

**INDEPENDENT
ACCOUNTANT'S AUDIT REPORT
SOUTHEAST OKLAHOMA LIBRARY SYSTEM**

JUNE 30, 2023

BY



Southeast Oklahoma Plains Library System

McAlester, Oklahoma

Year Ended June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Southeast Oklahoma Library System
McAlester, Oklahoma

Opinion

We have audited the accompanying financial statements of the governmental activities of the Southeast Oklahoma Library System, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the discretely presented component units of the Southeast Oklahoma Library System, as of June 30, 2023, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Southeast Oklahoma Library System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about Southeast

Oklahoma Library System's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Southeast Oklahoma Library System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about Southeast Oklahoma Library System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 15 and page 37 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Government 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 assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2023, on our consideration of the Southeast Oklahoma Library System'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 Southeast Oklahoma Library System's internal control over financial reporting and compliance.

FURRH & **A**SSOCIATES, PC

Lawton, Oklahoma
September 17, 2023



SOUTHEAST OKLAHOMA LIBRARY SYSTEM

Prepared by
Michael Hull, Executive Director

Management's Discussion and Analysis
Southeast Oklahoma Library System
For Fiscal Year Ending June 30, 2023

August 15, 2023

Introduction

FY 2023 was the year of big projects for Southeast Oklahoma Library System (SEOLS). In July 2022 we received our new, custom-made bookmobile, the system's first bookmobile since the mid-70s. Then on August 1st we broke ground on our new headquarters building. In Valliant's Mattie Terry Library we completed the library's furniture replacement plan with new seating and tables while in Broken Bow we replaced all of the shelving. Throughout the year SEOLS supervisors and managers participated in SEOLS' Leadership Academy, a nine-month training presented by Segal Group, the same company who conducted FY 2022's organizational effectiveness study. In late November we officially launched fundraising for the remodel of the McAlester Public Library to great community support and enthusiasm. Finally, in spring of 2023 we migrated the library system ILS (customer and materials database system), purchased the bookmobile storage center and transitioned to a new payroll and human resources system.

Despite FY 2023's successes, we did not lack major challenges and obstacles. In our first board meeting of the year, held at the Coal County Public Library, we were met with a hostile and aggressive group of Coal County commissioners, employees and citizens unhappy with the amount of services and expenditures in Coal County by SEOLS. The matter was exacerbated the prior May when the City of Coalgate ceased paying for the Coal County Public Library's utilities. With neither the county nor library system willing to pay the utilities, we faced a possible closure of the Coalgate library in January until private donors stepped up to pay the utilities. The Coal County commissioners, in their dissatisfaction with SEOLS, have requested the state auditor's office to conduct an audit of the library system. As of this time, we do not know the state auditor's intention regarding the audit request.

In May we learned that Technical Services Librarian Miranda Wisor was leaving us to accept a position as library director for a small system in Virginia. This was unexpected, and her successor will not start until September 18th. Congratulations to Miranda, and to SEOLS for being playing a part in the development of a library system director.

Finally, we have had some sizeable protests of ad valorem, particularly in Coal County. Combined with lower reserves due to last year's projects, we must budget and plan very conservatively for the next year until we learn the resolution of these protests.

The library system feels the healthiest and most energetic it has been during my tenure. Staff are energized and our services are resonating with customers, evidenced by growing usage of services. I believe we can safely say FY 2023 set the foundation for SEOLS to operate as the 21st century library that our citizens deserve. We are truly fortunate for a visionary and supportive board who allowed us to tackle and complete so much this year, and I am especially thankful for an intelligent, creative, and dedicated staff who made all of these accomplishments possible.

Respectfully,

Michael Hull, Executive Director

Governance

Thanks to Board Chair Don Holt for agreeing to serve as Board Chair this past year. His first meeting was a tense one in Coalgate, but he kept everything running smoothly. Thank to Martha Gann and Joy Maxwell for serving as vice-chair and treasurer.

Fiscal Year 2023 Trustees were as follows:

<u>Board Member</u>	<u>Represents</u>	<u>Location</u>
Jason Armstrong	City	Talihina
David Beall	City	McAlester
Lori Chrestman	City	Wilburton
Kim Corley	City	Idabel
Elizabeth Dorsey	County	LeFlore
Don Holt	City	Stigler
Bart Howell	City	Quinton
Martha Gann	County	Choctaw
Faye House	City	Valliant
Tiffany Latham	City	Poteau
Diane Lynch	City	Heavener
Joy Maxwell	County	Haskell
Cindy Munn	City	Hartshorne
Betty Pollard	County	McCurtain
Jayna Santine	County	Pittsburg
Brent Shain	City	Hugo
Les Silka	City	Spiro
Joanne Verbridge	County	Coal
Bobby Weatherford	City	Arkoma
Amanda Williamson	City	Broken Brow
Cheryl Wood-Myers	County	Latimer

Positions were vacant throughout the year for the municipalities of Coalgate and Wister.

FY 2022 Activities and Services in Review

All of our key indicators have grown the past year: circulation, door count, program attendance, active cardholders, and Wi-Fi usage. The COVID pandemic and inflation have left families eager to use common gathering space with free activities and services. Our libraries were poised to maximize this demand by offering great programs, creating a welcome atmosphere, and promoting new technologies such as the teleconferencing equipment available in SEOLS' meeting rooms.

Bookmobile

The most exciting addition to SEOLS' services by far has been the new bookmobile. Within a few months of going into service it moved more books than several of our physical libraries. This is not a slight toward those libraries, but rather a testament to the desire and hunger for books and library services in our rural communities. A year after receiving it, the staff still report receiving tons of waves from citizens as they drive down the road.

In addition to providing books, the bookmobile acts as a showpiece for the system at parades and community events.

Voice Study Follow Up

In FY 2022 the Board authorized an organizational effectiveness study that identified several needs in policy and procedure. We implemented many changes to training, leadership standards, human resources, and communications in order to create a more positive environment for staff. We made the implementation of these changes, as well as the why, as transparent as possible. The result has been a more confident and enthusiastic staff, with more trust in management across all levels.

