

**SOUTHEASTERN PUBLIC LIBRARY SYSTEM
OF OKLAHOMA
FINANCIAL STATEMENTS
AND
AUDITORS' REPORT
JUNE 30, 2012**



**Chambers, Jackson and Fox
A Professional Corporation
Certified Public Accountants
Ardmore, Oklahoma**

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Southeastern Public Library

Serving Choctaw, Coal, Haskell, Latimer, LeFlore, McCurtain, and Pittsburg Counties

401 North Second Street
McAlester, Oklahoma 74501
918.426.0456

Management's Discussion and Analysis
Southeastern Public Library System of Oklahoma
for the Year Ending June 30, 2012
Unaudited

BACKGROUND

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. SEPLSO also contracts with six (6) communities or organizations for the operation of locally-provided, volunteer-staff lending libraries called "reading centers" and provides paperback deposit collections called Community Reading Collections in additional communities.

As a result of county elections held in 1997-1998, financial support for SEPLSO is at four (4) mills per \$1,000 assessed valuation in all seven counties. This is the constitutional limit established by Article 10, Section 10A of the Constitution of Oklahoma. A small amount is added to the regular millage levy in counties which have eliminated the personal property tax, to compensate for the lost revenue.

Serving Choctaw, Coal, Haskell, Latimer, LeFlore, McCurtain, and Pittsburg Counties.

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GOVERNANCE

SEPLSO is governed by twenty-one (21) Trustees who are appointed by the city and county commissioners for the respective communities they represent. Trustees may serve two consecutive three-year terms. An initial partial term of less than eighteen (18) months does not count toward this limit.

FY 2012 Trustees were as follows:

<u>Board Member</u>	<u>Represents</u>	<u>Location</u>
John Dean	City	Broken Bow (resigned 7/19/11)
Ray Burris	City	Broken Bow (appointed 7/19/11)
Fran Damron	County	Choctaw (resigned 11/3/11)
Christopher Gann	County	Choctaw (appointed 11/28/11)
Sharon Mowdy	County	Coal
Jaime Arcos	City	Coalgate
Clint Pope	City	Hartshorne
Florence Conklin	County	Haskell
Wayne Cash	City	Heavener
Harolynn Wofford	City	Hugo
Patti Harris	City	Idabel
None appointed	City	Krebs
Betty Booth	County	Latimer
Deann Williams	County	LeFlore
Yvonne Wallis	City	McAlester

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Jimm Jacobs	County	McCurtain
Nancy Cope	County	Pittsburg
None appointed	City	Pocola
Peggy Talley	City	Poteau
Ann Nelson	City	Spiro
Sally Matthews	City	Stigler
Pat Starbuck	City	Talihina
Karin Woodruff	City	Wilburton

FINANCIAL OVERVIEW FOR FISCAL YEAR 2012 (July 1, 2011 - June 30, 2012)

FY 2012 Budgeted Revenue (Income)	-	\$4,651,640
FY 2012 Actual Revenue (Income)	-	\$4,585,696
FY 2012 Budgeted Expenditures	-	\$4,779,609
FY 2012 Actual Expenditures	-	\$4,300,581

The major portion of SEPLSO's funding (91.8% in FY 2012) comes from county ad valorem taxes of four (4) mills, as mentioned above. This generated \$4,208,654.77 in income for FY 2012, as compared with \$3,883,642.72 for FY 2011, for an increase of \$325,012.05. However, \$239,669.04 of this came from the release in June of ad valorem revenues from 2009, 2010, and 2011 held in escrow pending the settlement of an assessment protest lawsuit in Pittsburg County, so the actual new ad valorem revenue was only \$85,343.01. This includes increases in assessed valuation and/or collections of \$73,894.76 in Pittsburg County, \$37,393.50 in LeFlore County, \$25,290.28 in Choctaw County, and \$1,258.17 in Haskell County, and decreases in

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assessed valuation and/or collections of \$28,433.57 in McCurtain County, \$20,929.79 in Coal County, and \$3,130.34 in Latimer County.

