

**SOUTHERN OKLAHOMA LIBRARY SYSTEM
FINANCIAL STATEMENTS
AND
AUDITORS' REPORT
JUNE 30, 2018**



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

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**Management Discussion & Analysis
Southern Oklahoma Library System
For the Year Ending June 30, 2018
(Unaudited)**

MISSION STATEMENT

“The Mission of the Southern Oklahoma Library System (previously named the Chickasaw Regional Library System) is to provide free, open and equal access to informational, educational, cultural and recreational materials and services to all members of the community.”*

*Adopted by the Board of Trustees in May, 2004

BACKGROUND

Today, the Southern Oklahoma Library System (SOLS), previously named, the Chickasaw Regional (Public) Library System, serves approximately 97,368 people in the five (5) county area that includes Atoka, Carter, Johnston, Love and Murray. At the end of FY 2018 SOLS had 78,214 registered borrowers, correlating to 80% of the population of the region. This is an increase of 1,598 library customers; and an increase from 79% to 80% of the service area population.

Multi-County Library Systems were established and are regulated in Oklahoma as set forth by Title 65, Article 4, Section 202-206 of the Oklahoma Statutes. The Southern Oklahoma Library System (SOLS) was established in the 1960s in accordance with Title 65 of the Statutes as member counties voted to approve ad valorem taxes to support the multi-county library system known as the Chickasaw Library System. Today, SOLS has eight (8) libraries operating in the five (5) Oklahoma counties of Carter, Atoka, Johnston, Love and Murray.

Presently, financial support for SOLS is at two (2) mills per \$1,000 assessed valuation in all five counties. SOLS is the lowest funded library system in Oklahoma. Most multi-county system libraries in the state are funded at a four (4) mill level for all or the majority of their counties. Pioneer (Multi-County) Library System, headquartered in Norman, is now funded at six (6) mills. Municipal single county libraries are at five (5) + mills (such as Metropolitan Library System in Oklahoma City and Tulsa City County Library System in metropolitan Tulsa). It is recommended that in the next two (2) years, SOLS should develop a campaign to increase the millage rate to the legal limit of 4 mills.

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TRUSTEES

SOLS is governed by fourteen (14) Trustees who are appointed by the city and county commissioners for the respective communities they represent, in compliance with Oklahoma State Statute 65:4-101. In the spring of 2013, the Oklahoma State Legislature passed legislation that allows cities that have a branch within the library system and a population under 2,000 to have a representative to the Board of Trustees. This applies to the City of Wilson, Oklahoma, thus giving SOLS fourteen (14) Trustees.

FY 2018/19 Trustees are as follows:

<u>Board Member</u>	<u>Represents</u>	<u>Location</u>
Andre'Moore	City	Ardmore
Gary Farabough	County	Carter
Tara Huddleston	City	Atoka
Glenda Graham-Byrd	County	Atoka
Heath Foster	City	Davis
Jared Wilson	City	Healdton
Janice Price	City	Lone Grove
Novice Boyd	County	Johnston
Ron Jacobs	City	Marietta
Lisa Hamilton	County	Love
Janet Carter	City	Sulphur
Dr. Rebecca Jacobs-Pollez	City	Tishomingo
Janet Mathis	County	Murray
Colby Mitchell	City	Wilson

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PERSONNEL

Paid employees for FY 2017/18 include seventeen (17) full-time professional, paraprofessional and other support staff along with three (3) part-time personnel. For accounting purposes, branch managers who work 32+ hours per week are considered "full-time" employees. Total personnel expenditures were \$1,166,189 for FY 2017/18. As with most service industries, personnel expenditures is the largest line item in the budget. SOLS has had a **major increase in programming and customer assistance** at all libraries for the past five years. Headquarters staff covers branch libraries when the branch managers are away for professional development and personal time. SOLS continues to use a technology consultant who is under contract for all IT work and responsibilities. This cost is reflected in the contractual area of the budget.

Feedback from customers continues to tell us that SOLS' most important asset is our employees. They appreciate the friendly atmosphere and quality service, as well as the fact that SOLS employees go above and beyond to provide them with the information, resources and services they need. SOLS personnel continue to strive for excellence and personal growth!