SEOLS Leadership Academy

A larger goal accomplished from the Voice Study to-do list was the past year's Leadership Academy. The Board hired Segal Group to follow up on their findings in a series of trainings and activities for all supervisors and managers across the system that included an in person kick-off meeting, workshops, peer discussions, and more. Leadership Academy created common language and values among SEOLS leadership and established a common vision for the system as we move forward.

New Automation System (ILS)

Most libraries will change their core software that manages customer and item data every seven to eight years for cost savings. We had not changed since we first automated in 1999! Since that time, the software we used had received few updates and, in addition to costing quit far too much, struggled to meet our needs. Technical Services Librarian Miranda Wisor led a search to identify a new ILS. To do so she assembled a committee of staff from across the system and solicited feedback from all SEOLS team members. Miranda's team compiled a matrix of our needs and sat through demos of several products, eventually settling on our current Polaris system.

All the work to select a new system proved just the tip of the iceberg. Miranda then had to coordinate a cleanup of our existing data in order to export it to the new system. We also had to prepare staff for using the new system. During the staff preparation, Miranda and Training

Specialist Mona Goodrich stepped up to the plate and coordinated several training sessions for staff.

We went live in April of this year, and other than a few minor hiccups, the process went extremely smoothly. Staff appreciate more modern and easier to use software. New functionalities now allow us to batch update and create cards, which we have started using to streamline our distribution and maintenance of student access cards, the cards we issue to student through local school systems.

Because we migrated systems early to allow time for problem solving, we have a period of about six months in which we paid for both the old and current system. We also had to pay data importation costs. However, the savings gained over the next several years will more than make up for this one time spike in ILS costs.

New Payroll and Human Resources System

When Human Resources Officer Jo Hunt retired, I made the decision to rethink how we handle human resources based on the feedback we had received from FY 2022's Voice Study. I simultaneously decided to use the cost savings from not immediately filling Jo's position to correct a pay inequity the Voice Study identified among our part-time staff and to outsource our human resources in the spring of 2023.

We looked into several options for outsourcing human resources, deciding that a company that also incorporates its own timekeeping and payroll solutions would best meet our needs. We ultimately settled on G&A, recommending them to the board in March. Despite impressing us during demos and speaking to good references, our experiences with G&A to date have left us extremely dissatisfied. The software has given staff much trouble with logging in and support for this and other issues has not met our most basic of expectations. Since our agreement would require us to pay the rest of the contract term's fees we will remain with them until next spring, but we have already begun consideration of alternate solutions.

Buildings and Facilities

McAlester Remodel

As of this writing we have nearly \$8.5 million pledged or donated for this project, anchored by \$1.5 million commitments each from SEOLS, City of McAlester, Puterbaugh Foundation, and Fuggitt Foundation. We hope that in the coming months that citizens, smaller foundations, banks and businesses will provide another \$1 million - \$1.5 million for this project. We will soon start the architectural phase of the project, with an anticipated start of construction for January 2025 at the latest.

Central Services Headquarters

We received the keys to the new building on April 14th and held an open house on April 27th. Staff across the system are excited, and I believe this facility will make us more efficient, give our employees pride, and help recruit talent. In addition, the community is excited about our presence in historical McAlester. In June, the City of McAlester hosted Wreaths across America in our parking lot, with over 150 persons in attendance that Saturday morning. The staff who work in

the building are grateful for a facility with natural light, no plumbing problems or stains, and working climate control.

As Crossland Construction closes the project, we should receive about \$40,000 in contingency funds back.

Staff

SEOLS experienced very light turnover in FY 2023, but we did experience the loss of our technical services librarian and made an important decision regarding the vacant human resources position.

Technical Services Librarian

Miranda Wisor came to us in 2019. Stealing her from Gettysburg College was a coup. We hired Miranda to reorganize our selection processes and collection maintenance, and to lead a search and implementation for a new ILS. Miranda accomplished all of those tasks with excellence, as well as helping to update policies, create shelf standards and more. She left in May to accept a position with a small library system in Virginia as director. While it saddens us that Miranda did not get to break in her new office, we are thrilled for this opportunity for her and her family. We appreciate all she did for us and wish her the best.

We conducted interviews for Miranda's successor in late July. The position requires a Master's of Library and Information Studies, greatly limiting the pool of qualified applicants. The applicants we received all lacked extensive experience with technical services, but we identified three whom we thought could grow into the position. After all, with Miranda having just restructured entire department and work processes, we need someone to learn our system and way of doing things, understanding that we do not need or want major changes. After the interviews we offered the position to Annie Emmons, who will start on September 18th, and who will come to us from Metropolitan Library System.

Human Resources

After speaking with several staff following the retirement of Human Resources Officer Jo Hunt in June 2022, we determined it would be in the best interest of the employees and system to outsource human resources. We used cost savings from the open position to correct a pay inequity identified between part-time and full-time library assistants with the plan of finding the third party in the late spring. During the search for firms, we decided it would benefit the staff to find a vendor who could also incorporate timekeeping and payroll so that employees have a one-stop shop. We ultimately decided on G&A Partners as our vendor and transitioned to them in late June.

Updates and Additions to Policies

This past year we revised seven operating policies. The Operating Policy Committee reviewed two other policies but determined that they did not require any updates.

Updated Policies

Fees and Charges Policy, January 17, 2023

Purchasing Policy, September 20, 2022

Credit Card Use Policy, November 15, 2022

Volunteers Policy, November 15, 2022
Cash Handling Policy, May 16, 2023
Friends of the Library Policy, May 16, 2023

Reviewed by the Operating Policy Committee but Not Revised
Study Rooms, Employee Health Insurance

Continuing Education

In September we took most of our managers to the Association of Rural and Small Libraries (ARSL) conference in Chattanooga. This has proven to be an excellent conference, very relevant to our team. I did not take Heath Stanfield, the McAlester Public Library manager to this conference since McAlester is so large and does not meet the same definition of small or rural. Instead, Heath attended the Texas Library Association (TLA) conference with me in April.

Having experienced both ARSL and TLA, I intend to send our managers to both conferences on a rotating basis. When ARSL is close enough to drive, we'll send managers there. When it is not, they may attend TLA, which will always be drivable.

We took a very large group (over twenty) to the Oklahoma Library Association conference in March. This conference continues to prove an excellent opportunity for our staff to network and build their confidence by presenting to other Oklahoman librarians. Presenters from SEOLS dominated the sessions offered at this conference.

