten cent per hour raise while employees earning less than the new pay tables received up to 5% increase in wages toward their new salary. Surprisingly, payroll costs decreased this year despite the raises given to staff.

	<u>Jul '17 - Jun 18</u>	<u>Jul '18 - Jun 19</u>	<u>FY 18 Difference</u>
Payroll Expenses			
· Salaries	2,482,581.34	2,371,445.69	-111,135.65
· FICA/Medi Expense	173,200.76	195,807.69	22,606.93
· Unemployment Tax	13,185.77	16,040.36	2,854.59
· Worker's Comp Insurance	4,940.00	12,142.00	7,202.00
· Retirement Fund Contribution	310,954.50	328,063.00	17,108.50
· Human Resources	10,602.92	25,990.43	15,387.51
· Health/Life Ins Benefits	425,058.12	407,309.79	-17,748.33
· Health Insurance Compensation	3,956.15	32,430.44	28,474.29
Total Payroll Expenses	3,424,479.56	3,389,229.40	-35,250.16

The biggest factor contributing to lower payroll costs from FY 2018 was the services of our new auditor and how they updated the procedures they use to record expenses. Governmental and accrual accounting require that payroll costs incurred in a fiscal year be recorded in that same fiscal year, even when the actual pay date occurs the following year. For example, for the end of SEPLSO's FY 2018 (June 30), the final week of June overlapped with a payroll paid in July and recorded as part of FY 2019. Our auditor made an adjustment to move the June portion of payroll costs out of FY 2019 and into FY 2018. Our new auditor also entered accrued and unused vacation time for employees because that represents a liability that SEPLSO must pay upon an employee's departure from the company. These adjustments inflated the FY 2018 payroll costs. Our new CPA accrued FY 2019 expenses in the same manner, meaning the numbers presented here should vary little from any adjustments made by the auditor.

Other factors that helped lower payroll costs includes the retirement of several long-term, full-time staff members. In some instances, management assessed the needs of the positions and replaced the vacant hours with part-time employees who earn less and do not qualify for SEPLSO's health insurance. But even in cases when full-time staff replaced the vacant position, the newer hire earned considerably less.

Employee health insurance costs did not rise in January, which definitely helped keep costs down. The prior year saw an 8% increase in premiums, while years prior to that averaged a 4% increase.

From a budgetary perspective, management kept costs under by nearly 3%. Human resources cost surpassed expectations due to recruitment costs in the recruitment of our new Technical Services Librarian. Health insurance costs decreased due to retiring full-time staff and the option for qualifying staff to opt out of SEPLSO-provided coverage to receive half of the premiums on their paycheck.

	<u>Jul '18 - Jun 19</u>	<u>FY 19 Budget</u>	<u>\$ Over Budget</u>	<u>% of Budget</u>
Payroll Expenses				
· Salaries	2,371,445.69	2,427,288.00	-55,842.31	97.7%
· FICA/Medi Expense	195,807.69	188,580.00	7,227.69	103.83%
· Unemployment Tax	16,040.36	14,340.00	1,700.36	111.86%
· Worker's Comp Insurance	12,142.00	36,702.00	-24,560.00	33.08%
· Retirement Fund Contribution	328,063.00	338,727.00	-10,664.00	96.85%
· Human Resources	25,990.43	24,468.00	1,522.43	106.22%
· Health/Life Ins Benefits	407,309.79	441,053.00	-33,743.21	92.35%
· Health Insurance Opt-Out	32,430.44	19,515.00	12,915.44	166.18%
Total Payroll Expenses	3,389,229.40	3,490,673.00	-101,443.60	97.09%

The largest factor contributing to savings in salaries was the postponement of hiring an acquisitions librarian. Management anticipated hiring the position in April but changed directions when Technical Services Librarian June Doyle announced her retirement. Other savings came from managers carefully monitoring overtime and replacing outgoing full-time positions with part-time when feasible.

Operating Expenses

Operating Expenses cover a myriad of items. For SEPLSO, Operating Expenses acts as a catchall for any non-personnel and non-material expenses.

Operating expenses increased from FY 2018 by \$61,000. Almost half of this increase came about from losing an insurance premium discount due to SEPLSO's 2017 sewage loss claim in Poteau. While it appears Automation Support increased by nearly \$18,000, this is misleading. Our auditor recorded part of FY 2018's Automation Support as a prepaid expense for FY 2019. Our CPA has continued amortizing this expense throughout FY 2019. The two largest increases after these were Vehicles and Computer Equipment. SEPLSO spent more for Vehicles this year because of three new vehicles purchased in June 2018. The computer budget included the purchase of managerial laptops and iPad catalog stations for customers.

	<u>Jul '17 -</u> <u>Jun 18</u>	<u>Jul '18 -</u> <u>Jun 19</u>	<u>FY 18</u> <u>Difference</u>	<u>FY 19</u> <u>Budget</u>	<u>\$ Over</u> <u>Budget</u>	<u>% of</u> <u>Budget</u>
Operating Expenses						
· Utilities	5,936	4,961	-975	5,800	-839	85.53%
· Telephone Expense	15,407	18,170	2,763	17,436	734	104.21%
· Continuing Education	22,243	11,663	-10,580	15,210	-3,547	76.68%
· Postage & Box Rent	640	1,691	1,051	12,302	-10,611	13.75%
· Board Travel	11,485	14,105	2,620	15,000	-895	94.03%
· Employee Travel	43,624	40,960	-2,664	44,442	-3,482	92.16%
· Vehicle	8,424	12,624	4,200	10,000	2,624	126.24%
· Equipment Rental & Repair	57,885	57,935	50	59,600	-1,665	97.21%
· Maintenance Contracts	139,835	140,000	165	140,000	-0	100.0%
· Insurance Expense	35,690	63,900	28,210	61,092	2,808	104.6%
· System Supplies	39,816	38,497	-1,319	37,555	942	102.51%
· Special Programs & Supplies	46,018	45,586	-432	47,800	-2,214	95.37%
· Reading Center Equipment	7,229	9,792	2,563	9,024	768	108.51%
· Advertising and Marketing	14,962	14,779	-183	13,550	1,229	109.07%
· Memberships	4,394	4,042	-352	6,415	-2,373	63.01%
· Furniture & Equipment	22,298	20,696	-1,601	24,150	-3,454	85.7%
· Audit	15,000	17,643	2,643	18,000	-357	98.02%
· Revaluation Fees	91,820	92,283	462	98,590	-6,307	93.6%
· Internet Fees	3,255	0	-3,255	4,005	-4,005	0.0%
· Computer Equipment/Software	47,033	54,178	7,145	53,124	1,054	101.98%
· Automation Support	46,282	64,065	17,784	64,625	-560	99.13%
· Professional Fees	45,946	38,069	-7,877	38,800	-731	98.12%
· Miscellaneous Expense	4,178	2,536	-1,642	2,283	253	111.09%
Total Operating Expenses	707,102	768,176	61,074	798,803	-14,106	96.17%

From a budgetary perspective, management kept operating costs nearly 4% under budget with no significant savings or overages on any line item.