SERVICES

In the spirit of "free public access" endorsed, promoted and practiced by libraries throughout the United States, SOLS serves the citizens in the five-county region and beyond in a multitude of ways. SOLS provides information and access to information in a seamless manner in many formats: print, electronic within the library and to remote locations (home, office, etc.), specialized on-line databases, E-Books, instruction through classes and individual assistance as needed, programs for young people and adults, DVDs and microfilm (i.e., *The Ardmoreite* from beginning of publication). Services include, but are not limited to, reference, reader's advisory, Interlibrary Loan and diverse programming for all ages. Many of SOLS' customers do not know how to access specialized information, resources, employment applications and other forms without the assistance of skilled library personnel. E-Reader classes and one-on-one assistance is ongoing. Many customers need help downloading E-books and learning more about their particular E-reader device. Whenever possible, SOLS partners with other state, regional and

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local community organizations to provide resources and programs with a cost savings and some resources that would not be readily available without these networks. All SOLS libraries have meeting rooms that are available and free to the public.

ANNUAL CIRCULATION & USE OF LIBRARIES

Customer use of all SOLS libraries and resources for FY 2017/18 totals 1,203,654. This includes circulation of materials and E-books; use of public access computers; in-house use of materials (newspapers, reference books, periodicals, microfilm, etc.); program attendance and reference questions. This is an increase of 32,822 uses over the previous year.

E-Books and E formats have become an increasingly popular and important source of reading, audio and video materials for SOLS customers. The System has its own "Advantage Account" for these items. SOLS also belongs to an Oklahoma Public Library Consortium for these downloadable resources. Although we pay a small portion the Consortium is primarily supported by a grant from the Oklahoma Department of Libraries.

A statistical review of patron activity for SOLS libraries shows the following breakdown for FY 2017/18:

Circulation-----	1,203,654	-----	(12% per capita)
Computer/Internet-----	206,276	-----	(up 46,942)
In-house Use-----	201,225	-----	(down 48,341)
Program Attendance-----	34,255	-----	(down 1,936)
Interlibrary Loan-----	492	-----	(up 94)
Reference Transactions---	47,892	-----	(921 per week or 49% per capita)
E-Book Circulation -----	837,745	-----	(up 24,555)

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All SOLS libraries have an increasing number of people using wireless services both in the facilities and in our parking lots. In 2017/18, we have been able to track wireless use on a relatively reliable basis....but not perfect by any means. This is partially reflected in the large increase in Internet usage for the year.

Roughly \$185,273 was spent in FY 2018 to provide informational and recreational materials, as well as electronic access, in an effort to better serve the public. This does not include over \$150,000 in E-Rate discounts for Internet and Telecommunications access. These discounts are discussed later in this report. While traditional print formats are important, SOLS' focus is on offering more electronic online resources throughout the region to reach more citizens and those who have been classified as "non-users" and/or "non-readers." All of SOLS' databases can be used remotely, but statistical data for these services is difficult to track. Currently a total of 41 Licensed Databases are available for SOLS patrons. These Databases are available to patrons within SOLS libraries and are accessible remotely at their home and/or at their office if they have a library card.

FINANCIAL OVERVIEW FOR FISCAL YEAR 2017/2018

FY 2018 Budget (Income & Expenditures)	-	\$1,817,173
FY 2018 Actual Income	-	\$1,856,673
FY 2018 Expenditures	-	\$1,597,957
FY 2018 Expenditures (with depreciation)	-	\$1,758,907

The major portion of SOLS' funding comes from county ad valorem taxes of two (2) mills, as mentioned above. Ad Valorem generated \$1,703,979 in income for FY 2017/18.

Another source of SOLS' income is State Aid, administered by the Oklahoma Department of Libraries (ODL). FY 2018 State Aid of \$54,508 was received. Because of funding cuts at the state level, state aid continues to be reduced annually. This downward trend will continue for the foreseeable future due to

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budget cuts at the state level. The formula is based on population and the square miles within the multi-county district.

"Other income" for SOLS varies from year to year, depending on projects, programming, available grant funding and miscellaneous income. Another variation in income is shown in the area of "Royalty Income" from the Michael Bevins estate. In FY 2017/18 royalty income was \$8,701, showing a small increase from the previous year.

