

**SOUTHEASTERN PUBLIC LIBRARY SYSTEM
OF OKLAHOMA
FINANCIAL STATEMENTS
AND
AUDITORS' REPORT
JUNE 30, 2013**

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

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Southeastern Public Library System of Oklahoma

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, 2013
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 a Board of Trustees who are appointed by the city and county commissioners for the respective communities or counties they represent. For FY 2013, the statutory authorized strength of the SEPLSO Board was 14 city/town representatives and 7 county representatives. 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 2013 Trustees were as follows:

<u>Board Member</u>	<u>Represents</u>	<u>Location</u>
Ray Burris	City	Broken Bow
Christopher Gann	County	Choctaw
Sharon Mowdy	County	Coal
Jaime Arcos	City	Coalgate
Clint Pope	City	Hartshorne (resigned 2/12/13)
David Monk	City	Hartshorne (appointed 4/8/13)
Florence Conklin	County	Haskell
Linda Mead	City	Heavener
Harolynn Wofford	City	Hugo
Patti Harris	City	Idabel
none appointed	City	Krebs
Betty Booth	County	Latimer
Deann Williams	County	LeFlore

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Yvonne Wallis	City	McAlester
Jimm Jacobs	County	McCurtain
Nancy Cope	County	Pittsburg
none appointed	City	Pocola
Peggy Talley	City	Poteau
Ann Nelson	City	Spiro
Sally Matthews	City	Stigler (resigned 9/14/12)
Gary Gatlin	City	Stigler (appointed 12/11/12)
Karen Pierce	City	Talihina
Karin Woodruff	City	Wilburton

FINANCIAL OVERVIEW FOR FISCAL YEAR 2013 (July 1, 2012 - June 30, 2013)

FY 2013 Budgeted Revenue (Income)	-	\$4,733,962
FY 2013 Actual Revenue (Income)	-	\$4,484,479
FY 2013 Budgeted Expenditures	-	\$5,162,209
FY 2013 Actual Expenditures	-	\$4,467,630

The major portion of SEPLSO's funding (84.7% in FY 2013) comes from county ad valorem taxes of four (4) mills, as mentioned above. This generated \$4,095,909.91 in income for FY 2013, compared with \$4,208,654.77 for FY 2012, for a decrease of \$112,744.86. However, FY 2012's ad valorem revenue included \$239,669.04 from prior years that had been held in escrow pending settlement of an assessment protest lawsuit in Pittsburg County, so FY 2013's ad valorem revenue actually amounted to \$126,924.18 more than the regular ad valorem revenue for FY 2012. Looking at it by

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county, there were increases in assessed valuation and/or collections of \$11,569.54 in Choctaw County and \$14,912.97 in Coal County, and decreases in assessed valuation and/or collections of \$5,511.58 in Haskell County, \$10,767.57 in Latimer County, \$6,620.28 in LeFlore County, \$11,446.14 in McCurtain County, and \$104,881.80 in Pittsburg County.

\$121,236 or 2.7% of SEPLSO's FY 2013 income came from State Aid, administered by the Oklahoma Department of Libraries (ODL). This was a reduction of \$2,064 or 1.67% from the FY 2012 State Aid amount of \$123,300, as a result of state budget cuts. Twenty-one 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 \$82,812 in revenue during FY 2013, while low interest rates brought in a disappointing \$36,679.

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 2013, SEPLSO was approved for Internet and telephone service discounts up to \$402,013. About 82.5% of that amount (\$331,822) had been received as of July 17,

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2013, either as discounts applied to bills or as reimbursements, with more to come, both from the July 2013 - June 2013 E-Rate funding year and from the previous E-Rate funding year.

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 2013, it was 86%. 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 2013, 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 2013, SEPLSO paid our filtering provider, NewNet 66, \$650 for the use of their Marshal M86 Filtering System,

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and we also paid DirSec \$1,900.80 for filtering service provided through SEPLSO's Palo Alto PA-2020 security appliance.