SEOLS conducted its first live in service for all staff in April. We held the meeting at the Broken Bow Public Library. Training Specialist Mona Goodrich and Broken Bow Library Manager Sherri Blake did a wonderful job organizing the event with their teams. Outside of opening and closing sessions, staff could choose from three topics every session to attend. It meant much to the staff to see one another in person and to hear about topics from their peers. The next in service will be held in October at Poteau's Patrick Lynch Public Library.

We held managers meeting every other month to discuss Board decisions, procedure updates, and problems.

Numerous staff were allowed the opportunity to attend webinars and virtual workshops presented by the Oklahoma Department of Libraries and Oklahoma Library Association.

Furniture Projects

Broken Bow

The cost of replacing Broken Bow's shelves forced us to delay other furniture projects. I consider the results, how inviting and beautiful the Broken Bow library appears, worth the sacrifice. Furthermore, this action sent a message to all libraries that we intend to conduct all of our furniture

replacement projects with high expectations, determined to accomplish and pay for work that will last for several years and inspire our citizens to use the library.

Valliant

All that remained to accomplish furniture replacement in Valliant was the replacement of seating and tables, which we managed to budget for and complete. Our efforts, combined with the Town of Valliant's efforts to repaint the library and replace the carpet in recent years, has transformed this little library into a beautiful gem for the system.

Financial Discussion and Analysis of Fiscal Year 2023¹

Last year I wrote: “In some ways FY 2022 was a strange year. The library system moved forward with or committed to several large and costly projects, yet spent little money on those projects.” Well, this year we completed and paid the price for those projects: \$178,000 for the final bookmobile payment, \$97,000 paid toward the purchase of the bookmobile center, \$170,000 for McCurtain County library furniture, and –most expensive of all – \$2.1 million for the construction of our headquarters.

These purchases have decreased our cash reserves significantly. In addition, the gas plants in Coal County are protesting their tax bill, tying up a large portion of collections from that county. Because of this, SEOLS will likely need to postpone several projects in FY 2024 including furniture replacement and the classification and pay study. Even if the tax protests are not settled this year, our other growth in collections should shore up our reserves and allow us to continue with our large projects in FY 2025.

Revenue

SEOLS receives the majority of its funding from a voter-approved millage levy (ad valorem tax). We currently receive 4 mills in each of our seven counties, which accounts for 98% of our income. Besides ad valorem funds, SEOLS’ notable income types include state aid, fees and charges, and interest. We will typically receive minor revenues in the form of donations or grants that typically carry with them restrictions for use and must be spent within a specified timeframe.

Ad Valorem

Year-over-year collections grew by 1.85%, a decline from the prior year’s 5.11%. This decline was caused mostly by protests in Coal County, but also a few in Pittsburg County. Altogether, we received about \$300,000 less than our projected valuations. Because of our large capital expenses, we cannot ignore such a large gap in FY 2024’s budget.

Fiscal Year 2022 to Fiscal Year 2023 Ad Valorem Comparison

	FY 2022	FY 2023	Variance	
	Amount Received	Amount Received	\$	%
Choctaw	\$341,031	\$351,578	\$10,547	3.09%
Coal	\$627,921	\$474,428	(\$153,493)	-24.44%
Haskell	\$286,092	\$292,368	\$6,276	2.19%
Latimer	\$267,422	\$281,400	\$13,978	5.23%
LeFlore	\$1,222,779	\$1,246,207	\$23,428	1.92%
McCurtain	\$1,233,895	\$1,379,576	\$145,681	11.81%
Pittsburg	\$1,703,722	\$1,762,335	\$58,613	3.44%
Total	\$5,682,850	\$5,787,891	\$105,041	1.85%

Although we worried about a large amount of growth in Coal County collections, we actually received \$153,493 less than the prior year. There remains good news despite this shortfall. We have struggled to find services on which to spend in Coal County, so we now have time to expand

¹Numbers used reflect our CPA’s end-of-year work and not any additional adjustments made by our auditor.

services. Also, depending on how the protests are resolved, our collections in the county may not be as much as they were a year or two ago.

Tourism and the construction of cabins in the Beaver's Bend area continue to fuel strong growth in McCurtain County. With the construction of a Choctaw Nation resort and incorporation by the community of Hochatown, we expect their collections to continue rising strongly. This fall the county's assessor's office will try to visually inspect more than 350 new cabins not currently on the tax rolls in the Hochatown area. This increased revenue, which we will most likely see realized in FY 2025, should be used to pursue the Board's long range plans of installing a second bookmobile with service headquartered in McCurtain County and eventually staffing the reading center library in Hochatown.

State Aid Grant

All Oklahoma public libraries that meet the public hours and service requirements of the Oklahoma Department of Libraries (ODL) receive state aid grants each year. The money ODL uses to fund these grants comes from a combination of state appropriations and funds received from the Institute of Museum and Library Services (IMLS). ODL then distributes these funds based upon a formula using population and community size. State aid grant money cannot be spent on capital improvements or replacements, and annually we must report what we used the money for. SEOLS used its FY 2023 state aid (\$87,464) to purchase online databases.

Fees and Charges

Fees and charges encompasses anything for which we charge customers, from overdue fines to copy charges. Although a relatively small portion of our budget, these fees indicate quite a bit of activity when you consider how many 10 cent copies it takes to get into thousands of dollars. Many people do not realize the volume of faxing we do for the public either; in our rural areas, home health care providers who must fax their reports have nowhere else to go. The \$62,571 received in Fees and Charges was a small increase over what we brought in the prior year.

Interest

With rising interest rates our interest income boomed. Interest revenue from FY 2022 to FY 2023 increased from \$21,453 to \$71,227. I hope, with interest rates rising, we will not see any decreases in this revenue in FY 2024.

Grants and Donations

We also received the last of a multi-year CARES grant, \$58,142, for new databases, electronic content and small business programs.

Erate

This year we entered Erate numbers in our budget and expenses. Erate is the federal program that subsidizes library and school Internet costs. Because the program pays the bills directly, SEOLS does not ever handle the funds used to pay for those costs, and because of this it looks as though we were short \$167,000 in revenue when looking at the budgeted numbers. There is, of course, a corresponding expense line discussed below in Operating Expenses. Most importantly, the presence of these numbers makes you aware that the cost exists and, should anything happen to Erate funding, you know what funds we would have to account for.