Funding for programming is a small but extremely important part of SOLS' income. While it is a marginal dollar amount of the overall budget, it is significant in the "value added" range of SOLS' services targeting young people, families and adults. It supports the fact that community businesses, organizations and individuals feel that SOLS' programming for infants and toddlers, young people and adults is important for our communities. Funding for programming includes donations and grants. In FY 2017/18, SOLS received approximately \$20,120 for Summer Reading Program. Other miscellaneous income was \$73,876. This does not reflect matching "grants" from the Oklahoma Humanities (OH) for "Let's Talk About It, Oklahoma" programs which are held in SOLS libraries.

One important source of funding for SOLS for the past twenty (20) years that is not directly reflected in the budget is the Universal Service (aka E-Rate) discounts for telephone and Internet services for schools, public libraries and rural health agencies. For SOLS, the FY 2017/18 discount for Internet and telephone services for all libraries was over \$150,000. Annually, it varies depending on the discount percentage which is based on the free and reduced school lunch rate for each local district in which the community library is located. Universal Service discounts are approved by the Schools and Libraries Division (SLD) of the Universal Service Administration Company, a division of the Federal Communication Commission (FCC). As previously noted, there is a multi-tiered annual application process which is complex, time consuming and problematic at best. The discounts for these services are absolutely essential for SOLS to provide high speed Internet access and Wi-Fi access. Over the past couple of years, improved technology access and higher "speeds" has allowed SOLS to increase broadband speeds at all libraries. The application process for E-Rate discounts has become so complex and time consuming, we have hired the consulting firm of Kellogg & Sovereign to work with us on our applications for the past few years.

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Oklahoma USF program no longer funds regional toll free lines for SOLS, but it does fund a portion of Internet connectivity, that is not covered by the Schools and Libraries Division of the FCC.

Federal law, *The Communications Internet Protection Act* (CIPA), mandated that all public libraries receiving federal funding must filter public access computers. The iPrism Filtering System, one of the least intrusive filtering systems, is installed throughout SOLS libraries.

PROGRAMING

SOLS' programming includes, but is not limited to, the following:

- **Summer Reading Program (SRP)**

SOLS participates in the statewide program sponsored by the Oklahoma Department of Libraries. More programs were held at each SOLS library from May through July. Funding to engage regional performers, such as magicians, ventriloquists, puppeteers and professional storytellers is supported by local businesses, organizations and private partners. SRP in FY 2018 included 267 programs with an increase in teen and family programs. Total program attendance for children and teens system-wide for the past four (4) years is as follows:

FY 2018	-	11,748
FY 2017	-	13,350
FY 2016	-	9,225
FY 2015	-	7,939

The increase in the number of programs and the attendance has been significant for the past three (3) years. Because of staff focusing on additional programing, attendance made huge gains in FY 2017. This year's SRP theme was "Libraries Rock."

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- **Preschool Story Time Programs**

From September through May all SOLS libraries have story time programs for preschool children at least once a week. Ardmore normally hosts a lapsit program for infants (6 months and over), toddlers and their parents.

- **“Let’s Talk About It, Oklahoma”**

For many years SOLS has hosted this adult reading and discussion series which is a theme- based program. It is funded by the Oklahoma Humanities (OH) and partially funded by the National Endowment for the Humanities. OH grants for FY 2018 programing totaled \$7,934.21. Each theme-based series has four (4) to five (5) literary works pre-selected for participants to read and discuss with a guest scholar and as a group.

- **Carolyn Watson Rural Oklahoma Community Foundation Grant for Atoka County**

Once again, SOLS received a grant from the Carolyn Watson Foundation. This one was \$3,700 for a Literacy and Learning program in Atoka and Johnston Counties.

- **Health Literacy Programming**

Having received two (2) previous grants from the Oklahoma Department of Libraries (ODL) for health literacy programing, staff applied for and received grants to continue with this programing which included a variety of classes for all ages. Programs ranged from “hoops” classes for Seniors as a form of exercise; health harvest canning classes at every SOLS library that taught people how to make cranberry jam or sauce and salsa; chair exercise classes at the Veteran’s Center; exercise classes at the Boys and Girls Club after school; creative cooking and health choices for two people and for brown bag lunches; Tai Chi classes have been popular. Many other programs emphasizing health habits for all ages.

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During FY 17/18 SOLS sponsored 267 healthy living programs, with 3,603 citizens attending throughout the System.