Informational Materials Expenses

Material expenses barely exceeded 2018's totals. From a budgetary viewpoint, Bibliographic Services, the costs of cataloging and processing materials, surged, but its extra cost and an increase in databases costs were compensated by less spending on physical and downloadable content.

	<u>Jul '17 - Jun 18</u>	<u>Jul '18 - Jun 19</u>	<u>FY 18 Difference</u>	<u>FY 19 Budget</u>	<u>\$ Over Budget</u>	<u>% of Budget</u>
Branch Information Materials						
· Bibliographic Services	50,804	59,523	8,719	43,100	16,423	138.1%
· Downloadable Materials	61,015	64,104	3,089	71,000	-6,896	90.29%
· Reading Ctr Materials	13,741	13,061	-681	16,000	-2,939	81.63%
· Online Information	86,148	138,896	52,748	128,346	10,550	108.22%
· Physical Materials	439,526	398,848	-40,678	431,000	-32,152	92.54%
Total Info. Materials	651,235	674,431	23,196	689,446	-15,015	97.82%

Donations and Grants

SEPLSO does not often receive large donations or grants, but what we do receive significantly enhances the operations of our libraries. While grants always carry restrictions for purchases and dates within which we must expend the funds, donations can vary. When the public donates for specific purpose, such as for books or for informational programs, we categorize them as Designated Donations. When we receive donations of general purpose or for use as a branch manager sees fit, we categorize them as Discretionary Donations and give managers large leeway in expending the funds with the expectation that said funds be spent by year's end. We highly encourage anyone making a minor donation, \$500 or less, to mark the donation as discretionary.

Donations Received

	<u>FY 2018</u>	<u>FY 2019</u>
Designation Donations	3,130	855
Discretionary Donations	12,070	17,798

SEPLSO only received \$855 in designated donations this year. Typically, donations of large amounts come from wills or estates.

In FY 2019, SEPLSO tracked in-kind giving for the first time. In-Kind donations include cost shares from local groups such as Friends of the Library, and the cost or value of physical materials donated. So all donated books, time donated by speakers, supplies provided by Friends of the Library and more receive an estimated value from managers and SEPLSO's accountant then records that value in the financial statements. In FY 2019, SEPLSO received \$36,028 worth of in-kind donations.

Grant income rose sharply in FY 2019. \$4,136 the prior year grew to \$25,355! Nearly half of this year's grant income came in the form of a grant to the Coal County Public Library from the Carolyn Watson Rural Oklahoma Foundation designated for updating its children's area. With a programs coordinator newly added, SEPLSO had someone who could seek and apply for grants from Oklahoma Humanities and Arts councils, allowing us to expand Let's Talk About It programs to three libraries other than McAlester.

Grant Income	<u>Jul '18 - Jun 19</u>
Conference Travel Grants	1,393
Oklahoma Humanities – John Hinkle WWI	1,000
Coalgate Carolyn Watson Rural OK	12,000
Heavener Immigration Network	1,987
Hugo Let's Talk about It	2,000
Oklahoma Humanities – African Harp	1,000
Idabel Let's Talk about It	250
Hugo Let's Talk about It	3,250
Arts Council – Jim Garlin (Spiro)	225
Wilburton Let's Talk about It	2,250
Total Grant Income	25,355

Capital Projects Expense

SEPLSO made no large capital purchases in FY 2019.

Assets and Liabilities

SEPLSO ended FY 2019 healthier than ever in its history. With \$5.9 million in cash and CDs and \$600,000 more in assets, SEPLSO has the capability to weather an external economic catastrophe and to continue growing services.

Assets	<u>June 30, 2019 Balance</u>
Checking Accounts	4,413,111
Investments	1,497,446
Accounts Receivable	52,843
Prepaid Assets	193,495
Furniture, Equipment & Vehicles	<u>353,551</u>
<i>Total Assets</i>	<i>6,510,446</i>
Liabilities	
Accounts Payable	104,977
Payroll Liabilities	57,547
Employee Vacation Liabilities	<u>114,917</u>
<i>Total Liabilities</i>	<i>277,441</i>
Committed or Restricted Funds	
Assigned	8,000
Committed (policy-required reserve)	1,180,017
Restricted	<u>72,117</u>
<i>Total Committed or Restricted</i>	<i>1,260,134</i>

Even with liabilities and committed or restricted funds, SEPLSO's cash assets stand at \$3.76 million, which is enough to operate the library system three-quarters of a year if we don't receive any revenues. If you include the policy-required reserve of \$1.18 million, SEPLSO has cash to operate a full year without any revenues.

SERVICES

The concept of library service has evolved greatly over the past thirty years. No longer a quiet place to study and borrow books, public libraries serve as bustling community centers focused on information discovery and exchange. While books maintain their place as the backbone of that service (even our largest growth there comes from the shift toward downloadable books), enabling connection to other information continues to consume a growing portion of our service.

In rural southeastern Oklahoma, many communities and residences lack the infrastructure to obtain quality Internet access, and what is available often carries a high monthly fee. Furthermore, with a high poverty rate, thousands of citizens simply cannot afford any access, making SEPLSO's Wi-Fi and computer access a crucial aspect of learning and communication. SEPLSO also subscribes to many databases that contain information that users cannot simply Google, and library programs allow citizens to connect with one another while learning about topics of local or global interest.