McAlester Pledge Revenue

We received \$2.2 million in gifts and pledges to go toward the remodel of the McAlester Public Library. We opened a checking account to hold these funds and pay for project expenses.

Expenses

Expenses rose over FY 2022 but our conservative budgeting and cautious spending ensured we stayed well within budget limits for all budget categories.

Payroll Expenses

As a whole, payroll expenses increased by \$243,000. Two cost-of-living-adjustments contributed about \$111,000 to this. Adding the driver to the bookmobile staffing as it arrived added another \$38,000. About \$20,000 went toward staffing Quinton with a full-time employee instead of a part-time after formally taking over operation of its library. The addition of a designated children and teen services librarian added another \$30,000 over the prior year. A volunteer vacation time buyout and operating most of the year with all staff positions filled made up the majority of the salary difference.

Public and Technical Services

Our IT contract increased slightly and our outreach coordinator became more active over FY 2022. Even these changes were minor year-to-year.

Operating Expenses

Operating expenses increased quite a bit year-over-year due to the ILS migration, utilities for SEOLS buildings, and an increase in the purchase of furniture and equipment.

In the Revenue section above, I discussed Erate briefly. Erate is the federal program that subsidizes library and school Internet costs. Because the Internet bills go directly to Erate, SEOLS does not log payments for those costs, and because of this it looks as though we saved \$167,000 in costs when looking at the budgeted numbers. There is, of course, a corresponding income line discussed above. We still came under budgeted expense in this category because we did not have expenses for Internet fees and services not covered by Erate this year.

Informational Materials Expenses

Downloadable materials continues to be our highest area of growth, and our selectors worked hard to use every budgeted dollar on content. We spent more on Online Information because we added three databases, Press Reader, A-Z Databases and Fiero.

Capital Expenses

We spent \$164,000 on Broken Bow shelving and \$5,600 on Valliant seating and tables in FY 2023. We bought small outdoor book drops for Arkoma and Talihina, whose former book drops were literally falling apart. The two book drops totaled \$11,000. For the bookmobile we made the final payment for the vehicle when we received it, \$178,000, and put \$96,000 down toward the purchase of the bookmobile center, for which we are carrying a loan. The new system headquarters and furnishings cost \$2.2 million.

Summary

FY 2023 was a tremendous year for SEOLS. The bookmobile opened the door to thousands of unserved customers, all thrilled to receive us. We accomplished several financial goals including two cost-of-living-adjustments for all staff, the completion of two furniture projects, and the construction of a new headquarters that will serve all member libraries for decades to come.

Going into the new year we are focused on the remodel of the McAlester Public Library and rebuilding the system's cash reserves. With cash reserves low and protests underway for highly valued property in Coal County, I urge caution and frugality throughout FY 2024. While this will cause us to hit pause on many projects, namely system-wide furniture replacement, we should emerge the year with more comfort in our reserve balance and confidence to continue with special projects. Because we did well coming under budget in all categories last year, our flat budget shouldn't pose much, if any, burden to operations.

Southeast Oklahoma Library System
McAlester, Oklahoma
Statement of Net Position
June 30, 2023

Current Assets

Cash and Cash Equivalents	\$ 4,511,597	
Investments	5,083,124	
Ad Valorem Tax Receivable, Net of Allow.	266,961	
Prepaid Assets	148,950	
Total Current Assets		\$ 10,010,632

Other Assets

Lease Assets, Net of Accum. Amort.	56,988	
Pledge Receivable, Net of Allowance	4,932,983	
Fixed Assets, Net of Accum. Depr.	3,517,958	
Total Other Assets		<u>8,507,929</u>
Total Assets		<u><u>\$ 18,518,561</u></u>

Current Liabilities

Current Portion of Note Payable	\$ 13,906	
Accounts Payable	77,711	
Accrued Payroll & Unpaid Comp. Absences	247,362	
Total Current Liabilities		\$ 338,979

Long Term Liabilities

Lease Liability	65,261	
Note Payable, Net of Current Portion	355,930	
Total Long Term Liabilities		<u>421,191</u>
Total Liabilities		760,170

Net Position

Invested in Capital Assets, Net of Debt	8,072,832	
Restricted	0	
Unrestricted	9,685,559	
Total Net Position		<u>17,758,391</u>
Total Net Position and Liabilities		<u><u>\$ 18,518,561</u></u>

Please see accompanying notes to the financial statements.

Southeast Oklahoma Library System
McAlester, Oklahoma
Statement of Activities
Year Ended June 30, 2023

	<u>Program Revenues</u>			<u>Net (Expense) Revenue & Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>		
<u>Primary Government</u>				<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Governmental Activities:						
General Fund	\$ 5,926,868	\$ 62,572	\$ 85,515	\$ (5,778,781)	\$ 0	\$ (5,778,781)
Pension Fund	311,764	0	0	(311,764)	0	(311,764)
Total Governmental Activities	<u>\$ 6,238,632</u>	<u>\$ 62,572</u>	<u>\$ 85,515</u>	<u>\$ (6,090,545)</u>	<u>\$ 0</u>	<u>\$ (6,090,545)</u>
			<u>General Revenue</u>			
			Ad Valorem Tax	5,794,587	0	5,794,587
			Pledge Revenue	2,217,566	0	2,217,566
			Pension Income	770,721	0	770,721
			Donations	157,365	0	157,365
			State Aid	87,464	0	87,464
			Investment Income	71,505	0	71,505
			Surplus Sales	2,474	0	2,474
			Miscellaneous	1,557	0	1,557
			Total General Revenue	<u>9,103,239</u>	<u>0</u>	<u>9,103,239</u>
			<u>Change in Net Position</u>	3,012,694	0	3,012,694
			<u>Net Position, June 30, 2022</u>	<u>14,745,697</u>	<u>0</u>	<u>14,745,697</u>
			<u>Net Position, June 30, 2023</u>	<u>\$ 17,758,391</u>	<u>\$ 0</u>	<u>\$ 17,758,391</u>

Please see accompanying notes to the financial statements.