\$123,300 or 2.7% of SEPLSO's FY 2012 income came from State Aid, administered by the Oklahoma Department of Libraries (ODL). This was a decrease of \$12,849 or 9.4% from the FY 2011 State Aid amount of \$136,149, as a result of state budget cuts. Twenty years ago, in FY 1992, SEPLSO received \$167,451 in State Aid, which would have been worth over \$250,000 today, so it can be seen that state budget cuts have taken a heavy toll on this assistance. The State Aid formula is based on population and the square miles within the library system.

"Other income" for SEPLSO varies from year to year, depending on interest rates, programming, available grant funding, and miscellaneous income. For instance, library fees and charges generated \$83,316 in revenue during FY 2012, while low interest rates brought in a disappointing \$36,033.

An important source of funding for SEPLSO for the past twelve (12) years that is only partly reflected in the financial reports is the Universal Service (aka E-Rate) discount for telephone and Internet services for schools, public libraries and rural health departments. The E-Rate discounts amount to a tremendous saving which has allowed SEPLSO to greatly improve the high-speed Internet service we provide at our libraries. For FY 2012, SEPLSO was approved for Internet and telephone service discounts up to \$419,971. Only part of those amounts (about \$308,592.68) was received during FY 2012, partly because our telephone and Internet services application was not approved

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until January 2012, and partly because of delays and slow processing times on the part of telecommunications and Internet service providers.

The E-Rate discount percentage is based on the level of participation in the free and reduced school lunch program for the local school district in which each branch library is located. That participation varies from year to year, and the discount we get varies as a result. For FY 2012, it was 85%. Universal Service discounts are approved by the Schools and Libraries Division (SLD) of the Universal Services Administration Company, a contractor for the Federal Communication Commission (FCC). There is a multi-tiered annual application process which is complex, time consuming, and problematic at best. While the discounts for these services are critically important for SEPLSO to continue providing adequate Internet access and telephone service, and we are glad to get them, it can be fairly said that to obtain the discounts one must work through a nightmarish federal bureaucratic process. During FY 2012, we were greatly helped by the assistance of Kellogg & Sovereign, LLC, with preparing and filing our E-Rate applications. Some additional Universal Service Fund discounts come from a State of Oklahoma program which supplements the federal Internet service discounts and provides toll free phone numbers for calls from customers to our libraries.

A federal law, the *Children's Internet Protection Act* (CIPA), mandates that all public libraries receiving federal funding must filter computers having Internet access. As an E-Rate recipient, SEPLSO must comply with this. During FY 2012, SEPLSO paid our filtering provider, NewNet 66, \$650 for the use of their Marshal M86 Filtering System, and we also paid DirSec \$1,900.80 for filtering service provided through SEPLSO's Palo Alto PAN-PA-2020 security device.

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In this time of economic change and uncertainty, the financial outlook for SEPLSO is likewise uncertain. Three of SEPLSO's seven counties had reduced ad valorem revenues during FY 2012. The slowdown in the energy sector continues to affect southeast Oklahoma. State budget cuts have resulted in reductions in state aid, and proposed tax cuts and assessment lids could result in lower ad valorem revenues and reduced services and grants from the state and federal governments. Interest rates are exceptionally low. All of these factors call for continuing the cautious budgeting approach that SEPLSO has taken in recent years, keeping growth in ongoing expense commitments tightly controlled and using revenues received above projections mostly for expenditures of a one-time nature. The foresight twelve years ago in creating and building up the automation reserve fund means that the funding is available to make significant changes in SEPLSO's automation system and technology infrastructure when they are needed. Even so, pressures from rising costs and reduced revenues could lead to a need for cutbacks at some point in the future.