- **Other Programs**

Throughout the year a variety of programs are held at all SOLS libraries. Staff continues to conduct Brainfuse classes in the schools so that school teachers and teens learn how to use this valuable tutoring database. Healdton has a variety of instructional classes, including sewing on a sewing machine. In addition to "Let's Talk About It, Oklahoma", the Love County Library hosts an adult book club. The Davis Public Library has a weekly program for teens called "Magic the Gathering". The Youth Services Coordinator does programs weekly for Cities and Schools after school program. The Branch Coordinator teaches craft classes throughout the year at all SOLS libraries. These are **only a few** programs offered throughout the System.

CHANGING TRENDS

Over the past 22+ years SOLS staff members have seen a decrease in citizens reading books. There are still a core group of readers, many of whom enjoy reading the "hard" books and electronic books. With nearly everyone using a cell phone, many are using these devices for news and entertainment to a greater and greater extent. For this reason, SOLS continues to increase electronic resources which patrons find useful. A good example of this is "Brainfuse" which is used by students of all ages to help with homework and testing. Statistics for "Brainfuse" increases proportionately during the academic year as SOLS' staff train students and faculty on how to use this resource. Another change which is more evident is the use of SOLS libraries for home schoolers. Home school teachers use library facilities for small group classes and individual sessions.

MAJOR PROJECTS

SOLS continues to move forward with recommendations made by Waddell Pointer in the 2016/17 Marketing/Branding Study. A large focus for the past year has been on revising and updating the Web

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Page. With the growth of "Social Media," SOLS promotes programs and library activities on FaceBook and other social media formats.

DIRECTOR'S STATEMENT

With dedicated staff members and supportive Trustees and communities, SOLS has made much progress in the past twenty-two (22) plus years. But we still have miles to go. Increasing the millage in each county will be an enormous hurdle and require a huge investment of time and resources from staff, Trustees and "Friends." Though the Marketing/Branding Study did not recommend a millage increase at that time, this Director feels it is critical to the future of the Southern Oklahoma Library System as we make every effort to provide the best possible services to the citizens in our five (5) counties. The cost of qualified staff, as well as library materials and resources is impacted by continuous economic inflation.

Though I will be retiring on January 31, 2019, the Southern Oklahoma Library System will continue to be a huge part of my life, past and future. I am grateful for the wonderful opportunity to have served this organization along with many dedicated Trustees and staff members. One of the accomplishments that I am most proud of is that I encouraged two SOLS staff members to work on and complete their MLIS degree. They are leaders in SOLS and the Oklahoma Library Association and will continue to serve us and the library community well. Thanks to the Trustees, Margaret Taylor and Judy Fox for bringing me to Ardmore from Princeton, New Jersey in 1996.

For additional information contact Lynn A. McIntosh at (580) 223.3164.

Southern Oklahoma Library System
Combined Statements of Revenues, Expenditures & Changes in Fund Balances
Budget to Actual
For the fiscal year ended June 30, 2018
(Unaudited)

	Proposed Budget	Approved Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>				
Ad Valorem Taxes	\$ 1,512,340	\$ 1,561,173	\$ 1,703,979	\$ 142,806
Oklahoma Department of Libraries:				
State Aid	55,000	55,000	54,503	(497)
Other Grant Revenues	125,000	125,000	60,499	(64,501)
Interest Revenue	1,000	1,000	2,616	1,616
Miscellaneous & Gift Revenue	75,000	75,000	35,076	(39,924)
Total Revenues	1,768,340	1,817,173	1,856,673	39,500
<u>EXPENDITURES</u>				
Current -				
Staff Expenditures	1,250,000	1,250,000	1,166,189	83,811
Operating Expenditures	363,340	365,000	431,438	(66,438)
Capital Expenditures -	40,000	87,173	25,679	61,494
Library Materials	115,000	115,000	99,652	15,348
Total Expenditures	1,768,340	1,817,173	1,722,958	94,215
<u>OTHER FINANCING SOURCES (USES)</u>				
Gain (Loss) on Disposal of Assets				
Bad Debt Expense			-	-
Depreciation	-	-	(161,281)	(161,281)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ \$	-	\$(27,566)	\$ (27,566)

The above does include library construction receipts and expenditures

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Southern Oklahoma Library System

Ardmore, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities of Southern Oklahoma Library System, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Library'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 the modified cash basis of accounting described in Note B; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 modified cash basis financial position of the governmental activities of the Library as of June 30, 2018, and the respective changes in modified cash basis financial position and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