Southeast Oklahoma Library System
McAlester, Oklahoma
Balance Sheet
Governmental Funds
June 30, 2023

	General Fund	Pension Fund	Total Governmental Funds
<u>Assets</u>			
Cash in Bank - Sweep Account	\$ 3,136,277	\$ 0	\$ 3,136,277
Cash in Bank - Operating Account	651,981	0	651,981
Cash in Bank - Donation Account	723,312	0	723,312
Petty Cash	27	0	27
Investments	603,200	4,479,924	5,083,124
Ad Valorem Tax Receivable	379,559	0	379,559
Allowance for Doubtful Accounts	(112,598)	0	(112,598)
Pledge Receivable	5,813,550	0	5,813,550
Pledge Allowance	(880,567)	0	(880,567)
Prepaid Assets	148,950	0	148,950
Lease Assets	96,555	0	96,555
Accumulated Amortization	(39,567)	0	(39,567)
Total Assets	\$ 10,520,679	\$ 4,479,924	\$ 15,000,603
<u>Liabilities</u>			
Compensated Absences Liability	\$ 151,709	\$ 0	\$ 151,709
Lease Liability	65,261	0	65,261
Accrued Salaries	95,653	0	95,653
Payroll Tax Liability	7,288	0	7,288
Current Portion of Note Payable	13,906	0	13,906
Note Payable, (net)	355,930	0	355,930
Accounts Payable	70,423	0	70,423
Total Liabilities	760,170	0	760,170
<u>Fund Balance</u>			
Nonspendable	148,950	4,479,924	4,628,874
Restricted	1,263,709	0	1,263,709
Committed	2,334,045	0	2,334,045
Assigned	400,000	0	400,000
Unrestricted	5,613,805	0	5,613,805
Total Fund Balance	9,760,509	4,479,924	14,240,433
Total Liabilities and Fund Balance	\$ 10,520,679	\$ 4,479,924	

Please see accompanying notes to the financial statements.

Southeast Oklahoma Library System
McAlester, Oklahoma
Balance Sheet
Governmental Funds
June 30, 2023

Fund Balances

Amounts Reported for Governmental Activities in the
Statement of Net Position are different because:

Capital Assets Used by Governmental Activities of \$5,094,604
Net of Accumulated Depreciation of \$1,576,646 are not financial
resources and, therefore, are not reported in the funds.

3,517,958

Net Position of Governmental Activities

\$ 18,518,561

Please see accompanying notes to the financial statements.

Southeast Oklahoma Library System
McAlester, Oklahoma
Statement of Revenue, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2023

	<u>General Fund</u>	<u>Pension Fund</u>	<u>Total Governmental Funds</u>
<u>Revenue</u>			
Ad Valorem Tax Revenue	\$ 5,794,587	\$ 0	\$ 5,794,587
Pledge Revenue	2,217,566	0	2,217,566
Donations	157,365	0	157,365
State Aid	87,464	0	87,464
Grant Income	85,515	0	85,515
Investment Income	71,505	249,719	321,224
Branch Library Income	62,572	0	62,572
Surplus Sales	2,474	0	2,474
Miscellaneous Income	1,557	0	1,557
Employee (er) Contributions	0	521,002	521,002
Total Revenue	8,480,605	770,721	9,251,326
<u>Expenditures</u>			
Personnel Services			
Salaries and Wages	2,631,895	0	2,631,895
Employee Insurance	416,369	0	416,369
Retirement Costs	337,759	0	337,759
Payroll Taxes	225,803	0	225,803
Total Personnel Services	3,611,826	0	3,611,826
Informational Materials			
Branch Information Materials	360,266	0	360,266
Databases	188,299	0	188,299
Downloadables	126,769	0	126,769
Grant and Donation Expenses	103,060	0	103,060
Total Informational Materials	778,394	0	778,394
Public and Technical Services			
Technical Services	154,316	0	154,316
Program Fees, Supplies & Travel	34,707	0	34,707
Total Public & Technical Services	189,023	0	189,023

Please see accompanying notes to the financial statements.

Southeast Oklahoma Library System
McAlester, Oklahoma
Statement of Revenue, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2023

<u>Expenditures (cont.)</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Operating Expenses			
Capital Outlay	\$ 3,066,609	\$ 0	\$ 3,066,609
Professional Fees	178,559	1,821	180,380
Automation	157,278	0	157,278
Revaluation Fees	119,546	0	119,546
Bad Debt Expense	112,598	0	112,598
Equipment Expense	77,230	0	77,230
Furniture Expense	64,922	0	64,922
Computer Expense	57,398	0	57,398
Travel	53,062	0	53,062
Supplies	48,019	0	48,019
Insurance	44,456	0	44,456
Professional Development	35,731	0	35,731
Marketing	34,918	0	34,918
Vehicle Expense	30,973	0	30,973
Rent Expense	30,400	0	30,400
Utilities	24,946	0	24,946
Audit Expense	22,759	0	22,759
Amortization Expense	21,919	0	21,919
Human Resources Expense	21,213	0	21,213
Postage and Freight	18,870	0	18,870
In-Kind Donation Expense	9,503	0	9,503
Interest Expense	6,813	0	6,813
Memberships	5,712	0	5,712
Miscellaneous Expense	2,740	0	2,740
Withdrawals / Distributions	0	309,943	309,943
Total Operating Expenses	<u>4,246,174</u>	<u>311,764</u>	<u>4,557,938</u>
Total Expenditures	8,825,417	311,764	9,137,181
Revenue Over (Under) Expenditures	(344,812)	458,957	114,145
Fund Balance, June 30, 2022	<u>10,105,321</u>	<u>4,020,967</u>	<u>14,126,288</u>
Fund Balance, June 30, 2023	<u>\$ 9,760,509</u>	<u>\$ 4,479,924</u>	<u>\$ 14,240,433</u>

Please see accompanying notes to the financial statements.

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Southeast Oklahoma Library System’s (the “System”) financial statements are prepared in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB)

Reporting Entity

The Southeast Oklahoma Library System (formerly Southeastern Public Library System of Oklahoma) 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.

Under the Oklahoma Metropolitan Act (the “Act”), 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.

Basis of Presentation

The System’s basic financial statements include both government-wide (reporting the System as a whole) and the fund financial statements (reporting the System’s major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The System does not have any activities classified as business-type activities.

