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**SOUTHEASTERN PUBLIC LIBRARY SYSTEM  
OF OKLAHOMA  
FINANCIAL STATEMENTS  
AND  
AUDITORS' REPORT  
JUNE 30, 2011**

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**Chambers, 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  
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Management's Discussion and Analysis  
Southeastern Public Library System of Oklahoma  
For the Year Ending June 30, 2011  
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.*

**Southeastern Public Library System of Oklahoma  
Management's Discussion and Analysis – Continued  
(Unaudited)**

**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 2011 Trustees were as follows:

<u>Board Member</u>	<u>Represents</u>	<u>Location</u>
Stan Cottrell	City	Arkoma
Vicky Farley	City	Broken Bow (resigned 3/25/11)
John Dean	City	Broken Bow (appointed 4/19/11)
Roy Wallace	County	Choctaw (resigned 12/1/10)
Fran Damron	County	Choctaw (appointed 3/21/11)
Sharon Mowdy	County	Coal
Nancy McAnally	City	Coalgate
Clint Pope	City	Hartshorne
Glenn Hyder	County	Haskell
Wayne Cash	City	Heavener
Harolynn Wofford	City	Hugo
Mary K. Hodge	City	Idabel (resigned 4/15/11)
Patti Harris	City	Idabel (appointed 5/17/11)
Phil Harmon	County	Latimer
Deann Williams	County	LeFlore
Yvonne Wallis	City	McAlester
Jimm Jacobs	County	McCurtain

**Southeastern Public Library System of Oklahoma  
Management's Discussion and Analysis – Continued  
(Unaudited)**

Stroud Holt	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 2011 (July 1, 2010 - June 30, 2011)**

FY 2011 Budgeted Revenue (Income)	-	\$4,589,200
FY 2011 Actual Revenue (Income)	-	\$4,584,879
FY 2011 Budgeted Expenditures	-	\$5,017,849
FY 2011 Actual Expenditures	-	\$4,802,796

The major portion of SEPLSO's funding (84.7% in FY 2011) comes from county ad valorem taxes of four (4) mills, as mentioned above. This generated \$3,883,642.72 in income for FY 2011, as compared with \$4,081,546.52 for FY 2010, for a decrease of \$197,903.80. This includes a \$21,075 increase in assessed valuation and/or collections in Haskell County, slight to modest increases in the assessed valuation and/or collections in Choctaw, Coal, LeFlore, and McCurtain Counties, a modest decrease in the assessed valuation and/or collections in Latimer County, and a \$237,844.16 decrease in the assessed valuation and/or collections in Pittsburg County.

\$136,149 or 2.97% of SEPLSO's FY 2011 income came from State Aid, administered by the Oklahoma Department of Libraries (ODL). While this was an increase of \$1,005 from the FY 2010 State Aid amount of \$135,144, it actually resulted from the withholding by ODL of 10% of the previous year's State Aid allocation until after July 1,

**Southeastern Public Library System of Oklahoma  
Management's Discussion and Analysis – Continued  
(Unaudited)**

2010, because of uncertainty about state revenues. A similar withholding and delayed payment was done for the FY 2011 State Aid grant, because of uncertainty about the state budget. The State Aid formula is based on population and the square miles within the library system. Because of further cuts to ODL's budget, a reduction in State Aid is projected for FY 2012.

"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 \$78,458 in revenue during FY 2011, while low interest rates brought in a disappointing \$44,732.

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 2011, SEPLSO was approved for Internet and telephone service discounts up to \$414,645 and for discounts up to \$12,928 for improving and maintaining "internal connections and maintenance." Only part of those amounts (about \$378,820) was received during FY 2011, partly because our telephone and Internet services application was not approved until December 2010, partly because reimbursements for fourth quarter expenses cannot be claimed and received until after the end of the fiscal year, partly because of a problem with AT&T over billing for discontinued Internet circuits, and partly because we elected not to go ahead with the "internal connections and maintenance" contract.