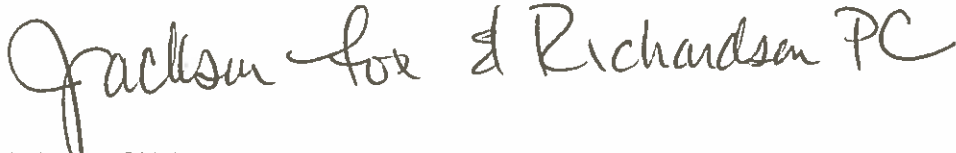
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The management's discussion and analysis and budgetary comparison information on pages 3-12, which are the responsibility of management, are presented for purposes of additional analysis and are not

a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2018, on our consideration of the Southern Oklahoma Library System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Jackson Fox & Richardson PC". The signature is written in a cursive, flowing style.

Ardmore, Oklahoma
November 8, 2018

Southern Oklahoma Library System
Government-Wide Statement of Net Position-Modified Cash Basis and
Governments Funds Balance Sheet-Modified Cash Basis
June 30, 2018

<u>ASSETS AND OTHER DEBITS</u>	<u>General</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
Assets:			
Cash and Cash Equivalents	\$ 1,210,774		\$ 1,210,774
Grant Cash & Renovation Fund-I	-		-
Receivables-Note E	-		-
Prepaid Expenses	-		-
Property, Plant and Equipment:			
Vehicles	117,944		117,944
Land	166,000		166,000
Building	984,582		984,582
Materials Collection	510,329		510,329
Equipment and Furniture	885,724		885,724
Less: Accumulated Depreciatio	(1,603,104)		(1,603,104)
Deferred Outflows of Resources			
Other Debits			
Total Assets and Other Deb	\$ 2,272,250		\$ 2,272,250

LIABILITIES AND FUND BALANCE

Liabilities:			
Accounts Payable	\$ -		\$ -
Accrued Payroll and Related Co	15,049		15,049
Due to Other Funds	-		-
Total Liabilities	\$ 15,049		\$ 15,049
Deferred Inflow of Resources			
Fund Balances:			
Nonspendable	1,061,476	(1,061,476)	-
Spendable			
Committed	-		-
Unrestricted	\$ 1,195,725	\$ (1,195,725)	\$ -
Total Equity and Other Cred	2,257,201	(2,257,201)	-
Total Liabilities and Fund Balance	\$ 2,272,250		

Net Position:			
Net Investment in Capital Assets		1,061,476	1,061,476
Spendable			-
Restricted		0	-
Unrestricted		\$ 1,195,725	1,195,725
Total Net Assets		\$ 2,257,201	\$ 2,257,201

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

Southern Oklahoma Library System
Government-Wide Statement of Activities-Modified Cash Basis and Governmental Fund Statement of
Revenues, Expenditures and Changes in Fund Balances-Modified Cash Basis
For the Fiscal Year Ended June 30, 2018

<u>EXPENDITURES</u>	General Fund	Adjustments	Statement of Activities
Current			
Staff Expenditures	\$ 1,166,189		\$ 1,166,189
Supplies and Other Expenditures	20,369		20,369
Operations	411,069		411,069
Bad Debt Expense	-		-
Capital Outlay			
Equipment/Furnishing & Other			-
Fixed Assets-Depreciation	161,281		161,281
Total Expenditures	1,758,907		1,758,907
<u>REVENUES</u>			
Ad Valorem, Sales Tax & City Support	1,703,979		1,703,979
Oklahoma Dept of Libraries	9,565		9,565
State Aid	54,503		54,503
Other Grants/Donations	50,934		50,934
Fundraising Income (net of expense)	-		-
Other Revenues	35,076		35,076
Interest Revenue	2,616		2,616
Total Revenues	1,856,673		1,856,673
CHANGE IN NET POSITION	97,765		97,765
FUND BALANCE/NET POSITION, JULY 1, 2017	2,159,435		2,159,435
ADJUSTMENTS			
FUND BALANCE/NET POSITION, JUNE 30, 2018	\$ 2,257,200	\$ -	\$ 2,257,200

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

Southern Oklahoma Library System
Statement of Cash Flows – Modified Cash Basis
Year ended June 30, 2018

Cash flows from Operating Activities:

Cash received from taxes, grants, gifts and charges	1,854,057	
Cash paid to suppliers for goods, services and program expenses	(431,438)	
(increase) decrease in prepaid expenses	18,770	
Increase(decrease) in payroll liabilities	(1,665)	
Cash paid to and for employees	<u>(1,166,189)</u>	
Net cash provided (used) by operations		273,535

Cash flows from capital and related financing activities:

Informational materials	(99,652)	
Building Renovation		
Vehicles	<u>(26,882)</u>	
Net cash provided (used) by capital and related financing activities		(126,534)

Cash flows from Investing Activities

Investment-Interest Income	<u>2,616</u>	
Net cash provided (used) from investing activities		<u>2,616</u>

Net increase(decrease) in cash and cash equivalents		149,617
Cash and cash equivalents July 1, 2017		1,061,157
Cash and cash equivalents June 30, 2018		<u><u>1,210,774</u></u>

Reconciliation of operating income to net cash provided (used) by operating activities

Net Income	97,765
Interest income	(2,616)
(increase) decrease in receivables	-
(increase) decrease in prepaid expenses	18,770
depreciation	161,281
Increase (decrease) in liabilities	(1,665)

Cash provided by operating activities	<u>273,535</u>
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The accompanying notes are an integral part of these financial statements.

Southern Oklahoma Library System
Notes to Financial Statements
June 30, 2018

Note A - Organization

Southern Oklahoma Library System (the Library) is organized under Title 65, Article 4 of the Oklahoma Statutes to operate as a multi-county public library system. The participating counties are Atoka, Carter, Johnston, Love and Murray, 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 governmental units. The *Governmental Accounting Standards Board* is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The new financial reporting requirements of *Governmental Accounting Standards Board (GASB) Statements No. 34* have been implemented with the presentation of the year end June 30, 2009, financial statements. The more significant of Southern Oklahoma Library System's accounting policies are described below.

The Financial Reporting Entity – The Southern Oklahoma Library System is an independent special purpose district 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.

Basis of Presentation—Fund Accounting – The Library uses funds and account groups 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. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The Statement of Net Position along with the Statement of Revenues, Expenditures, and Changes in Net Assets and Statement of Cash Flows display information about the reporting government as a whole.

1. Basis of Accounting

The Library prepares its financial statements on the modified cash basis of accounting. Under this method, support and other revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when incurred. The modified cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. However, the Library does capitalize and depreciate fixed assets. Also, payroll taxes are recorded as liabilities in the period the liability is incurred.

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.

3. Depreciation

Property and equipment are recorded at cost. Depreciation of property and equipment is provided using the straight-line method over the estimated service lives of the assets. Service lives are 30 years for building and 5-7 years for all other assets.

4. 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.

Southern Oklahoma Library System
Notes to Financial Statements - Continued
June 30, 2018

5. Grants

The Library records income from grants in the period received.

6. 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.

7. Income Taxes

No provision is made for income taxes. The Library is exempt from taxes under the Internal Revenue Code Section 501(c)(3). The Library files a Form 990 with the IRS annually. Generally, income tax returns related to the current and three prior years remain open for examination by taxing authorities.

Note C - Employee Benefits

1. Retirement

The Library maintains two retirement plans; a deferred compensation plan under Internal Revenue Code Section 457, wherein the Library contributed up to 7% of an employee's salary after five or more years of consecutive service and a 403 (b) plan wherein the Library contributes up to 7% after five or more consecutive years of service. The Library froze entrance into the IRC Section 457 plan and makes all employee contributions into the new plan. Contributions for the year ended June 30, 2018 were \$53,452.

2. Compensated Absences

Compensated absence is paid for terminating employees up to 240 hours of accumulated annual leave. No sick leave or holiday leave is vested. Total potential liability for compensated absences at June 30, 2018, was \$91,874.

Note D - Commitments and Contingencies and Restricted Assets

Federal Grants

Note E - 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.

Southern Oklahoma Library System
Notes to Financial Statements - Continued
June 30, 2018

Note F - 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 and savings."

Deposits by type at June 30, 2018, are as follows:

Deposits	Risk Category			Bank Balance	Financial Statement Carrying Amount
	1	2	3		
Demand deposits	\$ 26,283	-0-	\$ -0-	\$ 26,283	\$ (14,852)
Certificates of Deposit	-0-	-0-	-0-	-0-	-0-
Money Market	250,000	744,389	-0-	994,389	1,195,922
Totals	<u>\$ 276,283</u>	<u>\$ 744,389</u>	<u>\$ -0-</u>	<u>\$1,020,672</u>	<u>\$ 1,210,774</u>

- (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 G - 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.