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.

Government-Wide Financial Statements

In the government-wide statements of net position, the System’s governmental activities are reported using the accrual basis of accounting. The System’s net position is reported in three parts—net investment in capital assets, restricted, and unrestricted. Revenues are recognized when earned and expenses are recognized when incurred.

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

The government-wide statements of activities report both the gross and net cost of the System's public library and administrative services. The public library and administrative services are also supported by general government revenues. The statements of activities reduce gross expenses (including depreciation) by related revenues, operating grants and contributions, and capital grants and contributions. Revenues must be directly associated with the public library and administrative services. Charges for services include charges and fees to customers for fines and charges for services provided.

The net costs are normally covered by general revenue (property taxes, state aid, other taxes, etc.).

The government-wide focus is on the sustainability of the System as an entity and the changes in the System's net position resulting from the current year's activities.

Fund Financial Statements

Fund financial statements report detailed information about the System. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Nonmajor funds, if any, are aggregated and presented in a single column.

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectable within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

The System reports the following governmental funds:

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:

- a. Pension Fund

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurement made regardless of the measurement focus applied.

Accrual

The government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred. Property taxes are recognized as revenue in the year in which they are levied.

Modified Accrual

The fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectable within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, are recognized when due.

Capital Assets

Capital assets purchased or acquired and all books and materials are reported at historical cost or estimated historical cost, net of accumulated depreciation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	30 years
Furniture and fixtures	7 years
Computer equipment	4 years
Vehicles	5 years
Books and materials	5 years

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.

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

Annual Budget

The System is required by state law to prepare an annual budget. The Board of Trustees of the System formally approves the annual budget for the General Fund.

Cash and Cash Equivalents

The System considers all cash on-hand, demand deposits, and certificates of deposit held at an individual bank which are subject to early withdrawal penalties, no matter what the maturity period, to be cash and cash equivalents.

Investments

In accordance with *GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments held at June 30, 2023, with original maturities greater than 1 year are stated at fair value.

Advertising Costs

All costs associated with advertising are expensed as incurred.

Property Tax Revenues

The System is authorized by state law to levy property taxes which consist of ad valorem taxes on real and personal property Choctaw County, Coal County, Haskell County, Latimer County, LeFlore County, McCurtain County and Pittsburgh County. Several major industries in the counties claim an ad valorem manufacturer exemption. The State of Oklahoma will reimburse the counties for the industries that claim this exemption.

Property Taxes Receivable

Property taxes receivable by the System include uncollected taxes assessed as of June 30, 2023 and earlier. Choctaw County, Coal County, Haskell County, Latimer County, LeFlore County, McCurtain County and Pittsburgh County owe the System outstanding ad valorem taxes. The System considers prior years' experience in estimating uncollectable property taxes. No provisions have been made for uncollectable amounts for the year ended June 30, 2023.

State Revenues

The System receives revenue from the Oklahoma Department of Libraries to administer certain library materials.

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

Grants

The System records income from grants in the period received or to the extent of expenses paid prior to reimbursement by grant.

Income Taxes

The System was established under the provisions of the Oklahoma Constitution and as such is exempt from income taxes under the Internal Revenue Code as a unit of government.

Prepaid Expenses

The System uses the consumption method to record prepaid expenses. Prepaid expenses are payments in advance of the receipt of goods or services in exchange transactions and are usually made for insurance, automation and pension. Prepaid expenses are reported as financial resourced at the time of prepayment, and expenditures for prepaid services are recognized when the related services are received.

Retirement

Defined Contribution Plan—The System also has a defined contribution plan. It is discussed in more detail in Note 9.

Restricted Resources

The System records gifts and grants as restricted when the donor specifies a restriction on the timing or use of the gift or grant. Expenses are allocated first to the restricted resources. If additional expense is incurred, the expense is allocated to unrestricted funds when the restriction has been depleted.

Use of Estimates

The preparation of financial statements 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.

Equity Classification - Government-Wide Financial Statements

Equity is classified as net position and displayed in three categories in the government-wide financial statements:

- a) Net investment in capital assets: Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- b) Restricted net position: Consists of net position with constraints placed on the use either by (i) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (ii) law through constitutional provisions or enabling legislation.
- c) Unrestricted net position: All other net positions that do not meet the definition of “restricted” or “net investment in capital assets”.

It is the System’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Equity Classification - Fund Statements:

Governmental fund equity is classified as fund balance in the fund statements. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. The classifications are defined as:

- a) Nonspendable fund balance: Includes amounts that cannot be spent because they are either (i) not in spendable form or (ii) legally or contractually required to be maintained intact. This would include items not expected to be converted to cash, including prepaid expenses. It is the responsibility of the System’s management to identify and report all nonspendable funds appropriately in the System’s financial statements.
- b) Restricted fund balance: Consists of amounts with constraints placed on the use of resources either (i) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (ii) imposed by law through constitutional provisions or enabling legislation. It is the responsibility of the System’s management to identify and report all restricted funds appropriately in the System’s financial statements.
- c) Committed fund balance: Reflects specific purposes pursuant to constraints imposed by formal action of the System’s highest level of decision-making authority. Also, such constraints can only be removed or changed by the same form of formal action.

For purposes of the committed fund balance, the Board of Trustees is considered the System’s highest level of decision-making authority. Funds set aside by the Board of Trustees as committed fund balances require the passage of a resolution by a majority vote of the members of the Board of Trustees. The Board of Trustees has the authority to remove or change the commitment of funds with a majority vote. The governing board has implemented a cash management policy that commits 3 months of operating expenses. The committed fund balance for this purpose as of June 30, 2023 was \$2,334,045.

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

- d) Assigned fund balance: Reflects amounts that are constrained by the System’s intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint. Assigned funds cannot cause a deficit in the unassigned fund balance. For purposes of the assigned fund balance, the restrictions are imposed by the Executive Director only; consequently, the restrictions may be rescinded by action of the Executive Director. The assigned fund balances for these purposes as of June 30, 2023 were as follows:

Strategic Plan	\$300,000
Endowment	\$100,000

- e) Unassigned fund balance: Is the residual classification for the General Fund only. Unassigned fund balance essentially consists of excess funds that have not been classified in the above four fund balance categories.