PERSONNEL

Paid employees for FY 2012 included 70 professional, paraprofessional, and other support staff. 12 were exempt (salaried), 38 worked 40 hours per week, 11 worked from 25 to 35 hours per week, and 9 worked 20 hours per week. Actual personnel expenditures of \$2,612,846 for FY 2012 were approximately 61% of total expenditures for FY 2012. Significant points about personnel costs for the year include the following:

1. The pay scale was unchanged (there was no pay increase)
2. Health insurance premiums stayed nearly the same

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3. The retirement fund contribution was at the base rate of 14%
4. Emphasis on staff training and professional development

Based on past and current feedback from customers, personnel are SEPLSO's most important asset. Our customers appreciate the quality, friendly service, and the many extra efforts staff makes to provide them with the information, resources and services they need.

SERVICES

SEPLSO serves the citizens of its seven-county service area in a multitude of ways, some very traditional and others unforeseen as recently as five years ago. SEPLSO provides information and access to information in diverse formats: hard cover and paperback books; large print books; newspapers; magazines; videos (mostly DVDs, with some VHS); audio recordings (mostly CDs, plus some MP3 recordings and a few tapes); online information services (available within the library and often to remote locations); and microfilm (back files of local newspapers, various census and genealogy resources), maps, etc. Downloadable e-books were added to this array of resources during FY 2012 and, late in the year, problems that resulted from a change in our downloadable audio book supplier had been largely resolved, so use of that service began to pick up. Other services include, but are not limited to: programs for infants, children, teens, and adults; instruction through classes and individual assistance as needed; reference; reader's advisory; and interlibrary loan. Whenever possible, SEPLSO partners with other state, regional and local community organizations to

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provide resources with a cost savings and some resources that would not be readily available without these networks.

ANNUAL CIRCULATION & USE OF LIBRARIES

Circulation of materials and online resources from SEPLSO libraries during FY 2012 reached a new all-time high of 850,011. Physical checkouts of library materials totaled 836,857, second only to the record of 838,132 set in 1994. On top of this were 13,154 online checkouts of e-books and downloadable audio books. The use of library computers also set a new record.

A statistical review of use of SEPLSO libraries shows the following breakdown for FY 2012:

Circulation	850,011
Interlibrary Loan: Borrowed	1,011
Interlibrary Loan: Loaned	2,797
Interbranch Loans	2,592
Computer/Internet sessions	191,472
Programs	2,774
Program Attendance	54,931
Library Visits	816,438
Reference Questions	114,474

Total circulation increased by 4.1%, or 33,508, from FY 2011. The public computer and Internet sessions recorded do not include tens of thousands of wireless Internet

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sessions, many of them done from outside the libraries late at night or early in the morning. Attendance at library programs was very slightly down, by 53 persons. The total number of library visits was up by 16,980, a 2.1% increase.

Approximately \$658,000 was spent in FY 2012 for books and other library materials and online information services, as well as materials for use by outreach services, including reading centers and community reading collections.

At the conclusion of FY 2012, statistics from the library automation system said that SEPLSO (system-wide) has approximately 385,018 books, 25,904 audio recordings (both music and audio books), 30,225 video recordings (mostly DVDs), 857 microfilms, 529 maps, and 686 subscriptions to newspapers and magazines. During FY 2012, 32,767 books were added and 32,070 were deleted. A total of 19 licensed online services are available for SEPLSO patrons. There are 4 online services provided at the state level and 15 paid for by SEPLSO. These online services are available to patrons within SEPLSO libraries and most are accessible remotely from home or office.

PLANNING AND GOALS

Keeping policies and plans current for SEPLSO is a regular, ongoing priority. During FY 2012, a variety of SEPLSO policies were evaluated and updated. More are in review and revision. An update to the Long Range Plan for FY 2013 - FY 2017 was written during FY 2012 and approved January 10, 2012. A revision of the three-year technology plan for 2010 - 2013 was approved September 13, 2011 and an updated plan will be presented for the Board's consideration at the September 11, 2012 meeting.

