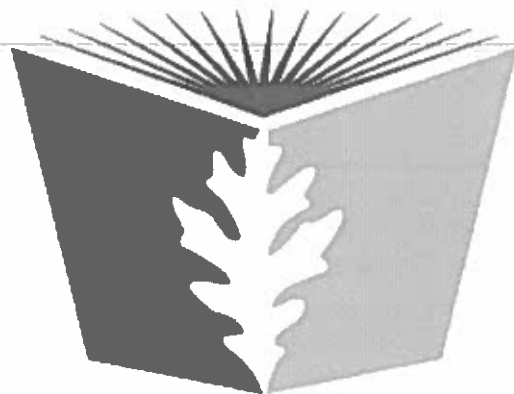


**SOUTHEASTERN PUBLIC LIBRARY SYSTEM
OF OKLAHOMA
FINANCIAL STATEMENTS
AND
AUDITORS' REPORT
JUNE 30, 2016**

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

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Southeastern Public Library
System of Oklahoma
Prepared by Michael Hull, CEO

Management's Discussion and Analysis
Southeastern Public Library System of
Oklahoma
For Year Ending June 30, 2016
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.

GOVERNANCE

SEPLSO is governed by a Board of Trustees who are appointed by the city and county commissioners for the respective communities or counties they represent. For FY 2015, the statutory authorized strength of the SEPLSO Board was 15 city/town representatives and 7 county representatives. Trustees may serve two consecutive three-year terms. An initial partial term of less than eighteen (18) months does not count toward this limit.

FY 2015 Trustees were as follows:

<u>Board Member</u>	<u>Represents</u>	<u>Location</u>
Nolen Branscum	City	Arkoma
Shelly Thomason	City	Broken Bow
Christopher Gann	County	Choctaw
Sharon Mowdy	County	Coal
Jaime Arcos	City	Coalgate
Patricia Warden	City	Hartshorne
Florence Conklin	County	Haskell
Linda Mead	City	Heavener
Miriam Costilow	City	Hugo
Trilla Frazier	City	Idabel
Maryellen Mooney	County	Latimer
Elise Mitchell	County	LeFlore
Heather Para	City	McAlester

Debbie Clepper	County	McCurtain
Nancy Cope	County	Pittsburg
Sarma Retchloff	City	Poteau
Crystal Helms	City	Spiro
Gary Gatlin	City	Stigler
Karen Pierce	City	Talihina
Marty Henson	City	Valliant
Kay Warren	City	Wilburton
Roberta Lynch	City	Wister

Three Trustees, Crystal Helms, Gary Gatlin and Karen Pierce, resigned from the Board before the end of the fiscal year. Crystal Helms was succeeded by Britney Hambright and Gary Gatlin was succeeded by Karen Holt. No successor for Karen Pierce has been appointed yet.

FINANCIAL OVERVIEW FOR FISCAL YEAR 2016 (July 1, 2015 - June 30, 2016)

FY 2016 Budgeted Revenue (Income)	-	\$4,901,559
FY 2016 Actual Revenue (Income)	-	\$4,598,786
FY 2016 Budgeted Expenditures	-	\$4,901,559
FY 2016 Actual Expenditures	-	\$4,266,838

The major portion of SEPLSO's funding (93.7% in FY 2016) comes from county ad valorem taxes of four (4) mills, as mentioned above. This generated \$4,312,048 in ad valorem income for FY 2016, compared with \$4,216,249 in ad valorem income for FY 2015, for an increase of \$95,799. Looking at it by county, five of our seven counties saw increases in ad valorem while two saw very small decreases. Choctaw county saw a large growth.

County	FY 2016	FY 2015	\$ Change	% Change
Choctaw	\$314,656 ¹	\$215,742	\$98,914	45.9%
Coal	\$394,691	\$387,535	\$7,156	1.9%
Haskell	\$221,501	\$223,753	-\$2,252	-1.0%
Latimer	\$239,956	\$243,721	-\$3,765	-1.5%
LeFlore	\$935,078	\$912,372	\$22,706	2.5%
McCurtain	\$763,741	\$748,192	\$15,550	2.1%
Pittsburg	\$1,500,466	\$1,484,935	\$15,531	1.1%
TOTAL	\$4,370,089	\$4,216,249	\$153,840	3.7%

¹\$58,493 was received to correct an error in payments from Choctaw County's FY14 Dec, Jan, Feb & Mar payments. Even without this back payment Choctaw County ad valorem was up \$40,421, or 19%.