It is the System’s policy to first use the restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balances are available. The System’s policy for the use of the unrestricted fund balance amounts require that committed amounts be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The System presents its fund balance in according with the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following tables show the fund balance classifications as shown on the governmental funds balance sheets in accordance with GASB as of June 30, 2023:

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

Fund Balances			
Nonspendable:			
Prepaid Expenses	\$ 148,950	\$ 0	\$ 148,950
Pension Accounts	0	4,479,924	4,479,924
Total nonspendable	<u>148,950</u>	<u>4,479,924</u>	<u>4,628,874</u>
Restricted:	<u>1,263,709</u>	<u>0</u>	<u>1,263,709</u>
Committed:			
Operating Expenses	<u>2,334,045</u>	<u>0</u>	<u>2,334,045</u>
Assigned:			
Strategic Plan	300,000	0	300,000
Endowment	100,000	0	100,000
Total assigned	<u>400,000</u>	<u>0</u>	<u>400,000</u>
Unassigned:	<u>5,613,805</u>	<u>0</u>	<u>5,613,805</u>
Total Fund Balances	<u>\$ 9,760,509</u>	<u>\$ 4,479,924</u>	<u>\$ 14,240,433</u>

Recent Accounting Pronouncements

Governmental Accounting Policies Adopted During Current Year

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The System adopted GASB 87 on July 1, 2022, for the June 30, 2023, reporting year, which did not have a significant impact on the System's financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 provides accounting and financial reporting guidance for the governmental end users of subscription-based information technology arrangements (SBITAs). GASB 96 defines an SBITA, establishes right-to-use assets and corresponding liabilities, and provides capitalization criteria and the note disclosures required for SBITAs. The System adopted

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

GASB 96 on July 1, 2022, for the June 30, 2023, reporting year, which did not have a significant impact on the System's financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022* (GASB 99). GASB 99 is a technical omnibus statement that addresses issues or concerns from previous statements that were discovered during implementation and application of those statements. GASB 99 covers several topics including but not limited to, financial guarantees, derivatives, leases, non-monetary transactions, future revenue pledges and terminology updates. The System adopted the sections that were effective immediately for the June 30, 2023, reporting year. The remaining sections will be adopted by the System for the June 30, 2024, reporting year, as required by GASB 99. The System does not expect GASB 99 to have a significant impact on the financial statements.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections* (GASB 100). GASB 100 proscribes accounting and financial reporting for accounting changes and error corrections to the financial statements. GASB 100 defines what constitutes an accounting change versus a change in accounting principle or error correction and outlines the appropriate note disclosures in each circumstance. The System will adopt GASB 100 on July 1, 2023, for the June 30, 2024, reporting year. The System does not expect GASB 100 to have a significant impact on the financial statements.

In June 2022, GASB issued Statement No. 101, *Compensated Absences* (GASB 101). GASB 101 outlines the definition of compensated absences and sets forth the accounting and financial reporting for compensated absence liabilities. GASB 101 outlines that leave accrued should be measured using the employees pay rate at the financial statement date and that certain salary related payments, such as Social Security and Medicare, should be included in such measurement. The System will adopt GASB 101 on July 1, 2024, for the June 30, 2025, reporting year. The System has not determined the impact that GASB 101 will have on the financial statements.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through September 17, 2023, the date which the financial statements were available to be issued. The Executive Director expect any upcoming changes to the organization, funding sources or other functions.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following accounts:

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

The Bank - Money Market Account	\$ 3,136,277
First National Bank - Donations Account	723,312
The Bank - Operating Account	651,981
Petty Cash	27
	\$ 4,511,597

Custodial Credit Risk - Deposits

For deposits, custodial credit risk is the risk that in the event of the failure of a counterparty, the System will not be able to recover the value of its deposits. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. At June 30, 2023, the carrying value of the System’s cash and cash equivalents were \$4,511,596, and the bank balances were \$4,511,570. The difference in balances was due to the existence of petty cash.

The cash on deposit with The Bank, is not only covered by FDIC insurance (up to \$250,000) but also a collateral pledge of \$7,525,000 to cover deposits in excess of the FDIC coverage. The cash on deposit with First National Bank is also covered by FDIC insurance but also collateral pledge of \$900,000 to cover deposits in excess of the FDIC coverage.

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	\$ 4,511,570	\$ 0	\$ 27	\$ 4,511,597

NOTE 3 – INVESTMENTS

The System’s investment policies are governed by State statutes. Permissible investments include direct obligations of the U.S. government and agencies; negotiable certificates of deposit of savings and loan associations and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Non-negotiable certificates of deposit are considered to be cash equivalents. Collateral is required for demand deposits and certificates of deposit on all amounts not covered by Federal Deposit Insurance Corporation insurance.

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

The System invests \$603,200 in Certificate of Deposits at multiple banks. The interest rates vary from 0.8% to 1.45%. The interest pays on various schedules that range from monthly to maturity.

Custodial Credit Risk - Investments

Investments are made under the custody of the System's management in accordance with investment policies complying with State statutes and System policy.

Custodial credit risk is the risk that, in the event of the failure of a counterparty, the System will not be able to recover the value of its investments. Investment securities are exposed to custodial risk if they are uninsured, are not registered in the name of the System, or are held by a counterparty or the counterparty's trust department but not in the name of the System. While the investment policy does not specifically address custodial credit risk, all investments are held in the name of the System.

NOTE 4 – COLLECTIONS

The System has not capitalized existing inexhaustible collections, including research books, because the values are not readily determinable.

NOTE 5 – PREPAID ASSETS

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

Prepaid Automation	\$ 134,573
Prepaid Insurance	13,274
Prepaid AirMedCare	888
Prepaid T-Mobile	215
	<u>\$ 148,950</u>

NOTE 6 – CAPITAL 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.

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

Current year changes in fixed assets were as follows:

	Capital Assets	Accumulated Depreciation
Balance as of 06/30/2022	\$ 2,196,054	\$ 1,408,420
Additions	2,974,285	168,226
Disposals	(75,735)	0
Balance as of 06/30/2023	\$ 5,094,604	\$ 1,576,646

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Grant Program Contingencies

In the normal course of operations, the System used to disburse funds from numerous federal and state grant programs in previous years. 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 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.