The E-Rate discount percentage is based on the level of participation in the free and

**Southeastern Public Library System of Oklahoma  
Management's Discussion and Analysis – Continued  
(Unaudited)**

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 2011, 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 2011, 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 2011, SEPLSO paid our filtering provider, NewNet 66, \$650 for the use of their Marshal M86 Filtering System and added a second filter, Palo Alto's PAN-PA-2020 URL filtering.

In this time of serious economic problems, the financial outlook for SEPLSO can only be said to be uncertain. The slowdown in the energy sector definitely affected southeast Oklahoma, and slower sales and lower prices in the real estate market have had an impact on ad valorem revenues. State budget cuts have resulted in reductions in state aid. 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

**Southeastern Public Library System of Oklahoma  
Management's Discussion and Analysis – Continued  
(Unaudited)**

ongoing expense commitments tightly controlled and using revenues received above projections mostly for expenditures of a one-time nature. The foresight eleven years ago in creating and building up the automation reserve fund means that the funding is available for the significant changes planned for SEPLSO's automation system 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.

All previous audits have found that SEPLSO has not capitalized its fixed assets according to generally accepted accounting principles. Behind this terminology is the reality that while we have maintained a detailed inventory of furniture and equipment for over twenty years, along with detailed catalog records of the library's collection of books and other library resources, accounting principles require that we also treat the books and other library resources as a capital asset, with their value amortized the same as if they, too, were furniture and equipment. That has been calculated and reported for this audit, and a line for informational materials now is part of the statement of net assets and government funds balance sheet.

**PERSONNEL**

Paid employees for FY 2011 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 \$2,704,278 for FY 2011 were approximately 56% of total expenditures for FY 2011. Significant points about personnel costs for the year include the following:

1. A pay increase to keep and attract qualified personnel
2. An increase in health insurance premiums



**Southeastern Public Library System of Oklahoma  
Management's Discussion and Analysis – Continued  
(Unaudited)**

3. A one-time increase of 2% in the retirement fund contribution
4. Emphasis on staff training and professional development
5. Added staff hours to extend hours and literacy service at Coalgate, Hartshorne, and McAlester

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 audio books were added to this array of resources during FY 2011 and, at the end of the year, downloadable e-books were in the process of being added. 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 provide resources with a cost savings and some resources that would not be readily available without these networks.

**Southeastern Public Library System of Oklahoma  
Management's Discussion and Analysis – Continued  
(Unaudited)**

**ANNUAL CIRCULATION & USE OF LIBRARIES**

While circulation of materials from SEPLSO libraries and resources during FY 2011 was slightly lower than the all-time high set in FY 2010, several other measures of customer use were higher, indicating that overall library use is still at an all-time high.

A statistical review of use of SEPLSO libraries shows the following breakdown for FY 2011:

Circulation	816,503
Interlibrary Loan: Borrowed	1,168
Interlibrary Loan: Loaned	2,828
Interbranch Loans	2,809
Computer/Internet sessions	182,603
Programs	2,510
Program Attendance	54,984
Library Visits	799,458
Reference Questions	103,553

Total circulation of materials decreased by 1.4%, or 11,396, from FY 2010. The public computer and Internet sessions recorded do not include thousands of wireless Internet sessions, many of them done from outside the libraries late at night or early in the morning. Attendance at library programs was up by 9,585, a 21% increase. The total number of library visits was up by 3,245.

Approximately \$658,000 was spent in FY 2011 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.

**Southeastern Public Library System of Oklahoma  
Management's Discussion and Analysis – Continued  
(Unaudited)**

At the conclusion of FY 2011, 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 2011, 32,767 books were added and 32,070 were deleted. A total of 21 licensed online services are available for SEPLSO patrons. There are 8 online services provided at the state level and 13 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 2011, a variety of SEPLSO policies were evaluated and updated. More are in review and revision. An update to the Long Range Plan for FY 2012 - FY 2016 was written during FY 2011 and approved January 11, 2011. A revision of the three-year technology plan for 2010 - 2013 was approved September 14, 2010 and an updated plan will be presented for the Board's consideration at the September 13, 2011 meeting.