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Unaudited

For further information, contact Wayne Hanway, Executive Director, at (918) 426-0456

**SOUTHEASTERN OKLAHOMA PUBLIC LIBRARY SYSTEM OF OKLAHOMA
STATEMENTS OF REVENUES AND EXPENDITURES
GENERAL FUND- BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012
Unaudited**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
REVENUE:				
Ad Valorem Taxes	\$ 3,783,000	\$ 3,840,000	\$ 4,226,655	\$ 386,655
State Aid	130,956	123,691	123,300	(391)
Interest Income	43,953	43,953	36,455	(7,498)
Other Income	643,174	643,996	295,199	(348,797)
Total Revenue	4,601,083	4,651,640	4,681,609	29,969
EXPENDITURES:				
Staff expenditures	\$ 2,714,960	2,685,944	\$ 2,659,093	26,851
Informational materials	698,777	698,777	657,508	41,269
Special grant expenditures		13,954	12,959	995
Operations	1,134,053	1,165,660	983,867	181,793
Fixtures and equipment	201,798	229,228	161,059	68,169
Total Expenditures	4,749,588	4,793,563	4,474,486	319,077
Excess (Deficiency) of Revenues Over (Under) Expenditures	(148,505)	(141,923)	207,123	349,046
Other Financing Sources (Uses)				
Carryover fund balance	148,505	141,923		(141,923)
Total Other Financing Sources (Uses)	148,505	141,923		(141,923)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	\$ -	\$ -	\$ 207,123	\$ 207,123

Note: this budget utilizes capital expenditures for informational materials and fixtures and equipment. The Statement of Activities uses depreciation expense.

CHAMBERS, JACKSON and FOX
A Professional Corporation
Certified Public Accountants

PO Box 1171 * 129 C Northwest
Ardmore, Oklahoma 73402-1171
James A. Chambers III CPA
Donald L. Jackson CPA
Kathy A. Fox CPA

Phone (580) 223-1877 Fax (580) 223-1880
www.cpa-ok.com
james.cjcpa@sbcglobal.net
don.cjcpa@sbcglobal.net
kathy.cjcpa@sbcglobal.net

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Southeastern Public Library System of Oklahoma

We have audited the accompanying statements of the governmental activities of Southeastern Public Library System of Oklahoma (the Library), as of and for the year ended June 30, 2012, which collectively comprise the Southeastern Public Library System of Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Library as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2012, on our consideration of the Library'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 13 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's financial statements as a whole. The schedule of operating expenses and schedule of state financial assistance are presented for purposes of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Chambers Jackson and Fox PC

Ardmore, Oklahoma
August 31, 2012

**SOUTHEASTERN OKLAHOMA PUBLIC LIBRARY SYSTEM
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
AND GOVERNMENTS FUNDS BALANCE SHEETS
JUNE 30, 2012**

<u>ASSETS AND OTHER DEBITS</u>	General	Pension Trust	Totals	Adjustments	Statement of Net Assets
Assets:					
Cash and Cash Equivalents	\$ 4,555,343	\$ -	\$ 4,555,343		\$ 4,555,343
Investments		2,451,247	2,451,247		2,451,247
Receivables:	31,417		31,417		31,417
Informational materials	7,984,778	-	7,984,778		7,984,778
Furniture and equipment	2,751,015		2,751,015		2,751,015
Accumulated depreciation	(6,103,661)		(6,103,661)		(6,103,661)
Total Assets and Other Debits	\$ 9,218,892	\$ 2,451,247	\$ 11,670,139	\$ -	11,670,139
LIABILITIES, EQUITY AND OTHER CREDITS					
Liabilities:					
Accounts Payable	\$ 2,637	\$ -	\$ 2,637		2,637
Deferred grant revenue	9,005		9,005		9,005
Accrued Payroll and Related Costs			-		-
Total Liabilities	11,642	-	11,642	-	11,642
Fund Balances					
Non-spendable	4,620,490		4,620,490	(4,620,490)	-
Spendable					-
Committed		2,451,247	2,451,247	(2,451,247)	-
Assigned	408,032		408,032	(408,032)	-
Unassigned	4,178,728		4,178,728	(4,178,728)	-
Total Equity and Other Credits	9,207,250	2,451,247	11,658,497	(11,658,497)	-
Total Liabilities, Equity and other Credits	\$ 9,218,892	\$ 2,451,247	\$ 11,670,139		
Net Assets:					
Non-spendable				4,620,490	4,620,490
Spendable					-
Committed				2,451,247	2,451,247
Assigned				408,032	408,032
Unassigned				4,178,728	4,178,728
				<u>\$ 11,658,497</u>	<u>\$ 11,658,497</u>

The accompanying notes are an integral part of these financial statements.