ANNUAL CIRCULATION

FY 2019 experienced an overall decline in borrowing of library materials. Among SEPLSO branches, only Poteau and Wilburton increased circulation over their prior years. Poteau's incredible growth stems from the fact that the Patrick Lynch library was closed for half of FY 2018 due to repairs and replacements resulting from the May 2017 sewage backup. The Wilburton library owes its success to the enthusiastic efforts of manager Shawna Busby who has done a phenomenal job of engaging her community through programs, outreach and marketing.

	FY 2018	FY 2019	Difference	%
Arkoma	8,649	5,988	(2,661)	-30.77%
Broken Bow	53,561	42,204	(11,357)	-21.20%
Coalgate	31,523	25,326	(6,197)	-19.66%
Hartshorne	21,573	12,917	(8,656)	-40.12%
Heavener	35,436	30,896	(4,540)	-12.81%
Hugo	33,837	31,141	(2,696)	-7.97%
Idabel	67,657	53,717	(13,940)	-20.60%
McAlester	127,897	111,370	(16,527)	-12.92%
Poteau	37,072	78,217	41,145	110.99%
Spiro	19,557	8,692	(10,865)	-55.56%
Stigler	37,973	37,924	(49)	-0.13%
Talihina	17,892	11,956	(5,936)	-33.18%
Valliant	9,969	9,130	(839)	-8.42%
Wilburton	23,947	25,439	1,492	6.23%
Wister	28,690	24,620	(4,070)	-14.19%
Downloadable	48,859	57,226	8,367	17.12%
Total	604,092	566,763	(37,329)	-6.18%

With no doubt, part of the struggle with circulating physical materials is due to the shift toward online reading. SEPLSO's downloadable circulation increased by 17%, more growth than the prior year's 13%. Future budgeting should place more emphasis on downloadable items, reducing

the budget for physical items. Circulation suffered huge hits in Spiro and Talihina due to several weeks each location closed for repairs and updates.

Another large reason for the decline in circulation is due to poor selection. For the past two years, SEPLSO has used specialty software to monitor and evaluate our collections. According to the reports, over 60% of books purchased never circulate. When our new Technical Services Librarian arrives, she will focus on centralizing SEPLSO's selection process. Management expects her skills and experience to quickly improve the efficiency of selection. Large weeding projects should free up shelf space and increased discoverability as well.

In short, between more focus on downloadable materials and centralizing selections, we expect circulation to stop receding and begin growing over the next two years.

Library Programs

In FY 2019, management introduced new standards in quantity and quality for library programs. Now, each library must conduct a specific number of programs each month, based on library size. Those programs require advance planning and marketing.

	<u>Number of Programs</u>	<u>Program Attendance</u>	<u>Attendance Per Program</u>
FY 2019	4,270	39,169	9.17

In FY 2020, management will continue improvement of programming, centralizing summer reading planning and helping libraries to evaluate programming needs and outcomes.

Active Cardholders

Perhaps the strongest indicator of SEPLSO's success is active card holders. Many library users never check out a book, instead using their card to access computers or databases. Others use the library only for informational programs or for copying or faxing services. Circulation cannot account for users who use these services but never borrow materials. Most of these users will, however, obtain a library card. For that reason, management believes the number of active cardholders serves as the best barometer of success and impact.

At the end of fiscal year 2019, SEPLSO had 27,948 active cardholders. This indicates approximately 16% of our seven-county residents have library cards. Considering how much of our population lives in rural communities without a SEPLSO branch, this indicates strong use and support for libraries.

Outreach

A growing area of service for SEPLSO is outreach. SEPLSO sends staff to conduct book reading and programs in preschools and head starts not only in our communities with SEPLSO libraries, but also to nearby or surrounding communities. We also partner with nursing homes, DHS, and other government services to provide light programming that includes readings and crafts. Outreach activities reached about 35 persons each visit.

FY 2019 Outreach Activities: 899
Points of Contact: 31,878

Currently branches conduct the outreach with no coordination. In FY 2020, management will provide more coordination of outreach by defining types of outreach and tracking them accordingly, as well as centrally coordinated outreach procedures for maximum efficiency.

Library Visits

Despite long closures in Spiro and Talihina, the number of visits to the library exploded, although half of the growth can be attributed to Poteau, which was closed half of the prior year.

Branch	2018		2019		Difference	
	Annual Visits	Weekly Average	Annual Visits	Weekly Average	Visits	Percentage
Arkoma	5,011	96	4,645	89	(366)	-7.88%
Broken Bow	51,319	987	55,628	1,070	4,309	7.75%
Coalgate	37,660	724	39,769	765	2,109	5.30%
Hartshorne	28,184	542	31,850	613	3,666	11.51%
Heavener	32,731	629	33,608	646	877	2.61%
Hugo	49,339	949	92,719	1,783	43,380	46.79%
Idabel	49,460	951	55,193	1,061	5,733	10.39%
McAlester	96,269	1,851	119,971	2,307	23,702	19.76%
Poteau	16,016	308	83,806	1,612	67,790	80.89%
Spiro	26,764	515	23,703	456	(3,061)	-12.91%
Stigler	34,021	654	40,153	772	6,132	15.27%
Talihina	13,170	253	14,442	278	1,272	8.81%
Valliant	17,390	334	18,887	363	1,497	7.93%
Wilburton	27,911	537	38,310	737	10,399	27.14%
Wister	19,226	370	19,786	381	560	2.83%
Total	504,471	9,701	672,470	12,932	167,999	24.98%

Doubtlessly, this growth relates to SEPLSO's increased computer usage, and partly with the increased number of programs. The large number of charter and virtual school students using the library for work or meeting with their teachers also factors into this increase.

Computer and Wi-Fi

The strong usage of our Wi-Fi and public computers reflects both the poverty of our area and the poor IT infrastructure available to citizens. While more citizens own smart devices such as smartphones or tablets, many cannot afford Internet access. Our dependable Wi-Fi and numerous public computers allow users to connect to the world and to access important library resources.

In FY 2019, Wi-Fi usage decreased from the prior year. Management attributes this to greater affordability of mobile data plans, allowing many users who relied solely on the library for their Internet access, to use their devices from home. Also, most SEPLSO branches lack areas to comfortably sit and charge personal devices while using the Internet. Still, usage remains high and could easily swing back up in future years.