Note H - 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.

Southern Oklahoma Library System
Notes to Financial Statements – Continued
June 30, 2018

Note I – Changes in Capital Assets

The following provides a summary of changes in capital assets:

	Land	Automated Equipment	Building	Furniture and Fixtures	Informational Materials	Vehicles	Totals
Balance July 1, 2017	\$ 166,000	\$ 355,170	\$984,582	\$ 530,554	\$505,151	\$ 116,831	\$ 2,622,850
Increases	0	0	0	0	99,652	25,679	122,732
Decreases	0	0	0	0	94,473	24,566	87,294
Balance June 30, 2018	166,000	355,170	984,582	530,554	510,330	117,944	2,658,288
Accumulated Depreciation Balance July 1, 2017	0	352,156	435,466	362,904	303,926	106,485	1,490,892
Increase	0	1,682	18,536	29,661	102,067	9,335	157,264
Decrease	0	0	0	0	94,473	24,566	87,294
Balance June 30, 2018	0	353,838	454,002	392,565	311,520	91,254	1,560,862
Net Governmental Activities Balance June 30, 2018	\$ 166,000	\$ 1,332	\$ 530,580	\$ 137,989	\$ 198,810	\$ 26,690	\$ 1,097,426

The Library estimates that certain informational materials deteriorate, are lost, or become outdated. Therefore the Library has estimated a decrease in informational materials approximately equivalent to amounts recorded prior to June 30, 2013 (5 years).

Note J – Subsequent Events

Management has evaluated all events subsequent to the balance sheet date of June 30, 2018 through the date of issuance of these financial statements, November 8, 2018, and has determined that there are no subsequent events that require disclosure under generally accepted accounting principles.

SOUTHERN OKLAHOMA LIBRARY SYSTEM

SUPPLEMENTAL INFORMATION

**Southern Oklahoma Library System
Schedule of Program and Support
Services Expenses - Cash Basis
Year ended June 30, 2018
(Unaudited)**

Salaries	\$ 900,973
Payroll Taxes	73,325
Employee Benefits	191,891
Contractual Expense	155,836
Equipment Repair and Maintenance	32,183
Supplies	20,369
Postage	2,721
Publicity/Marketing	713
Janitorial	21,220
Grant Expense	89,247
Insurance	19,408
Utilities, Telephone	26,550
Vehicle Operations	3,094
Dues	3,508
Continuing Education	7,587
Travel and Mileage	3,187
Revaluation	29,980
Outreach Expense	1,891
Miscellaneous, other	<u>13,943</u>
TOTAL	<u>\$1,597,626</u>

**Southern Oklahoma Library System
 Schedule of Federal and State Financial Assistance
 Year ended June 30, 2018
 (Unaudited)**

<u>Program Sources</u>	<u>CFDA Number</u>	<u>Project Amount</u>	<u>Receipts Recognized</u>	<u>Expenses Paid</u>
State of Oklahoma:				
Oklahoma Department of Libraries State Aid	453109999	\$ 54,503	\$ 54,503	\$ 54,503
United States Government passed through the Oklahoma Department of Libraries				
Library Sciences and Technology Act				
Health Literacy	45310	9,103	9,103	6,284
ODL Cont Ed Grant	45310	462	462	462
National Endowment for the Humanities passed Through the Oklahoma Humanities Council				
Let's Talk About It		<u>6,000</u>	<u>7,934</u>	<u>5,612</u>
Total State of Oklahoma Assistance		<u>\$ 70,068</u>	<u>\$ 72,002</u>	<u>\$ 66,861</u>

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

Board of Directors
Southern Oklahoma Library System
Ardmore, Oklahoma

We have audited the accompanying financial statements of the governmental activities of Southern Oklahoma Library System (the Library), as of and for the year ended June 30, 2018, which collectively comprise the Library's basic financial statements and have issued our report thereon dated November 8, 2018. Those financial statements are presented on the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles and, accordingly, are not intended to present financial position and results of operations in accordance with generally accepted accounting principles. 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 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 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 over financial reporting 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.

Jackson Fox & Richardson PC

Ardmore, Oklahoma
November 8, 2018