**SOUTHEASTERN OKLAHOMA PUBLIC LIBRARY SYSTEM
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
AND GOVERNMENTAL FUND STATEMENT OF
REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General Fund	Pension Fund	Total	Adjustments	Statement of Activities
EXPENDITURES					
Current--					
Staff Expenditures	\$2,659,093	\$ -	\$ 2,659,093	\$ -	\$ 2,659,093
Special Grant Expenditures	12,959		12,959		12,959
Distributions/withdrawals		119,508	119,508		119,508
Operations	983,857	120	983,977		983,977
Depreciation	1,213,398		1,213,398		1,213,398
Asset dispoals	192,949		192,949		192,949
Total Expenditures	5,062,256	119,628	5,181,884	-	5,181,884
REVENUES					
Ad valorem tax revenues	4,226,655		4,226,655		4,226,655
Oklahoma Dept of Libraries Special Grant Revenue			-		-
State Aid	123,300		123,300		123,300
Investment income	36,455		36,455		36,455
Employee Contributions		117,018	117,018		117,018
Unrealized Gains(losses)		(17,802)	(17,802)		(17,802)
Other Grants/Donations	114,228		114,228		114,228
Other Revenues	180,971		180,971		180,971
Library contribution		254,269	254,269		254,269
Total Revenues	4,681,609	353,485	5,035,094	-	5,035,094
CHANGE IN NET ASSETS	(380,647)	233,857	(146,790)		(146,790)
NET ASSETS, JULY 1, 2011	9,587,897	2,217,390	11,805,287		11,805,287
NET ASSETS JUNE 30, 2011	\$9,207,250	\$2,451,247	\$11,658,497	\$ -	\$11,658,497

The accompanying notes are an integral part of these financial statements.

SOUTHEASTERN OKLAHOMA PUBLIC LIBRARY SYSTEM
GOVERNMENT-WIDE STATEMENT OF CHANGES
IN FUND BALANCE - ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund			Pension Fund	
	Nonspendable	Assigned	Unassigned	Total	Committed
Fund Balance - July 1 2011	\$ 5,218,912	\$ 399,995	\$ 3,968,990	\$ 9,587,897	\$ 2,217,390
Excess (Deficiency) of Revenues and Other Financing Sources			(380,647)	(380,647)	233,057
Other additions (reductions)	(598,422)	8,037	590,385	-	
Fund Balance June 30, 2012	\$ 4,620,490	\$ 408,032	\$ 4,178,728	\$ 9,207,250	\$ 2,450,447

The accompanying notes are an integral part of these financial statements.

Southeastern Public Library System of Oklahoma
Notes to Financial Statements
June 30, 2012

Note A - Organization

The Financial Reporting Entity – The Southeastern Public Library System of Oklahoma is an independent special purpose entity established under Title 65 Article 4, Public Library Systems, of the Oklahoma statutes. These statutes authorize and empower counties, cities and towns to join in the creation, development, and operation and maintenance of public libraries systems to serve multi-county districts. Title 65 authorizes special tax levies for the support of library systems to serve multi-county systems established under this act. Under *Governmental Accounting Standards Board (GASB) No. 14*, the system is defined as a Special—Purpose Governmental Unit. The participating counties are Choctaw, Coal, Haskell, Latimer, LeFlore, McCurtain and Pittsburg, which have authorized special tax levies to provide funding for the support of the Library.

Note B – Summary of Significant Accounting Policies

The accounting policies of the Library conform to generally accepted accounting principles, as applicable to special purpose governmental units. The *Governmental Accounting Standards Board* is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. It defines primary governments as governments which provide a range of services. A special purpose government is a legally separate entity that performs only one (or a few) specific activities. The Library is a special purpose governmental unit under that definition. It is not a component unit of any other government. The more significant of Southeastern Public Library System of Oklahoma's accounting policies are described below.