Wi-Fi Usage

	<u>FY 2018</u>	<u>FY 2019</u>
Wi-Fi Sessions	224,038	200,353
Devices Connected	6,852	6,488

While use of Wi-Fi decreased, use of public computers dramatically increased, begging the question of why the increase here while Wi-Fi decreased? While more people own smart devices, small screen sizes make certain tasks difficult. Tasks such as applying for jobs, conducting research and filing taxes, for example, can be accomplished more quickly and accurately with a computer, keyboard and monitor. Smartphones and tablets, while capable of handling almost all daily needs of users, do not suffice for performing these tasks. The increase in charter and virtual school enrollment also increases demand for the library’s computers by students.

Computer Usage

	<u>FY 2018</u>	<u>FY 2019</u>
Public Computer Sessions	54,509	83,279
Time of Sessions	22,704	59,583

Management expects public computer and Wi-Fi usage to grow. Opening more space for computers and budgeting for additional machines should be considered in future budgets. Additional seating with or near charging stations could also increase SEPLSO’s capacity to handle more users bringing their own devices.

Databases

SEPLSO uses the term “database” to refer to any online resources requiring a subscription that provides information. The most popular of SEPLSO’s databases focus on ancestry (Ancestry.com, Fold3) or local history (Digital Reel provides access to digital copies of all of SEPLSO’s microfilm records for in-library users). SEPLSO also provides legal form, language learning and car repair databases, and of course traditional research databases that include academic journals for many subject areas.

Paid database usage increased by 28% over FY 2018 thanks to high usage of genealogy and local newspapers. Most other databases continue strong usage. In FY 2019 SEPLSO traded in EBSCO’s Auto Repair Reference for Chilton’s Auto, believe the brand recognition would spur more use; because the opposite happened SEPLSO has returned to Auto Repair Reference for FY 2020, a move which included enough savings to add an additional genealogy database – Heritagequest. If low use also continues for the package of reference center databases in FY 2020, management will consider cancelling those subscriptions.

The Oklahoma Department of Libraries uses federal funding to provide the majority of SEPLSO’s research databases. These are used by students of all ages, and often contain content informative and useful to the general public. In addition, SEPLSO has subscribed to a handful of additional databases covering content of popular interest and that may aid homeschooled children. SEPLSO research databases include AtoZ Maps, Biography Reference Center, Consumer Health, Gale Virtual Reference, History Reference Center, H.W. Wilson, and Points of View Reference Center.

	Total FY18 Usage	Total FY19 Usage	Difference
ODL Database Usage	5,156	4,532	(624)

SEPLSO Paid Databases	Total FY18 Usage	Total FY19 Usage	Difference
Ancestry	59,223	47,856	(11,367)
AtoZ Maps	101	585	484
Auto Repair Reference Center	618	0	(618)
Biography Reference Center	649	270	(379)
BMI Digital Reel	59,690	83,559	23,869
Chilton's	47	221	174
Consumer Health Complete	367	37	(330)
Fold 3	7,700	37,559	29,859
Gale Virtual Reference Library	725	320	(405)
History Reference Center	278	255	(23)
Hoonuit	340	212	(128)
Fiction Core Collection etc.	93	0	(93)
Law Depot	893	765	(128)
Learning Express Library	304	777	473
National Geographic	370	723	353
Newsbank	3,361	2,269	(1,092)
Novelist Plus	441	0	(441)
Points of View Reference Center	74	23	(51)
Pronunciator	242	148	(94)
Small Business Reference Center	83	90	7
Tumblebooks	4,051	4,000	(51)
Tutor.com	490	98	(392)
SEPLSO Database Usage	140,140	179,767	39,627

Summary

Growing revenues, effective budgeting and targeted grant seeking made FY 2019 a profitable year for SEPLSO. Revenues should continue to grow, which should ensure our goal of completing implementation of the Classification and Pay Policy. This is the greatest new expense on the horizon, but one that will also be offset by the continued growth in revenue and by savings as long-term employees retire or move on to new professions.

With no real property to maintain, SEPLSO has ample reserves for both emergencies and projects. The upcoming Capital Replacement Plan will help with designating a purpose for much of these funds. As revenues grow, the Board should consider plans for new services such as adding branches, outreach centers, or bookmobile service.

Management must provide better controls over the selection of materials. Far too many books fail to check out at too much cost. This control will come when our new Technical Services Librarian, who has received advanced training in selection techniques, arrives in the fall. In addition, more of the materials budget should shift toward downloadable content, which has grown strongly each of the past several years and shows no sign of abatement.

Much staff time goes toward special programs, evidenced by the large number of programs shared earlier. Management must ensure that time is being well used, finding creative and collaborative methods to decrease the workload of planning and implementing these programs and possessing the willingness to cancel programs of little value with sparse attendance, even if those programs once brought in crowds and remain a favorite of staff.

Greatly increased foot traffic and computer use indicate furniture should be purchased to assist in gathering and working on private devices. With the drastic decline in non-fiction circulation, shelving can be reduced to create more open spaces and areas for this furniture, turning the library into a more collaborative setting and one prepared for the future.

While opportunities abound, some potential risks lurk on the horizon. At some point the rapid growth in McCurtain and Pittsburg County valuations will stabilize. If that happens and declining valuations in Coal and Latimer County have not leveled out, ad valorem revenues could possibly decline. Rising costs, particularly for health insurance, are certain, and the political climate we presently live in could very easily trigger rapid inflation. Still, SEPLSO's reserves and short-term prospects outshine any potential setbacks. Maintaining a healthy reserve and prudently overseeing expenses can allow SEPLSO to operate throughout several years of declining revenue.

I cannot think of a better time to be a part of this library system. SEPLSO has evolved rapidly the past four years, gaining the attention of the profession at both the state and national levels. The current long range plan contains attainable and exciting projects that prove SEPLSO a leader among Oklahoma libraries. And above all, we truly make a difference in our communities. Small, rural communities need libraries more than large cities; we simply lack the many other resources and services available in urban areas. Because of this need, our citizens show more praise and appreciation, while the impact our presence changes the lives of every individual who walks through our doors. None know this more than our dedicated staff, without whom we could not accomplish all that we have. Each SEPLSO employee understands the difference they make to

their users, taking great pride and joy in service. With a healthy budget, visionary board, and such a passionate staff, there's no better library system in the world to be a part of.