Leases

The System engaged in a long-term lease with Canon on September 2, 2021. This lease is a 60-month contract with monthly payments of \$1,656. They also engage in a long-term lease with Quadient Leasing on January 8, 2021. This lease is a 63-month contract with monthly payments of \$209.

Under *GASB Statement No. 87, Leases*, these leases are considered assets that are subject to depreciation.

The System reports the future lease payments as liabilities on the financial statements. The future payments are as follows:

	Canon		
	Principal	Interest	Total Payments
FYE 06/30/2024	\$ 17,030	\$ 2,842	\$ 19,872
FYE 06/30/2025	17,881	1,991	19,872
FYE 06/30/2026	18,776	1,096	19,872
FYE 06/30/2027	3,154	158	3,312
	\$ 56,841	\$ 6,087	\$ 62,928

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

Quadient Leasing			
	Principal	Interest	Total Payments
FYE 06/30/2024	\$ 2,118	\$ 390	\$ 2,508
FYE 06/30/2025	2,224	284	2,508
FYE 06/30/2026	2,336	172	2,508
FYE 06/30/2027	1,705	92	1,797
	\$ 8,383	\$ 938	\$ 9,321

The current year interest amount is \$4,143.

Legal

From time to time, the System is involved in certain legal proceedings arising in the normal course of business. In the opinion of management, the ultimate disposition of such proceedings will not have a material effect on the System's financial statements.

Risk Management

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

NOTE 8 – 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.

Employees can accrue up to a maximum of 25 days or 200 hours of leave. The cost is recognized when a claim is made for the accrued compensation by the employee.

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

Accrued payroll for the year ended June 30, 2023 was \$95,653. Compensated absences activity for the year ended June 30, 2023 was \$151,709.

Note 9 – RETIREMENT 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.

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:

	06/30/2023	06/30/2022	06/30/2021
Employee Contributions	\$ 121,868	\$ 104,895	\$ 97,522
Employer Contributions	337,759	328,068	322,917
Administration Costs	6,098	3,340	2,195
	\$ 465,725	\$ 436,303	\$ 422,634

Employer contribution of \$337,759 represents approximately 9.35% of the total payroll of \$3,611,827 for the fiscal year ending June 30, 2023.

NOTE 10 – TAX REVENUES

Approximately 66.2% 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 66.8% of the ad valorem tax revenues were received in January and February 2023. Any change in Oklahoma statutes regarding library tax levies or changes in state funding might affect the System’s operations.

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2023

	Tax Revenue
Pittsburg County	\$ 1,762,335
McCurtain County	1,379,576
LeFlore County	1,246,207
Coal County	474,428
Choctaw County	351,578
Haskell County	299,063
Latimer County	281,400
	\$ 5,794,587

NOTE 11 – RELATED PARTY TRANSACTIONS

The counties of Choctaw, Coal, Haskell, Latimer, LeFlore, McCurtain, and Pittsburg, Oklahoma, provide financial support to the Southeast Oklahoma Library System 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 12 – GOING CONCERN

As of year ending June 30, 2023, the System is currently has a significant amount of Ad Valorem Tax being protested by Coal County.

Southeast Oklahoma Library System

McAlester, Oklahoma

General Fund

Statement of Revenue, Expenditures, and Changes in Fund Balance

Budget and Actual

Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with
<u>Revenue</u>	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Ad Valorem Taxes	\$ 5,747,695	\$ 6,066,470	\$ 5,794,587	\$ (271,883)
Pledge Revenue	0	0	2,217,566	2,217,566
Donations	10,000	34,000	157,365	123,365
State Aid	89,940	87,464	87,464	0
Grant Income	63,000	63,000	85,515	22,515
Interest Income	30,000	63,099	71,505	8,406
Branch Library Income	57,908	62,000	62,572	572
Surplus Sales	4,000	4,000	2,474	(1,526)
Miscellaneous Income	500	500	1,557	1,057
In-Kind Donations	10,000	10,000	0	(10,000)
Total Revenue	6,013,043	6,390,533	8,480,605	2,090,072
<u>Expenditures</u>				
Personnel Services	3,660,803	3,729,199	3,611,826	117,373
Capital Expenditures	2,006,000	2,626,514	3,066,609	(440,095)
Operating Expenses	1,549,212	1,443,855	1,179,565	264,290
Informational Materials	737,934	709,769	778,394	(68,625)
Public and Technical Services	202,230	207,934	189,023	18,911
Board Reserves	300,000	300,000	0	300,000
Total Expenditures	8,456,179	9,017,271	8,825,417	191,854
<u>Revenue Over (Under) Expenditures</u>	(2,443,136)	(2,626,738)	(344,812)	2,281,926
<u>Fund Balance, June 30, 2022</u>	10,105,321	10,105,321	10,105,321	0
<u>Fund Balance, June 30, 2023</u>	\$ 7,662,185	\$ 7,478,583	\$ 9,760,509	\$ 2,281,926

Please see accompanying notes to the financial statements.

Southeast Oklahoma Library System
McAlester, Oklahoma
Notes to Required Supplemental Information
Year Ended June 30, 2023

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.



**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
Southeast Oklahoma Library System
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 and the discretely presented component units of the Southeast Oklahoma Library System, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Southeast Oklahoma Library System's basic financial statements, and have issued our report thereon dated September 17, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Southeast Oklahoma Library System'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 Southeast Oklahoma Library System'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 & **A**SSOCIATES, PC

Lawton, Oklahoma
September 17, 2023

Southeast Oklahoma Library System
McAlester, OK
Schedule of Grant Activity
Modified Cash Basis
Year Ended June 30, 2023

	<u>Award Amount</u>	<u>Grant Receipts</u>	<u>Grant Expenses</u>	<u>Remaining to be Expended</u>
<u>Federal Funds</u>				
Dorothy Louise Foundation Grant	\$ 24,000	\$ 24,000	\$ (24,000)	\$ 0
Cares Act	58,142	58,142	(55,128)	3,014
Conference Grant	3,373	3,373	(3,373)	0
 Total Grant Activity	 <u>\$ 85,515</u>	 <u>\$ 85,515</u>	 <u>\$ (82,501)</u>	 <u>\$ 3,014</u>

Please see accompanying notes to the financial statements.