Basis of Presentation—Fund Accounting – The Library uses funds to report on its financial position, results of its operations and changes in fund balances. A fund is a separate accounting entity with a self-balancing set of accounts. The Library uses a general operating fund and a trust fund.

1. Basis of Accounting

The Library prepares its financial statements on the modified accrual basis of accounting. Under this method, support and other revenues are recognized when they become measurable and available. Expenditures are generally recognized when the related fund liability is incurred. The Library considers property taxes as available if they are collected within 60 days after year-end. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded when earned since they are measurable and available. Donations and grant funds are considered earned when received, unless subject to forfeiture, in which case when received they are recorded as deferred revenues until earned.

2. Budgets

The Library is required by state law to adopt an annual budget. The budget adopted by the Board of Trustees is a non-appropriated budget in that it is a financial plan approved in a manner authorized by statute but not created by an appropriations bill, which is signed into law.

Southeastern Public Library System of Oklahoma
Notes to Financial Statements - Continued
June 30, 2012

3. Contributed Facilities

The Library occupies, without charge, certain premises located in government-owned buildings. The estimated fair rental value of the premises is not included on the financial statements as it is not determinable at this time.

4. Grants

The Library records income from grants in the period received.

5. Cash and Cash Equivalents

The Library considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments are reported at fair value, which is determined using a selected basis. Short-term investments are reported at cost, which approximates fair value.

6. Income Taxes

No provision is made for income taxes. The Library is exempt from taxes under the Internal Revenue Code under Section 501(c)(3).

7. Interfund Receivables and Payables

During the course of operations, some transactions occur between funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Government-Wide Statement of Net Assets.

8. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources are reported as expenditures and a fund liability of the general fund.

9. Fund Balances

The Library adopted Governmental Accounting Standards Board (GASB) Statement No 54 which redefines the classifications of fund equities.

• *Nonspendable*. Fund balances that cannot be spent because they are either:

- *Not in Spendable Form*—generally, amounts that are not expected to be converted to cash, such as inventories or prepaid amounts. This classification also includes some long-term amounts such as property acquired for resale or the long-term portion of loans receivable. (However, if the eventual proceeds or collections from these would be restricted, committed, or assigned, these amounts would be included in that other classification.)

Southeastern Public Library System of Oklahoma
Notes to Financial Statements – Continued
June 30, 2012

•• *Legally or Contractually Required to be Maintained Intact*—amounts that are required to be maintained intact, such as the principal of a permanent fund.

• *Restricted*—amounts that can be used only for specific purposes because of (a) constitutional provisions or enabling legislation or (b) externally imposed constraints. (External constraints might be imposed by creditors, grantors, contributors, or even the laws or regulations of other governments.)

• *Committed*—amounts that can be used only for specific purposes because of a formal action by the government's highest level of decision-making authority. This classification might also include contractual obligations if existing resources have been committed for use in satisfying those contractual requirements. (The formal action to establish constraints should be taken before year-end, even if the amount might not be determined until the subsequent period.)

• *Assigned*—amounts intended to be used for specific purposes but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a finance committee), or by an official to whom that authority has been given. Assigned fund balances represent tentative plans for future use of financial resources. The amounts are decided by the Board and can be reclassified as needed.

• *Unassigned*—this is the residual classification for the general fund (i.e., everything that is not in another classification or in another fund). The general fund is the only governmental fund that can report a positive unassigned fund balance. Other governmental funds might have a negative unassigned fund balance as a result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

10. Use of Estimates

The preparation of 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.

11. Risk Management

The Library 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. The Library carries commercial insurance for risks of loss, including workers' compensation and general liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. Participation in Risk Pools

The Library maintains worker's compensation coverage through the Oklahoma State Insurance Fund, which is classified as a risk pool for this coverage.