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

**Southeastern Public Library System of Oklahoma  
 Combined Government-Wide and Fund Financial Statements  
 Statement of Budget to Actual  
 For the fiscal year ended June 30, 2011  
 (Unaudited)**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
<b>REVENUE:</b>				
Ad Valorem Taxes	\$ 3,678,000	\$ 3,945,000	\$ 3,883,643	\$ (61,357)
State Aid	135,143	136,149	136,149	-
Interest Income	50,332	50,072	44,732	(5,340)
Other Income	72,101	457,979	480,410	22,431
<b>Total Revenue</b>	<b>3,935,576</b>	<b>4,589,200</b>	<b>4,544,934</b>	<b>(44,266)</b>
<b>EXPENDITURES:</b>				
Staff expenditures	\$ 2,551,473	2,743,603	\$ 2,703,429	40,174
Informational materials	643,145	724,839	638,976	85,863
Special grant expenditures		3,657	3,270	387
Operations	670,840	1,164,365	1,117,471	46,894
Fixtures and equipment	68,823	381,385	349,561	31,824
<b>Total Expenditures</b>	<b>3,934,281</b>	<b>5,017,849</b>	<b>4,812,707</b>	<b>205,142</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,295	(428,649)	(267,773)	160,876
<b>Other Financing Sources (Uses)</b>				
Carryover fund balance		509,182		(509,182)
<b>Total Other Financing Sources (Uses)</b>		<b>509,182</b>		<b>(509,182)</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	\$ 1,295	\$ 80,533	\$ (267,773)	\$ (348,306)

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

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## 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, 2011, 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. 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, the major fund and the aggregate remaining fund information of the Library as of June 30, 2011, 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 September 7, 2011, 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 the 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.

The management's discussion and analysis and budgetary comparison information on pages 3 through 12 are not required as part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Chambers Jackson and Inc PC*

Ardmore, Oklahoma  
September 7, 2011

**SOUTHEASTERN OKLAHOMA PUBLIC LIBRARY SYSTEM**  
**STATEMENT OF NET ASSETS AND GOVERNMENTS FUNDS BALANCE SHEET**  
**JUNE 30, 2011**

<u><b>ASSETS AND OTHER DEBITS</b></u>	General	Pension Trust	Totals	Adjustments	Statement of Net Assets
<b>Assets:</b>					
Cash and Cash Equivalents	\$ 4,328,896		\$ 4,328,896		\$ 4,328,896
Investments		\$ 2,217,390	2,217,390		2,217,390
Receivables:	39,089		39,089		39,089
Informational materials	7,515,594		7,515,594		7,515,594
Furniture and equipment	2,629,364		2,629,364		2,629,364
Accumulated depreciation	<u>(4,925,046)</u>	<u>-</u>	<u>(4,925,046)</u>		<u>(4,925,046)</u>
Total Assets and Other Debits	<u>\$ 9,587,897</u>	<u>\$ 2,217,390</u>	<u>\$11,805,287</u>	<u>\$ -</u>	<u>\$11,805,287</u>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ -	\$ -	\$ -		\$ -
Accrued Payroll and Related Costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Equity and Other Credits:</b>					
Non-spendable	5,218,912		5,218,912	(5,218,912)	-
Spendable					-
Committed		2,217,390	2,217,390	(2,217,390)	-
Assigned	399,995		399,995	(399,995)	-
Unassigned	<u>3,968,990</u>	<u>-</u>	<u>3,968,990</u>	<u>(3,968,990)</u>	<u>-</u>
Total Equity and Other Credits	<u>9,587,897</u>	<u>2,217,390</u>	<u>11,805,287</u>	<u>(11,805,287)</u>	<u>-</u>
Total Liabilities, Equity and other Credits	<u>\$ 9,587,897</u>	<u>\$ 2,217,390</u>	<u>\$11,805,287</u>		
<b>Net Assets:</b>					
Non-spendable				5,218,912	5,218,912
Spendable					-
Committed				2,217,390	2,217,390
Assigned				399,995	399,995
Unassigned				<u>3,968,990</u>	<u>3,968,990</u>
				<u>\$ 11,805,287</u>	<u>\$ 11,805,287</u>