\$118,157 or 2.6% of SEPLSO's FY 2016 income came from State Aid, administered by the Oklahoma Department of Libraries (ODL). Surprisingly, this was an increase of approximately \$4,000 over FY 2015 State Aid, yet less than the FY 2014 State Aid amount of \$120,362. Our thanks is extended to the hard work of ODL Executive Director Susan McVey for handling her budget and committing to funding libraries through the state's recent budget crisis. Unfortunately, resistance to cutting state aid will not endure into FY 2017. Susan McVey has advised library directors to expect a 12.5% reduction this year. The State Aid formula is based on population and the square miles within the library system.

Branch income, which includes fees for copying and printing, faxing, interlibrary loan, replacement or lost material charges, and any other income accepted from the public decreased slightly from \$95,445 in FY 2015 to \$93,079 in FY 2016. This is not a significant difference, but it should be noted that most of this difference is a result of a policy change that removed the \$1.50 charge to customers for borrowing materials between branches.

Given the current interest rates, SEPLSO's investment accounts yielded a strong return of \$25,019, but \$4,546 or 22.2% over FY 2015.

In FY 2015 SEPLSO received a \$469,779 Children's Reading Charitable Trust grant to do a system-wide upgrading of our children and teen book collections, along with offering a variety of interactive learning experiences and programs to encourage reading and sharing about books. That grant income was used in part this past fiscal year and a large portion still remains for use in FY 2017.

An important source of funding for SEPLSO for libraries and schools that is only partly reflected in the financial reports is the federal Universal Service (aka E-Rate) program and the state-based Oklahoma Universal Services Fund (OUSF) program. 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 2016, SEPLSO was approved for Internet and telephone service E-Rate discounts up to \$368,861. This discount covered 80% of the cost of our Internet services and 60% of telephone services (E-Rate is phasing out coverage of telephone services). OUSF covered the majority of SEPLSO's remaining Internet service costs. The cost of all of SEPLSO's Internet services before discount was \$435,948.

The E-Rate discount percentage has been based on the level of participation in the free and reduced school lunch program for the local school district in which each branch library is located. That participation varies from year to year, and the discount we get varies as a result. For FY 2015, 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 2015, 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 also provides toll free phone numbers for calls from customers to our branch 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 2016, SEPLSO paid Peak Uptime \$2,271 for filtering service provided through SEPLSO's Palo Alto PA-3020 security appliance.

Despite a failure of revenue for state government, the financial outlook for SEPLSO appears steady. Since such a large portion of our funding derives from ad valorem taxes, and is therefore not dependent on sales tax and state appropriation, SEPLSO can consider itself extremely fortunate. The biggest threat to our ad valorem would be exemptions on manufacturing, but the property tax assessments on such property within our seven counties is relatively insignificant. Conservative budgeting should maintain SEPLSO in the coming years. In the unlikely event of a revenue failure, cuts to materials, technology, and continuing education could be considered that would minimize the effects of cutbacks on services offered to the public and avoid cuts to staff salaries and benefits.

PERSONNEL

SEPLSO employed 79 positions throughout FY 2016 (not including the CEO position).

Exempt (salaried):	11 Employees
Full Time Hourly:	49 Employees
Part Time Hourly:	10 Employees
Part Time/Substitute:	9 Employees

Significant points about personnel costs for the year include the following:

1. All benefited employees not working 40 hours a week were offered the opportunity to increase their schedules to 40 hours as the year ended. All but 2 of these employees accepted the offer, which provides a better value to SEPLSO in addition to increasing the income of the employees.
2. The health insurance premiums had a mid-year increase of 5.13%
3. The retirement fund contribution was at the base rate of 14%
4. 26 employees were sent to the state library association conference in March

24-year CEO Wayne Hanway retired right before Christmas. Poteau manager Nancy Hamlin, who had worked for SEPLSO for 32 years, retired a few weeks later in January. We wish both of them the best in retirement. Michael Hull, MLS and formerly of Clinton, OK, was chosen by the Board to succeed Wayne and worked closely with Wayne Hanway throughout December. Jo Hunt, a former school administrator, teacher and small business owner was hired to succeed Nancy Hamlin.

SERVICES

SEPLSO serves the citizens of its seven-county service area in a multitude of ways, some very traditional and others on the cutting edge of technology. We are proud of the many services available at all 15 branches.

Informational Material: SEPLSO users can access books, magazines, newspapers, and audiobooks in both physical and digital formats. In the coming months, music and video content will be offered in both formats. Demand for downloadable content continues to grow and we expect increase in circulation at many branches as we promote free intralibrary loan this next year.