In this time of economic change and uncertainty, the financial outlook for SEPLSO is likewise uncertain. The passage by voters in November 2012 of State Question 766 eliminated intangibles from ad valorem taxation, and the estimated loss of revenue for SEPLSO from that is about \$100,000. Five of SEPLSO's seven counties had reduced ad valorem revenues during FY 2013. 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 will likely lead to a need for cutbacks at some point.

PERSONNEL

Paid employees for FY 2013 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

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expenditures of \$2,721,813 for FY 2013 were approximately 61% of total expenditures for FY 2013. Significant points about personnel costs for the year include the following:

1. A four percent pay increase was given (no increase the previous year)
2. The health insurance premium had a mid-year 3.24% increase
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, SEPLSO's two most important assets are our staff and our collection of books and other library resources. 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 audio books were added to this array of resources in 2010 and downloadable e-books were added in 2011. Other services include, but are not limited to: programs for infants, children, teens, and adults; instruction through classes and individual assistance as needed; reference; readers

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advisory; and interlibrary loan. Whenever possible, SEPLSO partners with other state, regional and local community organizations to 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 2013 decreased from FY 2012's all-time high of 850,011 to a total of 834,295 in FY 2013, a reduction of 15,716 or 1.8%. Physical checkouts of library materials totaled 815,309, while online checkouts of e-books and downloadable audio books increased from 13,154 in FY 2012 to 18,986 in FY 2013.

A statistical review of use of SEPLSO libraries shows the following breakdown for FY 2013:

Circulation	834,295
Interlibrary Loan: Borrowed	818
Interlibrary Loan: Loaned	2,457
Interbranch Loans	2,342
Computer/Internet sessions	178,969
Programs	2,623
Program Attendance	53,737
Library Visits	798,179
Reference Questions	123,823

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The number of public computer and Internet sessions was down 12,503, or 6.5%, but this count does not include tens of thousands of wireless Internet sessions, many of them done from outside the libraries, often outside of library hours. With the greatly increased number of mobile computing devices using wireless, it is reasonable to assume that actual Internet use through the library was at least as high as ever. Attendance at library programs was down by 1,194 persons or 2%. The total number of library visits was down by 16,980, or 2%. The number of reference questions increased by 9,349, or 8%.

Approximately \$686,056 was spent in FY 2013 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 2013, statistics from the library automation system said that SEPLSO (system-wide) has approximately 379,166 books, 25,906 audio recordings (both music and audio books), 33,645 video recordings (mostly DVDs), 1,944 microfilms, 427 maps, and 705 subscriptions to newspapers and magazines. During FY 2013, 28,082 books were added and 34,106 were deleted. A total of 29 licensed online services are available for SEPLSO patrons. There are 6 online services provided at the state level and 23 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

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2013, all of SEPLSO's policies and operating procedures were reviewed, and four policies and seven operating procedures were updated. An update to the Long Range Plan for FY 2014 - FY 2018 was written during FY 2013 and approved February 12, 2013. A new three-year technology plan for 2013 - 2016 was approved September 11, 2012.

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, 2013
Unaudited**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
REVENUE:				
Ad Valorem Taxes	\$ 3,871,000	\$ 3,964,000	\$ 4,095,910	\$ 131,910
State Aid	122,046	122,046	121,236	(810)
Interest Income	33,572	34,572	36,679	2,107
Other Income	649,146	613,344	237,697	(375,647)
Total Revenue	4,675,764	4,733,962	4,491,522	(242,440)
EXPENDITURES:				
Staff expenditures	\$ 2,699,319	2,807,157	\$ 2,725,941	81,216
Informational materials	707,172	731,018	568,111	162,907
Special grant expenditures	-		10,373	(10,373)
Operations	1,121,790	1,196,292	906,198	290,094
Fixtures and equipment	220,356	427,742	327,726	100,016
Total Expenditures	4,748,637	5,162,209	4,538,349	623,860
Excess (Deficiency) of Revenues Over (Under) Expenditures	(72,873)	(428,247)	(46,827)	381,420
Other Financing Sources (Uses)				
Carryover fund balance	72,873	428,247		(428,247)
Total Other Financing Sources (Uses)	72,873	428,247		(428,247)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	\$ -	\$ -	\$ (46,827)	\$ (46,827)