The accompanying notes are an integral part of these financial statements

**SOUTHEASTERN OKLAHOMA PUBLIC LIBRARY SYSTEM  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF,  
REVENUES EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	General Fund	Pension Fund	Total	Adjustments	Statement of Activities
<b><u>EXPENDITURES</u></b>					
Current--					
Staff Expenditures	\$2,703,429		\$ 2,703,429	\$ -	\$ 2,703,429
Special Grant Expenditures	3,270		3,270		3,270
Distributions/withdrawals		246,134	246,134		246,134
Operations	1,117,471	320	1,117,791		1,117,791
Depreciation	694,610		694,610		694,610
			-		-
Total Expenditures	4,518,780	246,454	4,765,234	-	4,765,234
<b><u>REVENUES</u></b>					
Ad valorem tax revenues	3,883,643		3,883,643		3,883,643
Oklahoma Dept of Libraries					
Special Grant Revenue	3,270		3,270		3,270
State Aid	136,149		136,149		136,149
Investment income	44,732		44,732		44,732
Employee Contributions		76,061	76,061		76,061
Unrealized Gains(losses)		230,193	230,193		230,193
Other Grants/Donations			-		-
Other Revenues	477,140		477,140		477,140
Library contribution		290,941	290,941		290,941
Total Revenues	4,544,934	597,195	5,142,129	-	5,142,129
<b>CHANGE IN NET ASSETS</b>	26,154	350,741	376,895		376,895
<b>CHANGE IN ACCOUNTING PRINCIPLE</b>	4,924,680		4,924,680		4,924,680
<b>NET ASSETS, JULY 1, 2010</b>	4,637,063	1,866,649	6,503,712		6,503,712
<b>NET ASSETS JUNE 30, 2011</b>	\$9,587,897	\$2,217,390	\$11,805,287	\$ -	\$11,805,287

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



**SOUTHEASTERN OKLAHOMA PUBLIC LIBRARY SYSTEM  
STATEMENT OF CHANGES IN FUND BALANCE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

Fund Balance - July 1 2010	\$4,637,063
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	26,154
Change in Accounting Principle	<u>4,924,680</u>
Fund Balance - June 30, 2011	<u>\$9,587,897</u>

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

**Southeastern Public Library System of Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2011**

**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. 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 and results of its operations. 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, 2011**

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, 2011**

- *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, 2011**

**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, 2011, was \$290,941.

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, 2011 were \$2,217,390.

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, 2011, 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, 2011**

**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, 2011, are as follows:

Deposits	Risk Category			Total Collateral	Bank Balance	Financial Statement Carrying Amount
	1	2	3			
Cash	\$ 294,608	\$ 42,301	\$ -	\$ 336,909	\$ 336,909	\$ 74,002
Certificates of Deposit	2,778,995	1,481,270	-	4,260,265	4,260,265	4,355,863
<b>Totals</b>	<b>\$ 3,073,603</b>	<b>\$ 1,523,571</b>	<b>\$ -</b>	<b>\$ 4,597,174</b>	<b>\$ 4,597,174</b>	<b>\$ 4,429,865</b>

- (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 7, 2011, 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, 2011**