Southeastern Public Library System of Oklahoma
Notes to Financial Statements – Continued
June 30, 2012

Note C - Employee Benefits

1. Pension Trust Fund

During the year ended June 30, 1990, the Library initiated a pension plan for its employees. The Library is the trustee for this plan. The contributions for each plan year are based on the amount of the total salary reduction elections of all participants, which amount shall be deemed an employer elective contribution.

For each participant who is eligible to share in matching contributions for the plan year, a discretionary matching contribution is made equal to a uniform percentage of each such Participant's Deferred Compensation, the exact percentage, if any, to be determined each year by the Library.

To be eligible to contribute to the plan an employee must have been employed for six months and be a minimum age of 18. There is also a six year vesting schedule with 20 percent vesting each year after the employee's second year of service. A plan year is defined as 1,000 hours of service.

The Library uses MassMutual to help administer the retirement plan. The latest detailed annual report was prepared by Midwest PPSS, Inc. for the calendar year of 2010.

As contributions are made, they are credited to individual accounts set up for each employee. The employees, at the discretion of the administrator, may direct the trustee on the investment of these contributions. The total contribution by the Library for the year ended June 30, 2012, was \$254,269.

Benefits to be paid to employees upon retirement will be limited to the actual cash value of their individual accounts.

Plan assets at June 30, 2012 were \$2,451,247.

2. Compensated Absences

Compensated absence is paid for terminating employees up to 160 hours of accumulated vacation. No sick leave or holiday leave is vested. Total potential liability for compensated absences at June 30, 2012, was \$8,824.

Note D - Related Parties

In order to facilitate support for the Library in the local communities, local chapters known as Friends of the Library are established to receive contributions for library improvements. Each chapter has an advisory board. Some of these chapters have separately incorporated as IRS Code 501-(c)-(3) non-profit organizations. They raise funds for informational materials, fixtures and equipment, and construction funds for the local community library.

Southeastern Public Library System of Oklahoma
Notes to Financial Statements - Continued
June 30, 2012

Note E - Concentrations of Credit Risk

During the year, the Library maintained deposits of cash in excess of the federally insured amounts. However, the Bank has pledged sufficient collateral to secure the deposits. The following schedule discloses the insured and collateralized amounts.

The Library's bank deposits are categorized below per GASB Statement 3 to give an indication of the level of risk assumed at year-end. Deposits of the Library are carried at cost. The carrying amount of deposits is stated in the balance sheet as "cash" and "certificates of deposits."

Deposits by type at June 30, 2012, are as follows:

Deposits	Risk Category			Total Collateral	Bank Balance	Financial Statement
	1	2	3			Carrying Amount
Cash	\$ 78,434	\$ -	\$ -	\$ 78,434	\$ 78,434	\$ 95,000
Certificates of Deposit	2,593,791	1,883,118	-	4,476,909	4,476,909	4,460,343
Totals	\$ 2,672,225	\$ 1,883,118	\$ -	\$ 4,555,343	\$ 4,555,343	\$ 4,555,343

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- (3) Uncollateralized.

Note F - Economic Dependency

The Library receives a substantial portion of its support from ad valorem tax levies in the counties in which it operates. Any change in Oklahoma statutes regarding library tax levies, were they to occur, might have a significant effect on the Library's operations. In addition, the Library receives significant amounts from the Oklahoma Department of Libraries. Any change in state funding might affect the Library's operations.

Note G – Subsequent Events

Management has evaluated all events subsequent to the balance sheet date of June 30, 2010 through the date of issuance of these financial statements, August 31, 2012, and has determined that there are no subsequent events that require disclosure under generally accepted accounting principles.

