



Financial Statements

For the Year Ended June 30, 2019

PIONEER LIBRARY SYSTEM

Index

June 30, 2019

	Page
Independent Auditors' Report	3
Required Supplementary Information:	5
Management's Discussion and Analysis (Unaudited)	
Basic Financial Statements	
<i>Government-wide Financial Statements</i>	
Statement of Net Position	13
Statement of Activities	14
<i>Fund Financial Statements</i>	
Balance Sheet - Governmental Funds	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Statement of Fiduciary Net Position - Fiduciary Fund	17
Statement of Changes in Fiduciary Net Position - Fiduciary Fund	18
Notes to Financial Statements	19
Required Supplementary Information:	
Budgetary Comparison Schedule - General Fund (Unaudited)	33
Schedule of Changes in Net Pension Liability (Unaudited)	34
Schedule of Pension Contributions (Unaudited)	35
Compliance and Internal Control	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36



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INDEPENDENT AUDITORS' REPORT

September 24, 2019

To the Board of Trustees of
Pioneer Library System
Norman, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund and the fiduciary fund type of Pioneer Library System, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the System'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.

Auditors' 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. The financial statements of the aggregate discretely presented component unit, the Pioneer Library System Foundation, were not audited in accordance with *Government Auditing Standards*. 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 auditors' 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, the aggregate discretely presented component unit, each major fund, as well as the fiduciary fund type of the Library, as of June 30, 2019, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees of
Pioneer Library System
September 24, 2019

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5–12, the budgetary comparison information on page 33, and the net pension liability and contribution information on pages 34–35 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2019, on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pioneer Library System's internal control over financial reporting and compliance.

GRAY, BLODGETT & COMPANY, PLLC

Gray, Blodgett & Company, PLLC



Management Discussion and Analysis (Unaudited)
Fiscal year Ended June 30, 2019

This discussion and analysis of the financial performance of Pioneer Library System provides an overall review of the System's financial condition and results of operations for the fiscal year ended June 30, 2019. Readers should read this information in conjunction with the System's financial statements.

Governmental Accounting Standards Board (GASB) statements 83, and 88 became effective as of June 30, 2019 however these pronouncements do not affect the Library's financial statements.

Financial Highlights

For fiscal year 2018-2019, the Library's general fund reported an ending balance of \$10,156,868 versus \$9,020,048 for the fiscal year 2017-2018. Of the 2018-19 year end-total, \$686,729 is committed for outstanding encumbrances, and \$568,556 is assigned for service upgrades and improvements of library services at current and future libraries within the system. A majority of the outstanding encumbrances are for materials and technology equipment for the new Norman Public Library Central. Although the remaining balance of \$8,901,583 is unassigned, the Library administration, with the Board of Trustee's approval, will use a portion of these funds in preparation for opening the new Norman Public Library Central in the fall of 2019. The remainder of the money in these funds will be prudently used or committed to alleviate summer/fall cash flow challenges and other emergencies that might arise.

The Library's operating revenue increased by 4.1% this year. This increase allowed the library system to set aside funds for future projects including the completion of the new Norman Public Library Central. The library purchased \$771,445 in materials and \$716,238 in technology equipment out of the current year's budget for the new library. Equipment items included a 24 hour library machine, three I-pad lending machines, two lap-top lending machines and two 13 bin automated materials handlers. All of these items will provide customers with faster access to materials and increased technology opportunities. In addition, the library purchased access to two new digital services, Hoopla and Kanopy during the current year. These services provide customers access to additional digital materials and streaming video capability.

The Pioneer Library System Foundation completed its ninth year of operation as of June 30, 2019. The Foundation was organized with a mission of *Supporting Literacy and a Love of Learning throughout Pioneer Library System Communities*. The Foundation awarded \$500 grants to each of the twelve branches and awarded two \$1,000 competitive grants to winning branch applicants in support of local programs. In addition, the Foundation provided financial support for many library programs including the 2019 PLS Reads and the system-wide Summer Learning Challenge. The Foundation provided funding for book distributions at all well baby visits in all three of the counties that PLS serves as a part of the Summer Learning Challenge. The Foundation has been included as a component unit of the Library System and the Foundation has issued its own financial statements, available from the Library Foundation administrative office.

The general fund balance increased by \$1,136,820 from fiscal year 2018 due to the increase in collection of revenue and the decrease in spending in expense categories including health insurance, continuing education, equipment, insurance, marketing and communication, and system facilities.

Overview of the Financial Statement

The Pioneer Library System's basic financial statements consist of fund financial statements, notes to financial statements, and required supplementary information.

See Accompanying Notes to Financial Statements

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Library's finances, in a manner similar to a private-sector business.