Online Resources: Traditionally referred to as databases, SEPLSO subscribes to many online services that can be accessed from any device within our libraries and in most cases from home. Our resources include interactive children's books, financial planning, language learning, homework help, genealogy research, national newspapers, legal forms, and more. In the coming months we hope to make these resources more visible and prominent to the public.

Computer & Internet Access: Southeast Oklahoma faces many challenges in providing computer and Internet access to citizens. First, due to the large poverty of the area many citizens simply cannot afford Internet at their homes. Secondly, even if they can afford Internet access, many citizens live in extremely rural areas in which no infrastructure to provide stable, and quality bandwidth exists. In FY 2016, all of the wireless routers and networking switches were upgraded in all 15 branches and the Service Center. These replacements provide better service to the public and more tools for controlling and shaping bandwidth. The wireless access points provide 24-hour access to the Internet, allowing users to park near our building or in some locations use available benches to access the Internet with personal devices. SEPLSO's commitment to free Wi-Fi and publically available computers ensure that all citizens have access to Internet services regardless of income, geography, or work limitations.

Reference: Public libraries are the only institution wherein any individual can obtain professional research help for free. SEPLSO staff will guide citizens to available materials or request books from other libraries to meet an informational need. More often staff assists users on the computer and guide them in searches and discovering online information. Regularly staff assist citizens on the computer who are filling out job applications or forms for various types of government assistance.

Printing, Copying & Faxing: Even in SEPLSO's largest community, McAlester, options for citizens to copy, print, or fax do not exist. As a result, SEPLSO branches bustle with citizens in need of these services. In FY 2016 SEPLSO we recognized the extravagant cost of toner and other printing supplies to provide this service. As the year ended the Board awarded a bid for leased copier/printers at all branches. The new machines

provide superior service than their predecessors and ensure a reasonable, contained cost for these services.

~~Programs: SEPLSO offers information programming for all ages throughout the year. Children's programs, especially the Summer Reading Program, serve to promote literacy and to keep children's minds engaged during the summer vacations. Teen and adult programming encourages lifelong learning and spotlights various informational materials available to the public from SEPLSO. In FY 2016, SEPLSO branches boasted an attendance of over 50,000 at special programs.~~

Other Services: In addition to the services described above, SEPLSO staff routinely assists with reader's advisory, basic computer assistance and training, and general informational research.

ANNUAL CIRCULATION

Circulation of materials and online resources from SEPLSO libraries during FY 2016 increased from FY 2015's total of 659,851 to a total of 731,173, an increase of 71,322 circulations or 10.81%. 9 physical branches and the downloadable library increased their fiscal year circulation by over 10%, led by the Spiro Public Library with an amazing 54.83% growth!

Arkoma	-9.67%	Poteau	4.81%
Broken Bow	17.86%	Spiro	54.83%
Coalgate	-3.81%	Stigler	12.43%
Hartshorne	12.01%	Talihina	5.34%
Heavener	32.43%	Valliant	6.81%
Hugo	5.08%	Wilburton	29.22%
Idabel	14.62%	Wister	0.49%
McAlester	14.62%	Downloadables	11.07%

We expect circulation to increase even more in the future as the Board rescinded a policy that charged users \$1.50 for in-system loans and we have developed a new, internal courier system. The removal of the loan charge eliminate what was an enormous barrier to poor and rural users whose local branch did not hold a desired title. The new courier system allows us to guarantee 3-5 day delivery of any available item, a speed that matches Amazon and should please users as they discover this service. As this change immediately makes over 400,000 items available to all SEPLSO card holders, we expect a strong increase in circulation.

USE OF LIBRARIES

SEPLSO branches received over 750,000 visits in FY 2016. This is a decrease from the 819,000 visits in FY 2015, but as the chart below shows, still very active visitation to our facilities. It should also be noted that although this number has decreased, the use of downloadable content is

growing strongly, indicating that many users are transitioning from in-person visits to virtual visits.

<i>Branch</i>	<i>Annual Visits</i>	<i>Average Visits per Week</i>
Arkoma	5,732	110
Broken Bow	9,1912	1,768
Coalgate	4,1405	796
Hartshorne	3,4748	668
Heavener	30,766	592
Hugo	61,824	1,189
Idabel	60,491	1,163
McAlester	133,679	2,571
Poteau	84,448	1,624
Spiro	36,323	699
Stigler	48,681	936
Talihina	14,969	288
Valliant	17,820	343
Wilburton	66,082	1,271
Wister	21,384	411
System	750,264	14,428

Program attendance decreased slightly from FY 2015 despite more programs being offered. Attendance per program is still strong.