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Southeastern Public Library System of Oklahoma
McAlester, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the discretely presented component units of the Southeastern Public Library System of Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and the discretely presented component units of the Southeastern Public Library System of Oklahoma, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages A-1 thru A-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Budgetary Comparison Schedule on pages 21-22 and the Notes to the Required Supplementary Information on page 23 are also presented according to Governmental Accounting Standards Board requirements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule and Notes to the RSI are fairly stated in all material respects in relation to the basic financial statements as a whole.

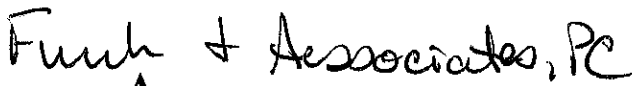
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The combining nonmajor fund financial statements and grant schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the grant schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the grant schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2019, on our consideration of the Southeastern Public Library System of Oklahoma’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System’s internal control over financial reporting and compliance.


FURRH & ASSOCIATES, PC
Lawton, Oklahoma
August 22, 2019

Southeastern Public Library System of Oklahoma
McAlester, Oklahoma
Statement of Net Position
June 30, 2019

Current Assets

Cash and Cash Equivalents	\$ 4,413,111
Investments	5,712,606
Ad Valorem Tax Receivable	52,843
Accounts Receivable	5,007
Prepaid Assets	<u>216,003</u>

Total Current Assets \$ 10,399,570

Other Assets

Fixed Assets, Net of Accum Depr.	<u>363,916</u>
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Total Other Assets 363,916

Total Assets **\$ 10,763,486**

Liabilities

Accounts Payable	\$ 104,977
Payroll Tax Liabilities	9,729
Accrued Salaries	56,799
Compensated Absences Liability	<u>167,383</u>

Total Liabilities \$ 338,888

Net Position

Invested in Capital Assets, Net of Debt	363,916
Restricted	1,323,690
Unrestricted	<u>8,736,992</u>

Total Net Position 10,424,598

Total Net Position and Liabilities **\$ 10,763,486**

Please see accompanying notes to the financial statements.

Southeastern Public Library System of Oklahoma

McAlester, Oklahoma

Statement of Activities Year Ended June 30, 2019

	Program Revenues			Net (Expense) Revenue & Changes in Net Assets			
				Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Primary Government							
Governmental Activities:							
Operating Expenses	\$ 870,044	\$ 86,036	\$ 0	\$ 0	\$ (784,008)	\$ 0	\$ (784,008)
Personnel Services	3,419,491	0	0	0	(3,419,491)	0	(3,419,491)
Informational Materials	757,273	0	25,355	0	(731,918)	0	(731,918)
Public & Technical Services	195,614	0	0	0	(195,614)	0	(195,614)
Total Governmental Activities	\$ 5,242,422	\$ 86,036	\$ 25,355	\$ 0	\$ (5,131,031)	\$ 0	\$ (5,131,031)

General Revenue

Ad Valorem Tax	4,821,359	0	4,821,359
State Aid	93,559	0	93,559
Investment Income	250,209	0	250,209
Miscellaneous	18,583	0	18,583
Donations	54,879	0	54,879
Employee (er) Contributions	416,220	0	416,220
Total General Revenue	5,654,809	0	5,654,809
<u>Change in Net Position</u>	<u>523,778</u>	<u>0</u>	<u>523,778</u>
<u>Net Position, June 30, 2018</u>	<u>9,900,820</u>	<u>0</u>	<u>9,900,820</u>
<u>Net Position, June 30, 2019</u>	<u>\$ 10,424,598</u>	<u>\$ 0</u>	<u>\$ 10,424,598</u>

Please see accompanying notes to the financial statements.

Southeastern Public Library System of Oklahoma
McAlester, Oklahoma
Balance Sheet
Governmental Funds
June 30, 2019

	<u>General Fund</u>	<u>Pension Fund</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash in Bank - Operating Account	\$ 126,811	\$ 0	\$ 126,811
Cash in Bank - Sweep Account	4,286,300	0	4,286,300
Investments	1,500,583	4,212,023	5,712,606
Ad Valorem Tax Receivable	52,843	0	52,843
Accounts Receivable	5,007	0	5,007
Prepaid Assets	216,003	0	216,003
Fixed Assets	2,352,788	0	2,352,788
Accumulated Depreciation	(2,352,788)	0	(2,352,788)
Total Assets	<u>\$ 6,187,547</u>	<u>\$ 4,212,023</u>	<u>\$ 10,399,570</u>
<u>Liabilities</u>			
Compensated Absences Liability	\$ 167,383	\$ 0	\$ 167,383
Accounts Payable	104,977	0	104,977
Accrued Salaries	56,799	0	56,799
Payroll Tax Liabilities	9,729	0	9,729
Total Liabilities	<u>338,888</u>	<u>0</u>	<u>338,888</u>
<u>Fund Balance</u>			
Nonspendable	216,003	4,212,023	4,428,026
Restricted	48,123	0	48,123
Committed	1,275,567	0	1,275,567
Assigned	8,000	0	8,000
Unassigned	4,300,966	0	4,300,966
Total Fund Balance	<u>5,848,659</u>	<u>4,212,023</u>	<u>10,060,682</u>
Total Liabilities and Fund Balance	<u>\$ 6,187,547</u>	<u>\$ 4,212,023</u>	

Please see accompanying notes to the financial statements.

Southeastern Public Library System of Oklahoma
McAlester, Oklahoma
Balance Sheet
Governmental Funds
June 30, 2019

Fund Balances	\$ 10,060,682
Amounts Reported for Governmental Activities in the Statement of Net Position are different because:	
Capital Assets Used by Governmental Activities of \$2,352,788	
Net of Accumulated Depreciation of \$1,988,872 are not financial resources and, therefore, are not reported in the funds.	<u>363,916</u>
Net Position of Governmental Activities	<u><u>\$ 10,424,598</u></u>

Please see accompanying notes to the financial statements.