Southeastern Public Library System of Oklahoma
Notes to Financial Statements - Continued
June 30, 2012

Note F – Long Term Assets

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

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Office equipment	5 to 10 years
Furniture	10 to 20 years
Computer equipment	3 to 5 years
Vehicles	3 to 5 years
Other / informational materials	3 to 20 years

Fixed Assets – The following is a summary of changes in the general fixed assets account group during the fiscal year:

	<u>Equipment/ Furnishings</u>	<u>Accumulated Depreciation</u>	<u>Informational Materials</u>	<u>Accumulated Depreciation</u>
Balance, 7-01-11	\$ 2,629,364	\$1,910,624	\$ 7,515,594	\$ 3,015,052
Additions	161,059	367,973	657,508	845,425
Disposals / adjustments	<u>(39,408)</u>	<u>(34,783)</u>	<u>(188,324)</u>	<u>-0-</u>
Balance 6-30-12	<u>\$ 2,751,615</u>	<u>\$2,243,814</u>	<u>\$ 7,984,778</u>	<u>\$3,860,477</u>
Depreciation expense 6-30-12		<u>\$ 367,972</u>		<u>\$ 845,425</u>

SOUTHEASTERN PUBLIC LIBRARY SYSTEM OF OKLAHOMA

SUPPLEMENTAL INFORMATION

Southeastern Public Library System of Oklahoma
Schedule of Operational Expenses
Year ended June 30, 2012
(Unaudited)

Utilities	\$ 4,255
Telephone	28,091
Postage	56,873
Board travel	10,175
Employee travel	35,983
Vehicle	4,364
Equipment rental	8,140
Maintenance contracts	68,149
Equipment repair	66,074
Insurance	21,699
General supplies	69,850
Branch supplies	3,962
Special programs and supplies	34,665
Advertising	3,874
Memberships	4,622
Audit	15,000
Revaluation fees	85,070
Internet fees	297,504
Bibliographic services	
Automation support	49,873
Professional fees	58,134
Miscellaneous	29,518
Shipping	27,906
Lost books	76
	<hr/>
	<u>\$ 983,857</u>

**Southeastern Public Library System of Oklahoma
Schedule of State Financial Assistance
Year ended June 30, 2012
(Unaudited)**

<u>State of Oklahoma Assistance</u>	<u>Project Amount</u>	<u>Receipts Recognized</u>	<u>Expenses Paid</u>
Oklahoma Department of Libraries State Aid for the Development and Expansion of Library Service	\$123,300	\$123,300	\$123,300
Oklahoma Department of Libraries Continuing Education Grant	<u>8,195</u>	<u>8,195</u>	<u>8,195</u>
Total State of Oklahoma Assistance	<u>\$131,495</u>	<u>\$131,495</u>	<u>\$131,495</u>

CHAMBERS, JACKSON and FOX

A Professional Corporation

Certified Public Accountants

PO Box 1171 * 129 C Northwest
Ardmore, Oklahoma 73402-1171
James A. Chambers III CPA
Donald L. Jackson CPA
Kathy A. Fox CPA

Phone (580) 223-1877 Fax (580) 223-1880
www.cpa-ok.com
james.cjcpa@sbcglobal.net
don.cjcpa@sbcglobal.net
kathy.cjcpa@sbcglobal.net

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 Directors
Southeastern Public Library System of Oklahoma
McAlester, Oklahoma

We have audited the accompanying financial statements of the governmental activities of Southeastern Public Library System of Oklahoma (the Library), as of and for the year ended June 30, 2012, which collectively comprise the Library's basic financial statements and have issued our report thereon dated August 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Library is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Southeastern Public Library System of Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures 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 Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

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

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

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the audit committee, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Chambers Jackson and Co PC

Ardmore, Oklahoma
August 31, 2012

**Southeastern Public Library System of Oklahoma
Schedule of Findings and Responses and
Status of Prior Year Findings
Year ended June 30, 2012**

Status of Prior Year Finding

Finding 2009-03

Condition: The Library still posted the general ledger by hand and kept other manual records. However, the growth and sophistication of the Library's system requires extensive manipulation of data. The computer accounting software was inadequate to provide the necessary information in a timely manner.

Criteria: Proper monitoring of the assets, liabilities, net assets, revenues and expenditures requires the resources of adequate personnel, time and software.

The Library installed a new computer accounting system and began using it for the fiscal year beginning July 1, 2012. This is no longer a finding.