The statement of net position represents information on all of the Library's assets, liabilities, deferred inflows, and deferred outflows, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The statement of activities presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 13 and 14 of this report.

Fund Financial Statements

The Library System has two kinds of funds – Governmental Funds and Fiduciary Funds:

Governmental Funds encompass two types: General Fund and Other Governmental Funds:

General Fund represents unrestricted resources that are available for on-going general library operations. This is the Library System's primary operating fund.

Other Governmental Funds include Gift/Grant Funds.

Gifts/Grant Funds include funds provided by intergovernmental grants and other third parties' gifts and grants. All those funds are generally restricted as to use. Therefore, each fund accounts for its receipts and disbursements of the restricted functions.

Fiduciary Funds are reported in the fiduciary fund financial statements but are excluded from government-wide reporting. They include the Pioneer Library System Pension Plan. Fiduciary fund financial statements report resources that are not available to fund Library System general operations.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the Library System's fund financial statements.

Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, such as comparative statement between budget and actual expenditures, and certain historical data concerning the defined benefit plan.

Financial Analysis of Library System's Funds

As financial information is accumulated on a continuous and consistent basis, financial statements and expenditure reports for governmental funds are presented to the Pioneer Library System Board of Trustees.

See Accompanying Notes to Financial Statements

For fiscal year 2018-2019 governmental fund balances changed as follows:

	General Fund	Other	Total
	Funds	Governmental	Governmental
	Funds	Funds	Funds
Revenues	\$ 18,746,262	\$ 125,141	\$ 18,871,403
Expenditures	\$ 17,609,442	\$ 118,137	\$ 17,727,579
Net Increase	\$ 1,136,820	\$ 7,004	\$ 1,143,824

For fiscal year 2017-2018 governmental fund balances changed as follows:

	General Fund	Other	Total
	Funds	Governmental	Governmental
	Funds	Funds	Funds
Revenues	\$ 18,006,115	\$ 121,641	\$ 18,127,756
Expenditures	\$ 16,745,952	\$ 73,023	\$ 16,818,975
Net Decrease	\$ 1,260,163	\$ 48,618	\$ 1,308,781

General Fund:

The Library System is primarily (or 96%) funded by Ad Valorem (property) tax. For the 2018-19 financial year the tax rates were; a 6.06 mill Ad Valorem (property) tax in Pottawatomie County, a 6.11 mill Ad Valorem (property) tax in McClain County and a 6.11 mill Ad Valorem (property) tax in Cleveland County. For fiscal year 2018-19, the Counties' assessed property value had an increase of 4.32% versus 4.33% for 2017-18. Actual tax collections increased by 4.0% versus 4.0% for the prior year. The increase of 4.0% was due to the collection of more tax revenue. Fine and other charges for services revenue for 2018-19 decreased by \$1,714 from 2017-18. This decrease was precipitated by a decrease in fine revenue which was impacted by elimination of fines on all youth materials. State Aid decreased by \$26,023 over the prior year. This decrease was caused by the state giving us less money. Interest income increased by \$80,456 over the prior year. This increase is attributed to more funds being held in reserve and higher interest rates.

The Expense category Personnel Services increased from 2018 to 2019 due to an increase in workers compensation insurance expense, the 3.0% salary performance adjustment that was given to the staff who qualified for the adjustment, an increase in retirement expenses due to the increased contribution to the defined benefit plan that the Board of Trustees wanted to make to reduce the plan liability, and an increase in contract labor due to the hiring of temporary employees to cover vacant staff positions for several months. The Expense category of Materials increased as materials were purchased for the opening day collection for the new Norman Public Library Central and the addition of services provided by Kanopy and Hoopla. The Technology and Automation category increased because technology equipment was purchased for the new Norman Public Library Central.

The System Services and General and Administrative expense categories were different in 2019 versus 2018 as a result of the following:

- Professional Services expenses increased because the web application development expenses paid to Phase Two Online expenditures were relocated to this budget category.

- The Continuing Education expenses decreased as a result of the non-Public Library Association conference year and the state library conference was hosted in Norman which reduced staff travel expenses.
- The decrease in equipment is due to the fact no equipment items were purchased for the Norman Public Library East this year.
- Insurance increased due to the addition of insurance coverage for the items in the Norman Public Library East location and the increase in some insurance rates.
- Postage costs increased due to an increase in postage rates and increase in the number of items mailed.
- Supplies costs increased due to the addition of the Norman Public Library East branch library.
- Vehicle costs increased as two vehicles were purchased during the current year.
- Marketing and Communications cost decreased because the Phase Two Online expenses were relocated to another budget.
- Reprographics increased as copiers replaced staff public and staff printers at several locations.
- Data Processing expenses decreased when a new payroll provider was selected in July.
- Programming expense increased due to more programs were held this year.
- Literacy expense increased because some instructors were paid out of this budget instead of grants this year.
- System facilities maintenance decreased because no flooring was replaced this year.