	<i>Number of Programs</i>	<i>Program Attendance</i>	<i>Attendance Per Program</i>
FY 2015	2,495	55,253	22.15
FY 2016	2,756	52,851	19.18

A

statistical review of use of SEPLSO libraries shows the following breakdown for FY 2016:

Interbranch Loans	1,954
Computer/Internet sessions	169,573

COLLECTION

Approximately \$645,858 was spent in FY 2016 for books and other library materials and online information services, as well as materials for use by outreach services, including reading centers and community reading collections.

At the conclusion of FY 2016, statistics from the library automation system said that SEPLSO (system-wide) has approximately 401,700 books, 27,688 audio recordings (both music and audio books), 34,314 video recordings (almost entirely DVDs), 1,994 microfilms, 537 maps, and 436 subscriptions to newspapers and magazines, with an additional 203 available through our online

Zinio subscription. During FY 2016, 19,556 books were added, along with 1,433 audio items and 3,791 video items. A total of 16 licensed online services are available for SEPLSO patrons. There are 6 online services provided at the state level and 10 paid for by SEPLSO. These online services are available to patrons within SEPLSO libraries and most are accessible remotely from home or office.

POLICIES, PLANNING AND GOALS

Keeping policies and plans current for SEPLSO is a regular, ongoing priority. During FY 2016, all of SEPLSO's policies and operating procedures were reviewed, and 9 policies were updated. One new operating procedure was added. An updated Long Range Plan for FY 2017 - FY 2021 was written during FY 2016 and approved November, 2015.

- 3D Printer Policy – With the addition of a 3D printer in Stigler, a new policy was drafted to oversee the use of 3D printers by the public.
- Board Meeting Recordings – This policy was rescinded.
- Borrower Policy – This policy was updated to clarify the age at which a minor may get a card and what information is required. The price of a non-resident card was also clarified to include an entire household for the fee.
- Classification and Pay – The set percentage was removed so that the board would have flexibility.
- Current Fees and Charges – This policy was modified to reflect the removal of the intralibrary loan fee and to include pricing for 3D printing.
- Holidays – Martin Luther King Day and Veteran's Day were added as closed and paid holidays.
- Interlibrary Loan Policy – The \$1.50 fee for intralibrary loan was eliminated so that all SEPLSO borrower may freely request materials from any other SEPLSO branch to be freely delivered to their home branch.
- Returning Materials to Other Locations – This policy was modified to remove language discouraging the return of SEPLSO materials at any location other than the holding library.
- Video Surveillance Policy – With security cameras and recording equipment now at each SEPLSO location, a policy was drafted to set guidelines on how the cameras are used and who may access the recorded surveillance.

For further information, contact Michael Hull, Chief Executive Officer, at (918) 426-0456.

**SOUTHEASTERN OKLAHOMA PUBLIC LIBRARY SYSTEM OF OKLAHOMA
STATEMENTS OF REVENUES AND EXPENDITURES
GENERAL FUND- BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016
Unaudited**

	ORIGINAL & FINAL BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
REVENUE:			
Ad Valorem Taxes	\$ 4,338,960	\$ 4,374,685	\$ 35,725
State Aid	90,299	118,157	27,858
Interest Income	16,000	25,019	9,019
Other Income	83,080	161,181	78,101
Total Revenue	4,528,339	4,679,042	150,703
EXPENDITURES:			
Staff expenditures	\$ 2,906,610	\$ 2,766,643	\$ 139,967
Informational materials	744,398	559,661	184,737
Special grant expenditures	-	75,554	(75,554)
Operations	1,096,131	716,912	379,219
Fixtures and equipment	227,256	200,946	26,310
Total Expenditures	4,974,395	4,319,716	654,679
Excess (Deficiency) of Revenues Over (Under) Expenditures	(446,056)	359,326	805,382
Other Financing Sources (Uses)			
Carryover fund balance	446,056		(446,056)
Total Other Financing Sources (Uses)	446,056		(446,056)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	\$ -	\$ 359,326	\$ 359,326

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

Note: for FY2016, the Library only produced one budget

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Southeastern Public Library System of Oklahoma (the Library), as of and for the year ended June 30, 2016, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund and aggregate fund information of the Southeastern Public Library System of Oklahoma as of June 30, 2016, and the respective changes in financial position, and changes in fund balance thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison on pages 3-11 and page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Jackson, Fox & Richardson PC