Southeastern Public Library System of Oklahoma

McAlester, Oklahoma

Statement of Revenue, Expenditures, and Changes in Fund Balance

Governmental Funds

Year Ended June 30, 2019

	General Fund	Pension Fund	Total Governmental Funds
<u>Revenue</u>			
Ad Valorem Tax Revenue	\$ 4,821,359	\$ 0	\$ 4,821,359
State Aid	93,559	0	93,559
Branch Library Income	86,036	0	86,036
Investment Income	66,778	183,431	250,209
Donations	54,879	0	54,879
Grant Income	25,355	0	25,355
Surplus Sales	9,745	0	9,745
Insurance Claims	4,516	0	4,516
Miscellaneous Revenue	4,322	0	4,322
Employee (er) Contributions	0	416,220	416,220
Total Revenue	5,166,549	599,651	5,766,200
<u>Expenditures</u>			
Personnel Services			
Salaries and Wages	2,426,458	0	2,426,458
Employee Insurance	446,685	0	446,685
Retirement Costs	328,063	0	328,063
Payroll Taxes	218,285	0	218,285
Total Personnel Services	3,419,491	0	3,419,491
Informational Materials			
Branch Information Materials	411,909	0	411,909
Databases	198,419	0	198,419
Grant and Donation Expenses	82,841	0	82,841
Downloadables	64,104	0	64,104
Total Informational Materials	757,273	0	757,273
Public and Technical Services			
Technical Services	140,000	0	140,000
Programming Fees, Supplies & Travel	55,614	0	55,614
Total Public & Technical Services	195,614	0	195,614

Please see accompanying notes to the financial statements.

Southeastern Public Library System of Oklahoma
McAlester, Oklahoma
Statement of Revenue, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2019

<u>Expenditures (cont.)</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Operating Expenses			
Revaluation Fees	\$ 92,283	\$ 0	\$ 92,283
Supplies	74,723	0	74,723
Capital Outlay	68,567	0	68,567
Automation	64,065	0	64,065
Equipment Expense	57,935	0	57,935
Travel	55,065	0	55,065
Computer Expense	54,178	0	54,178
Insurance	46,589	0	46,589
Professional Fees	38,069	4,513	42,582
Human Resources Expense	25,990	0	25,990
Utilities	23,131	0	23,131
Furniture Expense	20,696	0	20,696
Audit Expense	17,643	0	17,643
Marketing	14,779	0	14,779
Vehicle Expense	12,624	0	12,624
Professional Development	11,663	0	11,663
Memberships	4,042	0	4,042
Miscellaneous Expense	2,533	0	2,533
Postage and Freight	1,691	0	1,691
Withdrawals / Distributions	0	135,640	135,640
Total Operating Expenses	<u>686,266</u>	<u>140,153</u>	<u>826,419</u>
Total Expenditures	5,058,644	140,153	5,198,797
Revenue Over (Under) Expenditures	107,905	459,498	567,403
Fund Balance, June 30, 2018	<u>5,740,754</u>	<u>3,752,525</u>	<u>9,493,279</u>
Fund Balance, June 30, 2019	<u>\$ 5,848,659</u>	<u>\$ 4,212,023</u>	<u>\$ 10,060,682</u>

Please see accompanying notes to the financial statements.

Southeastern Public Library System of Oklahoma

McAlester, Oklahoma

Notes to Financial Statements

Year Ended June 30, 2019

Note 1 – Summary of Significant Accounting Policies

The Southeastern Public Library System of Oklahoma (the System) is a multi-county quasi-governmental organization under Title 65 (Multi-County Act) of the Oklahoma Statutes. The System was established in the late 1960's when four counties voted to approve ad valorem taxes to support the multi-county library system. Today, the System has fifteen (15) libraries operating in seven (7) counties. The System is governed by a board of trustees who are appointed by the city and county commissioners for the respective communities or counties they represent. The following counties are represented: Choctaw, Coal, Haskell, Latimer, LeFlore, McCurtain and Pittsburgh. The following cities are represented: Arkoma, Broken Bow, Coalgate, Hartshorne, Heavener, Hugo, Idabel, McAlester, Poteau, Spiro, Stigler, Talihina, Valliant, Wilburton and Wister.

For financial reporting purposes, the System includes all funds, agencies, boards, commissions and authorities that are controlled by or dependent on the System's executive or legislative branches. Control by or dependence on the System was determined on the basis of oversight responsibility, scope of public service, and special financing relationships. Oversight responsibility includes financial interdependence, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

The Southeastern Public Library System of Oklahoma keeps its records and prepares its financial statements on the accrual basis of accounting. Revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available.) "Measurable" means the amount of the transaction can be determined; and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

Purchases of all materials and supplies are charged to operations in the period in which purchases are made. Amounts of inventories on hand are not considered material and are not included in the financial statements.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The System is a multi-county quasi-governmental organization under the laws of the State of Oklahoma. As a library system (a political sub-division of the State of Oklahoma), the System is exempt from federal and state income taxes.

Southeastern Public Library System of Oklahoma
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2019

Note 2 – Fund Accounting

The accounts of the System are organized on a basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The various funds are summarized by type in the financial statements and are classified as governmental, proprietary, and fiduciary fund types. The following fund types are used by the System.

Governmental Fund Types

General Fund – The general fund is the primary operating fund of the System. It is used to account for all financial resources except those required to be accounted for in another fund. All general operating revenues not restricted as to use are recorded in the general fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue resources that are legally or administratively restricted to expenditures for specific purposes. The System’s current special revenue fund include:

Pension Fund

According to GASB 54, fund balances in the Governmental Funds are to be properly reported within one of the fund balance categories below:

1. Nonspendable – Nonspendable funds are associated with inventories, prepaid assets, and long-term receivables.
2. Restricted – Restricted funds are associated with amounts that only can be spent for specific purposes as stipulated by the bylaws, granting agencies, or enabling legislation.
3. Committed – Committed funds are associated with amounts that only can be spent for specific purposes as determined by a formal action of the Board of Trustees.
4. Assigned – Assigned funds are associated with amounts that can be spent for specific purposes but do not meet the criteria to be classified as restricted or committed.
5. Unassigned – An unassigned fund is the residual classification for the System’s general fund and includes all spendable amounts not contained in the other classifications.

Southeastern Public Library System of Oklahoma

McAlester, Oklahoma

Notes to Financial Statements

Year Ended June 30, 2019

Proprietary Fund Types

Enterprise Fund – The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises.

Fund balances in the Proprietary Funds are to be properly reported within one of the fund balance categories listed below:

1. Invested in Capital Assets, Net of Related Debt – These funds are associated with capital assets minus any notes payable.
2. Restricted – Restricted funds are associated with amounts that only can be spent for specific purposes.
3. Unrestricted – An unrestricted fund is the residual classification for the System's enterprise fund and includes all amounts not contained in the other classifications.