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

JACKSON and FOX
A Professional Corporation
Certified Public Accountants

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

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

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Southeastern Public Library System of Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes to the financial statements, of the governmental activities of Southeastern Public Library System of Oklahoma (the Library), as of and for the year ended June 30, 2013, which collectively comprise the Southeastern Public Library System of Oklahoma's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Southeastern Public Library System of Oklahoma as of June 30, 2013, and the respective changes in financial position, and changes in fund balance thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis pages 3-12 and the Statement of Revenues and Expenses-General Fund-Budget to Actual on page 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The Schedule of Operating Expenses and Schedule of State Financial Assistance are presented for purposes of additional analysis and is not a required part of the basic financial statements

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2013 on our consideration of the Southeastern Public Library System of Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.

Ardmore, Oklahoma
September 3, 2013

**SOUTHEASTERN OKLAHOMA PUBLIC LIBRARY SYSTEM
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
AND GOVERNMENTS FUNDS BALANCE SHEETS
JUNE 30, 2013**

<u>ASSETS AND OTHER DEBITS</u>	General	Pension Trust	Totals	Adjustments	Statement of Net Assets
Assets:					
Cash and Cash Equivalents	\$ 4,584,989		\$ 4,584,989		\$ 4,584,989
Investments		2,859,536	2,859,536		2,859,536
Receivables:	26,911		26,911		26,911
Informational materials	8,338,436		8,338,436		8,338,436
Furniture and equipment	2,882,231		2,882,231		2,882,231
Accumulated depreciation	(6,196,249)		(6,196,249)		(6,196,249)
Total Assets and Other Debits	<u>\$ 9,636,318</u>	<u>\$ 2,859,536</u>	<u>\$ 12,495,854</u>	<u>\$ -</u>	<u>12,495,854</u>
Deferred Outflows of Resources	-	-	-	-	-
<u>LIABILITIES, EQUITY AND OTHER CREDITS</u>					
Liabilities:					
Accounts Payable	\$ 7,724	\$ -	\$ 7,724		7,724
Deferred grant revenue	1,965		1,965		1,965
Accrued Payroll and Related Costs	8,852		8,852		8,852
Total Liabilities	<u>18,541</u>	<u>-</u>	<u>18,541</u>	<u>-</u>	<u>18,541</u>
Deferred Inflow of Resources	-	-	-	-	-
Fund Balances					
Non-spendable	5,024,418		5,024,418	(5,024,418)	-
Spendable					-
Committed	1,965	2,859,536	2,861,501	(2,861,501)	-
Assigned	460,175		460,175	(460,175)	-
Unassigned	4,131,219		4,131,219	(4,131,219)	-
Total Equity and Other Credits	<u>9,617,777</u>	<u>2,859,536</u>	<u>12,477,313</u>	<u>(12,477,313)</u>	<u>-</u>
Total Liabilities, Equity and other Credits	<u>\$ 9,636,318</u>	<u>\$ 2,859,536</u>	<u>\$ 12,495,854</u>		
Net Assets:					
Non-spendable				5,024,418	5,024,418
Spendable					-
Committed				2,861,501	2,861,501
Assigned				460,175	460,175
Unassigned				4,131,219	4,131,219
				<u>\$ 12,477,313</u>	<u>\$ 12,477,313</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, 2013**

	General Fund	Pension Fund	Total	Adjustments	Statement of Activities
<u>EXPENDITURES</u>					
Current--					
Staff Expenditures	\$2,725,941		\$ 2,725,941	\$ -	\$ 2,725,941
Special Grant Expenditures	10,373		10,373		10,373
Distributions/withdrawals		126,264	126,264		126,264
Operations	906,198	5,391	911,589		911,589
Depreciation	624,082		624,082		624,082
Asset dispoals	(185,599)		(185,599)		(185,599)
Total Expenditures	4,080,995	131,655	4,212,650	-	4,212,650
<u>REVENUES</u>					
Ad valorem tax revenues	4,095,910		4,095,910		4,095,910
Oklahoma Dept of Libraries	121,236		121,236		
Special Grant Revenue	9,907		9,907		9,907
State Aid			-		-
Investment income	36,679	177,413	214,092		214,092
Employee(er) Contributions		362,531	362,531		362,531
Unrealized Gains(losses)			-		-
Other Grants/Donations			-		-
Other Revenues	227,790		227,790		227,790
Library contribution			-		-
Total Revenues	4,491,522	539,944	5,031,466	-	4,910,230
CHANGE IN NET ASSETS	410,527	408,289	818,816		818,816
NET ASSETS, JULY 1, 2012	9,207,250	2,451,247	11,658,497		11,658,497
NET ASSETS JUNE 30, 2013	\$9,617,777	\$2,859,536	\$12,477,313	\$ -	\$12,477,313