Ardmore, Oklahoma
September 7, 2016

**SOUTHEASTERN OKLAHOMA PUBLIC LIBRARY SYSTEM
GOVERNMENT-WIDE STATEMENT OF NET POSITION
AND GOVERNMENTS FUNDS BALANCE SHEETS
JUNE 30, 2016**

<u>ASSETS AND OTHER DEBITS</u>	General	Pension Trust	Totals	Adjustments	Statement of Net Assets
Assets:					
Cash and Cash Equivalents	\$ 6,019,222	\$ -	\$ 6,019,222		\$ 6,019,222
Investments		3,417,481	3,417,481		3,417,481
Receivables	62,637		62,637		62,637
Informational materials	9,332,796		9,332,796		9,332,796
Furniture and equipment	3,425,435		3,425,435		3,425,435
Accumulated depreciation	(7,423,260)		(7,423,260)		(7,423,260)
Total Assets and Other Debits	<u>\$ 11,416,830</u>	<u>\$ 3,417,481</u>	<u>\$ 14,834,311</u>	<u>\$ -</u>	<u>\$ 14,834,311</u>
Deferred Outflows of Resources	-	-	-	-	-
LIABILITIES, EQUITY AND OTHER CREDITS					
Liabilities:					
Accounts Payable	\$ 28,753	\$ -	\$ 28,753		28,753
Deferred grant revenue	-		-		-
Accrued Payroll and Related Costs	-		-		-
Total Liabilities	<u>28,753</u>	<u>-</u>	<u>28,753</u>	<u>-</u>	<u>28,753</u>
Deferred Inflow of Resources	-	-	-	-	-
Fund Balances					
Non-spendable	5,334,971		5,334,971	(5,334,971)	-
Spendable					-
Committed	-	3,417,481	3,417,481	(3,417,481)	-
Assigned	448,107		448,107	(448,107)	-
Unassigned	5,604,999		5,604,999	(5,604,999)	-
Total Equity and Other Credits	<u>11,388,077</u>	<u>3,417,481</u>	<u>14,805,558</u>	<u>(14,805,558)</u>	<u>-</u>
Total Liabilities, Equity and other Credits	<u>\$ 11,416,830</u>	<u>\$ 3,417,481</u>	<u>\$ 14,834,311</u>		
Net Position:					
Net Investment in Capital Assets				5,334,971	5,334,971
Restricted				-	-
Unrestricted				6,053,106	6,053,106
				<u>\$ 11,388,077</u>	<u>\$ 11,388,077</u>

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

**SOUTHEASTERN OKLAHOMA PUBLIC LIBRARY SYSTEM
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
AND GOVERNMENTAL FUND STATEMENT OF
REVENUES AND EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	General Fund	Pension Fund	Total	Adjustments	Statement of Activities
EXPENDITURES					
Current--					
Staff Expenditures	\$ 2,766,643		\$ 2,766,643	\$ -	\$ 2,766,643
Special Grant Expenditures	75,554		75,554		75,554
Distributions/withdrawals		694,449	694,449		694,449
Operations	716,912	5,883	722,795		722,795
Depreciation	788,444		788,444		788,444
Asset disposals	-		-		-
Total Expenditures	4,347,553	700,332	5,047,885	-	5,047,885
REVENUES					
Ad valorem tax revenues	4,374,685		4,374,685		4,374,685
Oklahoma Dept of Libraries			-		-
Special Grant Revenue	4,172		4,172		4,172
State Aid	118,157		118,157		118,157
Investment income	25,019	57,163	82,182		82,182
Employee(er) Contributions		387,334	387,334		387,334
Unrealized Gains(losses)			-		-
Other Grants/Donations			-		-
Other Revenues	157,009		157,009		157,009
Library contribution			-		-
Total Revenues	4,679,042	444,497	5,123,539	-	5,123,539
CHANGE IN NET POSITION	331,489	(255,835)	75,654		75,654
NET POSITION, JULY 1, 2015	11,056,588	3,673,316	14,729,904		14,729,904
NET POSITION, JUNE 30, 2016	\$ 11,388,077	\$ 3,417,481	\$ 14,805,558	\$ -	\$ 14,805,558