**Note F – Long Term Assets**

Long-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, 7-01-10	\$ 2,386,052	\$ 1,697,414	\$ 7,046,566	\$ 3,099,649
Additions	349,562	318,830	640,280	375,780
Disposals / adjustments	<u>(106,250)</u>	<u>(106,250)</u>	<u>(171,252)</u>	<u>(460,347)</u>
Balance 6-30-11	<u>\$ 2,629,364</u>	<u>\$ 1,909,994</u>	<u>\$ 7,515,594</u>	<u>\$ 3,015,052</u>
Depreciation expense 6-30-11		<u>\$ 318,830</u>		<u>\$ 375,780</u>

**SOUTHEASTERN PUBLIC LIBRARY SYSTEM OF OKLAHOMA**

**SUPPLEMENTAL INFORMATION**



**CHAMBERS, JACKSON and FOX**  
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**Independent Auditors' Report on Supplemental Information  
Including the Schedule of State Financial Assistance**

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

We have audited the financial statements of Southeastern Public Library System of Oklahoma (the Library) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 7, 2011. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Library taken as a whole. The accompanying supplemental information, including schedules of state financial assistance, is presented for purposes of additional analysis and is not a required part of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.



Ardmore, Oklahoma  
September 7, 2011

**Southeastern Public Library System of Oklahoma  
Schedule of Operational Expenses  
Year ended June 30, 2011**

Utilities	\$ 4,378
Telephone	21,496
Postage	54,315
Board travel	9,911
Employee travel	45,485
Vehicle	3,609
Equipment rental	8,649
Maintenance contracts	54,448
Equipment repair	86,605
Insurance	19,750
General supplies	72,320
Branch supplies	2,732
Special programs and supplies	26,693
Advertising	8,355
Memberships	2,671
Audit	14,000
Revaluation fees	88,973
Internet fees	394,286
Bibliographic services	56,577
Automation support	72,058
Professional fees	26,478
Miscellaneous	15,883
Shipping	27,566
Lost books	233

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\$1,117,471

**Southeastern Public Library System of Oklahoma  
 Schedule of State Financial Assistance  
 Year ended June 30, 2011**

<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	\$136,149	\$136,149	\$136,149
Oklahoma Department of Libraries Continuing Education Grant	<u>2,872</u>	<u>2,872</u>	<u>2,872</u>
Total State of Oklahoma Assistance	<u>\$139,021</u>	<u>\$139,021</u>	<u>\$139,021</u>

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

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, 2011, which collectively comprise the Library's basic financial statements and have issued our report thereon dated September 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 opinion 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 control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Library's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library's internal control.

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 that might be significant deficiencies or material weaknesses. However, we consider the deficiencies described in the accompanying schedule of findings to be material weaknesses in internal control over financial reporting

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 Inc PC*

Ardmore, Oklahoma  
September 7, 2011

**Southeastern Public Library System of Oklahoma  
Schedule of Findings and Responses  
Year ended June 30, 2011**

**Finding 2009-02**

**Condition:** The Library expends thousands of dollars per year on equipment, fixtures and informational materials. However, the Library's policy is to expense these amounts as incurred.

**Criteria:** Generally accepted accounting principles require that major asset additions be recorded in a general fixed asset account group. By definition, a capital expenditure is essentially any item that benefits more than one operating cycle (one year). Therefore, a desk is a capital expenditure, as are computers, shelving, and vehicles. Informational materials are capital assets because most last more than one operating cycle.

The Library has now instituted a policy of capitalizing and depreciating assets in accordance with generally accepted accounting principles. This is no longer a finding.

**Finding 2009-03**

**Condition:** The Library still posts the general ledger by hand and keeps other manual records. However, the growth and sophistication of the Library's system requires extensive manipulation of data. The current computer accounting software is 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.

**Effect:** Failure to properly account for the resources of the entity may lead to errors, improper expenditures, budget overruns, and opportunities for fraud or defalcation.

**Recommendation:** The Library should continue to consult with knowledgeable professionals concerning the selection, purchase, installation, and implementation of an adequate computerized accounting system.

**Management's response:** Management is pursuing various options regarding implementation of a new system and will vigorously work for migration to an upgraded platform.

This is a repeat finding.