Note 3 – Budgetary Accounting

The System's budgetary accounting procedures are discussed in the notes to the required supplementary information.

Note 4 – Cash and Cash Equivalents

Cash and cash equivalents include the following accounts:

The Bank - Money Market Account	\$ 4,286,300
The Bank - Operating Account	<u>126,811</u>
	<u>\$ 4,413,111</u>

The cash on deposit with The Bank, is not only covered by FDIC insurance (up to \$250,000) but also a collateral pledge of \$6,250,000 to cover deposits in excess of the FDIC coverage.

Southeastern Public Library System of Oklahoma
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2019

The System's cash, deposits, and investments are classified in the following categories:

- A. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- B. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- C. Uncollateralized.

	A	B	C	Total
Cash	\$ 4,413,111	\$ 0	\$ 0	\$ 4,413,111

Note 5 – Investments

The System invests \$1,500,583 in a Certificate of Deposits at the multiple banks. The interest rates vary from 1.40% to 2.60%. The interest pays on various schedules that range from monthly to maturity. The maturity dates range from six months to two years.

Note 6 – Ad Valorem Taxes Receivable

Multiple counties owe the System outstanding ad valorem taxes. As of June 30, 2019, the amount owed is \$52,843. These funds are expected to pay within the next 12 months.

Note 7 – Prepaid Assets

Prepaid assets include the unamortized portion of the annual expense for the following:

Prepaid Automation	\$ 81,866
Prepaid Downloadable Materials	40,800
Prepaid Online Information	35,889
Prepaid Branch Informational Materials	32,476
Prepaid Insurance	23,540
Prepaid Special Programs	910
Prepaid Air Medicare	522
	\$ 216,003

Southeastern Public Library System of Oklahoma
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2019

Note 8 – Fixed Assets

All capital assets acquired prior to June 30, 2004 were considered to be fully depreciated. All fixed assets acquired before June 30, 2004 were valued at historical cost or estimated historical cost if actual historical cost was not available. Amounts were recorded for fixed asset purchases, for control purposes, with a corresponding amount recorded in the accumulated depreciation account. Donated assets were valued at their estimated fair market value as of the date donated.

Current year changes in fixed assets were as follows:

	Property, Plant and Equipment	Accumulated Depreciation
Balance as of 07/01/2018	\$ 2,303,368	\$ 1,899,630
Additions	68,567	108,389
Disposals	(19,147)	(19,147)
Balance as of 06/30/2019	<u>\$ 2,352,788</u>	<u>\$ 1,988,872</u>

Note 9 – Accrued Payroll and Compensated Absences

The System accrues a payroll liability and a liability for vacation pay or other compensated absences. The cost is recognized when a claim is made for the accrued compensation by the employee. The amount of earned unpaid payroll and earned unpaid compensated absences liability at June 30, 2019 was approximately \$56,799 and \$167,383, respectively.

Note 10 – Assigned Fund Balance

The governing board has set aside a portion of the fund balance for replacement reserve accounts. The assigned fund balances for these purposes as of June 30, 2019 were as follows:

Vehicle Replacement	\$ 8,000
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These restrictions are imposed by the Board of Trustees action only; consequently, the restrictions may be rescinded by action of the Board.

Southeastern Public Library System of Oklahoma
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2019

Note 11 – Committed Fund Balance

The governing board has implemented a new cash management policy that commits 3 months of operating expenses. The committed fund balance for this purpose as of June 30, 2019 was \$1,275,567.

This policy was implemented by the Board of Trustees action only; consequently, the policy may be rescinded by action of the Board.

Note 12 – Tax Revenues – Economic Dependency

Approximately 94.53% of the total revenue of the library system for the current year was received from ad valorem taxes from a special tax levy voted by the citizens of Choctaw, Coal, Haskell, Latimer, LeFlore, McCurtain, and Pittsburg counties. Approximately 66.04% of the ad valorem tax revenues were received in January and February 2019. Any change in Oklahoma statutes regarding library tax levies or changes in state funding might affect the System’s operations.

<u>Ad Valorem Tax Revenue</u>	
Choctaw County	\$ 292,177
Coal County	395,278
Haskell County	259,788
Latimer County	245,758
LeFlore County	1,029,591
McCurtain County	965,589
Pittsburg County	1,633,178
	<u>\$ \$4,821,359</u>

Note 13 – Risk Management - Insurance Coverage

The System is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. The System maintains the following insurance coverage as protection against possible loss contingencies:

- Commercial Automobile Coverage
- Liability
- Uninsured Motorists
- Comprehensive and Collision

Southeastern Public Library System of Oklahoma

McAlester, Oklahoma

Notes to Financial Statements

Year Ended June 30, 2019

Commercial Package
Employment Practices Liability
Workers Compensation
Employer Liability
Position Fidelity Bond

Note 14 – Grant Revenues

Following is a summary of the grant receipts and disbursements during the year:

	Grant Receipts	Grant Expenditures
Carolyn Watson Rural OK Grant	\$ 12,000	\$ 0
Oklahoma Humanities Council	9,696	6,696
OK Department Of Libraries	3,380	3,181
Oklahoma Arts Council	225	0
Children's Reading Charitable Trust	0	34,608
Total	<u>\$ 25,301</u>	<u>\$ 44,485</u>

Note 15 – Pension Plan

Effective January 1, 1989, the System initiated a pension plan for its employees. The plan type was revised effective January 1, 2003 to become a 401(k) plan. The library system is the trustee for the plan. The plan eligibility requirements are as follows: minimum age of 18 and minimum service of 500 hours in 6 consecutive months.

For each eligible participant, a discretionary contribution is made equal to a uniform percentage of each participant's compensation. The exact percentage, if any, is to be determined each year by the library system. For fiscal year ending June 30, 2019, the library system budgeted approximately 14% of the annual payroll costs.

Employee contributions are not required. The plan contributions are invested in individual accounts on behalf of the employees. All required contributions were made by the library system. Benefits to be paid to employees upon retirement will be limited to the actual cash value of their individual accounts.