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

SOUTHEASTERN OKLAHOMA PUBLIC LIBRARY SYSTEM
GOVERNMENT-WIDE STATEMENT OF CHANGES
IN FUND BALANCE - ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund				Pension Fund	
	Nonspendable	Committed	Assigned	Unassigned	Total	Committed
Fund Balance - July 1, 2015	\$ 5,349,404	\$ -	\$ 468,280	\$ 5,238,904	\$11,056,588	\$ 3,673,316
Excess (Deficiency) of Revenues and Other Financing Sources				331,489	331,489	(255,835)
Other additions (reductions)	(14,433)	-	(20,173)	34,606	-	
Fund Balance June 30, 2016	<u>\$ 5,334,971</u>	<u>\$ -</u>	<u>\$ 448,107</u>	<u>\$ 5,604,999</u>	<u>\$11,388,077</u>	<u>\$ 3,417,481</u>

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

Southeastern Public Library System of Oklahoma
Notes to Financial Statements
June 30, 2016

Note A - Organization

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

Note B – Summary of Significant Accounting Policies

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

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

1. Basis of Accounting

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

2. Budgets

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

Southeastern Public Library System of Oklahoma
Notes to Financial Statements - Continued
June 30, 2016

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). 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.

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 Position.

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, 2016

•• *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, 2016

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 2015.

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, 2016, was \$283,239.

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, 2016 were \$3,417,481.

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, 2016, was \$259,963.

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, 2016

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, 2016, are as follows:

Deposits	Risk Category			Total Collateral	Bank Balance	Financial Statement Carrying Amount
	1	2	3			
Cash	\$ 273,338	\$ -	\$ -	\$ 273,338		\$ 273,338
Certificates of Deposit	380,000	5,363,875	-	5,743,875		5,743,875
Totals	\$ 653,338	\$ 5,363,875	\$ -	\$ 6,017,213	\$ -	\$ 6,017,213

Required: 100% of
uninsured amount

X 100%
\$ 5,363,875

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, 2016 through the date of issuance of these financial statements, September 7, 2016, 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, 2016

Note F – Long Term Assets

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

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

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

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

	Equipment/ Furnishings	Accumulated Depreciation	Informational Materials	Accumulated Depreciation
Balance, 7-01-15	\$ 3,280,129	\$ 2,684,302	\$ 8,990,912	\$ 4,237,335
Additions	200,946	290,438	559,661	498,006
Disposals / adjustments	<u>(55,640)</u>	<u>(69,044)</u>	<u>(217,777)</u>	<u>(217,777)</u>
Balance 6-30-16	<u>\$ 3,425,435</u>	<u>\$ 2,905,696</u>	<u>\$ 9,332,796</u>	<u>\$ 4,517,564</u>
Depreciation expense 6-30-16		<u>\$ 290,438</u>		<u>\$ 498,006</u>

SOUTHEASTERN PUBLIC LIBRARY SYSTEM OF OKLAHOMA

SUPPLEMENTAL INFORMATION

Southeastern Public Library System of Oklahoma
Schedule of Operational Expenses
Year ended June 30, 2016
Unaudited

Continuing Education	\$ 7,667
Utilities	4,159
Telephone	47,510
Postage	48,328
Board travel	10,552
Employee travel	25,214
Vehicle	25,467
Equipment rental	8,823
Maintenance contracts	64,641
Equipment repair	39,745
Insurance	26,758
General supplies	36,670
Branch supplies	2,905
Special programs and supplies	14,329
Advertising	6,200
Memberships	4,790
Audit	15,000
Revaluation fees	92,099
Internet fees	15,949
Automation support	41,730
Professional fees	22,675
Miscellaneous	8,312
Shipping	8
Online information	89,625
Direct branch expense	<u>57,756</u>
	<u><u>\$ 716,912</u></u>

**Southeastern Public Library System of Oklahoma
Schedule of State Financial Assistance
Year ended June 30, 2016
(Unaudited)**

<u>State of Oklahoma Assistance</u>	<u>Project Amount</u>	<u>Receipts Recognized</u>	<u>Expenses Paid</u>
Oklahoma Department of Libraries State Aid for the Development and Expansion of Library Service	\$118,157	\$118,157	\$118,157

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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 Trustees
Southeastern Public Library System of Oklahoma
McAlester, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate fund information of Southeastern Public Library System of Oklahoma (the Library) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated September 7, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

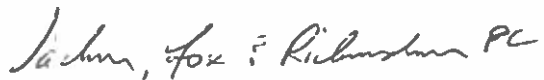
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be

reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose



Ardmore, Oklahoma
September 7, 2016