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, 2013

	General Fund					Pension Fund
	Nonspendable	Committed	Assigned	Unassigned	Total	Committed
Fund Balance - July 1 2012	\$ 4,620,490	\$ 9,005	\$ 399,027	\$ 4,178,728	\$ 9,207,250	\$ 2,450,447
Excess (Deficiency) of Revenues and Other Financing Sources				410,527	410,527	408,289
Other additions (reductions)	403,928	(7,040)	61,148	(458,036)	-	
Fund Balance June 30, 2013	\$ 5,024,418	\$ 1,965	\$ 460,175	\$ 4,131,219	\$ 9,617,777	\$ 2,858,736

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

Southeastern Public Library System of Oklahoma
Notes to Financial Statements
June 30, 2013

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, 2013

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, 2013

•• *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, 2013

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 2012.

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, 2013, was \$271,589

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, 2013 were \$2,859,536.

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, 2013, was \$9,428

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, 2013

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, 2013, are as follows:

Deposits	Risk Category			Total Collateral	Bank Balance	Financial Statement Carrying Amount
	1	2	3			
Cash	\$ 142,507	\$ -	\$ -	\$ 142,507	\$ 268,078	\$ 142,507
Certificates of Deposit	613,635	3,967,452	-	4,581,087	4,442,755	4,581,087
Totals	\$ 756,142	\$ 3,967,452	\$ -	\$ 4,723,594	\$ 4,710,833	\$ 4,723,594

- (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, September 3, 2013, 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, 2013

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, 7-01-12	\$ 2,751,615	\$2,243,814	\$ 7,984,778	\$ 3,860,477
Additions	327,726	316,155	568,111	307,927
Disposals / adjustments	<u>(197,110)</u>	<u>(309,753)</u>	<u>(214,452)</u>	<u>222,367 -</u>
Balance 6-30-13	<u>\$ 2,882,231</u>	<u>\$2250,216</u>	<u>\$ 8,338,437</u>	<u>\$3,946,037</u>
Depreciation expense 6-30-13		<u>\$ 316,155</u>		<u>\$ 307,927</u>

SOUTHEASTERN PUBLIC LIBRARY SYSTEM OF OKLAHOMA

SUPPLEMENTAL INFORMATION

Southeastern Public Library System of Oklahoma
Schedule of Operational Expenses
Year ended June 30, 2013
Unaudited

Utilities	\$ 3,506
Telephone	20,191
Postage	59,147
Board travel	11,035
Employee travel	35,178
Vehicle	3,577
Equipment rental	9,647
Maintenance contracts	66,185
Equipment repair	48,388
Insurance	21,335
General supplies	81,893
Branch supplies	2,852
Special programs and supplies	51,680
Advertising	8,024
Memberships	4,889
Audit	15,000
Revaluation fees	92,369
Internet fees	71,419
Bibliographic services	76,893
Automation support	37,342
Professional fees	25,908
Miscellaneous	1,862
Shipping	269
Lost books	45
Online information	107,377
Direct branch expense	<u>50,187</u>
	<u><u>\$ 906,198</u></u>

**Southeastern Public Library System of Oklahoma
 Schedule of State Financial Assistance
 Year ended June 30, 2013
 (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	\$121,236	\$121,236	\$121,236

JACKSON and FOX
A Professional Corporation
Certified Public Accountants

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

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Southeastern Public Library System of Oklahoma (the Library) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated September 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library'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 Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library'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 Library'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Ardmore, Oklahoma
September 3, 2013