Contributions and costs for the current year and two previous years were as follows:

Southeastern Public Library System of Oklahoma
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2019

	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>
Employee Contributions	\$ 87,414	\$ 83,334	\$ 84,614
Employer Contributions	328,806	310,955	325,306
Administration Costs	<u>4,513</u>	<u>2,943</u>	<u>3,701</u>
 Total	 <u>\$ 420,733</u>	 <u>\$ 397,232</u>	 <u>\$ 413,621</u>

Employer contribution of \$328,806 represents approximately 13.87% of the total payroll of \$2,371,446 for the fiscal year ending June 30, 2019.

Plan assets as of June 30, 2019 were \$4,212,023.

The plan is administered by:

Midwest Pension & Profit-Sharing Services, Inc.
121 South 8th Street, Suite 630
Minneapolis, MN 55402

The plan funds are maintained by:

Mass Mutual
1295 State Street
Springfield, MA 01111

Note 16 – Related Party Transactions

The cities of Choctaw, Coal, Haskell, Latimer, LeFlore, McCurtain, and Pittsburg, Oklahoma, provide financial support to the Southeastern Public Library System of Oklahoma by furnishing buildings and building operating expenses, including utilities and building and contents insurance, for the operation of the library. The System is dependent upon this related party support as part of its operational costs.

Note 17 – Contingencies

In the normal course of operations, the System disburses funds from numerous federal and state grant programs. These expenditures are subject to audit and approval by the grantors or their representatives. Such audits could lead to claims for reimbursement of expenditures deemed

Southeastern Public Library System of Oklahoma
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2019

unallowable under the terms of the grants. Presently, management is unaware of any liability for such expenditures, and in the opinion of management, any such amounts would not be considered material.

Note 18 – Subsequent Events

Subsequent events were evaluated through August 22, 2019, which is the date the financial statements were available to be issued.



**INDEPENDENT AUDITOR'S 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***

Board of Trustees
Southeastern Public Library System of Oklahoma
McAlester, Oklahoma

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of the Southeastern Public Library System of Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Southeastern Public Library System of Oklahoma's basic financial statements, and have issued our report thereon dated August 22, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Southeastern Public Library System of Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southeastern Public Library System of Oklahoma's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


FURRH & ASSOCIATES, PC

Lawton, Oklahoma

August 22, 2019

Southeastern Public Library System of Oklahoma
McAlester, Oklahoma
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<u>Revenue</u>				
Ad Valorem Taxes	\$ 4,589,446	\$ 4,748,000	\$ 4,821,359	\$ 73,359
Branch Library Income	88,488	90,740	86,036	(4,704)
State Aid	75,722	105,182	93,559	(11,623)
Interest Income	35,000	35,000	66,778	31,778
Donations	0	0	54,879	54,879
Grant Income	0	0	25,355	25,355
Surplus Sales	0	0	9,745	9,745
Insurance Claim	0	0	4,516	4,516
Miscellaneous Income	0	0	4,322	4,322
Total Revenue	4,788,656	4,978,922	5,166,549	187,627
<u>Expenditures</u>				
Personnel Services				
Salaries and Wages	2,319,002	2,446,803	2,426,458	20,345
Employee Insurance & Retirement	804,579	816,482	774,748	41,734
Payroll Taxes	191,641	202,920	218,285	(15,365)
Total Personnel Services	3,315,222	3,466,205	3,419,491	46,714
Informational Materials				
Branch Information Materials	464,000	447,000	411,909	35,091
Databases	165,821	171,446	198,419	(26,973)
Downloadables	58,000	71,000	64,104	6,896
Grant and Donation Expenses	0	0	82,841	(82,841)
Total Informational Materials	687,821	689,446	757,273	(67,827)
Public and Technical Services				
Technical Services	140,000	140,000	140,000	0
Programming Fees, Supplies & Travel	56,824	56,824	55,614	1,210
Total Public and Technical Services	196,824	196,824	195,614	1,210

Please see accompanying notes to the financial statements.

Southeastern Public Library System of Oklahoma
McAlester, Oklahoma
General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Operating Expenses				
Revaluation	\$ 102,976	98,590	92,283	\$ 6,307
Automation	61,880	64,625	64,065	560
Travel	59,547	59,442	55,065	4,377
Equipment Expense	55,600	59,600	57,935	1,665
Insurance	39,790	61,092	46,589	14,503
Professional Consulting	39,100	38,800	38,069	731
Computer	38,181	53,124	54,178	(1,054)
Supplies	36,675	37,555	74,723	(37,168)
Utilities	23,236	23,236	23,131	105
Furniture Expense	22,750	24,150	20,696	3,454
Internet Access	16,020	4,005	0	4,005
Audit	15,000	18,000	17,643	357
Human Resources Expense	14,400	24,468	25,990	(1,522)
Marketing	13,550	13,550	14,779	(1,229)
Professional Development	13,265	15,210	11,663	3,547
Postage and Freight	12,302	12,302	1,691	10,611
Vehicle Expense	10,000	10,000	12,624	(2,624)
Vehicle Reserve	8,000	0	0	0
Memberships	4,245	6,415	4,042	2,373
Miscellaneous Expense	2,272	2,283	2,533	(250)
Capital Outlay	0	0	68,567	(68,567)
Total Operating Expenses	588,789	626,447	686,266	(59,819)
Total Expenditures	4,788,656	4,978,922	5,058,644	(79,722)
<u>Revenue Over (Under) Expenditures</u>	\$ 0	\$ 0	\$ 107,905	\$ 107,905
<u>Fund Balance, June 30, 2018</u>	0	0	5,740,754	5,740,754
<u>Fund Balance, June 30, 2019</u>	\$ 0	\$ 0	\$ 5,848,659	\$ 5,848,659

Please see accompanying notes to the financial statements.

Southeastern Public Library System of Oklahoma
McAlester, Oklahoma
Notes to Required Supplemental Information
Year Ended June 30, 2019

Note 1 - Budgetary Policies

The System's annual operating budget represents appropriations authorized by the governing board and approved by the county governments in accordance with the Oklahoma Statutes.

The System's General Fund budget is limited by law to 90% of the amount of revenue collected in the prior fiscal year plus unreserved fund balances. The legal level of control is the expenditure category. It is the System's policy that all appropriations lapse at the end of the fiscal year.

The System prepares an annual operating budget for its General Fund. The System does not prepare an operating budget for its Special Revenue Funds. Specific grant funds operated within the General Fund and the Special Revenue Funds are operated under budgets required by the grant documents. The System prepares its annual operating budget on the accrual basis of accounting.