Other Governmental Funds:

Gifts/Grants Funds – In fiscal year 2018-2019, Pioneer Library System received \$94,187 in gifts and grants.

Outright gifts to PLS totaled \$64,704, over 83% of which was provided by Friends groups throughout the library system (\$53,382). This past year, Pioneer Library System received \$9,000 in grants. The City of Purcell donated \$10,600 to fund programs at the Purcell Library. All of the grantors and donors have not only provided financial support but have also been active partners in providing excellent library services to the community.

Fiduciary Funds:

The investments of the System Pension Plan increased due to the increase in the stock market. The Pioneer Library System Board of Trustees froze the defined benefit pension plan as of December 31, 2008 and instituted a defined contribution retirement plan. The provider of all system retirement plans is MassMutual.

The Library System as a Whole

	2018-2019	2017-2018
Assets		
Current and Other Assets	\$ 11,747,856	\$ 10,616,703
Capital Assets	\$ 10,165,744	\$ 9,328,483
Total Assets	\$ 21,913,600	\$ 19,945,186
Deferred Outflows of Resources		
Outflows Related to Net Pension Liability	\$ 812,852	\$ 749,668
Total Deferred Outflows of Resources	\$ 812,852	\$ 749,668
Liabilities		
Accounts Payable and Accrued Expenses	\$ 522,794	\$ 568,394
Other Liabilities	\$ 422,150	\$ 389,221
Net Pension Liability	\$ 600,034	\$ 315,353
Total Liabilities	\$ 1,544,978	\$ 1,272,968
Deferred Inflows of Resources		
Inflows Related to Net Pension Liability	\$ 374,942	\$ 551,428
Total Deferred Inflows of Resources	\$ 374,942	\$ 551,428
Net Position		
Net Investment in Capital Assets	\$ 10,165,744	\$ 9,328,483
Restricted Net Assets	\$ 646,045	\$ 639,040
Unrestricted Net Assets	\$ 9,994,743	\$ 8,902,934
Total Net Position	\$ 20,806,532	\$ 18,870,457
Change in Net Position		
Beginning Net Position	\$ 18,870,458	\$ 16,925,507
Revenues		
Property Taxes	\$ 17,969,160	\$ 17,279,474
Charges for Services	\$ 429,849	\$ 434,421
Operating Grants	\$ 94,187	\$ 81,414
Capital Grants	\$ 12,346	\$ 16,028
State Aid	\$ 117,445	\$ 143,468
Investment Earnings	\$ 229,808	\$ 148,752
Net Change In Beneficial Assets Held by Others	\$ 18,608	\$ 24,199
Loss on Disposal	\$ (4,121)	\$ (6,861)
Total Revenues	\$ 18,867,282	\$ 18,120,895
Expenses		
Public Library Services	\$ 12,643,871	\$ 11,872,210
Administrative Services	\$ 2,196,693	\$ 2,162,434
Depreciation-Unallocated	\$ 2,090,644	\$ 2,141,300
Total Expenses	\$ 16,931,208	\$ 16,175,944
Increase in Net Position	\$ 1,936,074	\$ 1,944,951
Ending Net Position	\$ 20,806,532	\$ 18,870,458

See Accompanying Notes to Financial Statements

General Fund Budgetary Highlights

The General Fund budget for fiscal year 2018-19 was \$19,455,102. This was a 7.74% increase over the previous year. The highlights of the budget include:

- A 3.0% salary adjustment for all staff who qualified and were still employed on August 31, 2018.
- The Health insurance budget was decreased \$219,025 to reflect the decrease in rates caused by a change in health insurance plans that occurred during 2017-2018.
- The Materials Norman East budget was removed to reflect the fact that the Norman Public Library East materials were all purchased out of the FY 2017-2018 Budget.
- The Materials Norman Central budget was added to reflect the materials purchased for the opening day collection for the new facility.
- Professional Services budget was increased \$175,000 to reflect the movement of Phase Two Online expenses and Orange Boy expenses to this budget category.
- The Equipment budget was increased \$30,000 to reflect the cost to replace AV equipment at several locations.
- The Postage budget was decreased \$20,000 to reflect actual costs.
- The Vehicle budget was decreased \$25,000 to reflect the purchase of only one vehicle.
- The Reprographics budget was increased \$50,000 to reflect the leasing of additional copiers to replace public printers and to provide copiers for Norman Public Library East.
- The Technology budget was increased \$43,000 to reflect the purchase of additional 24 hour library machines.
- The Technology Norman East budget was removed to reflect all technology for Norman Public Library East was purchased from last year's budget.
- The Technology Norman Central budget was added to reflect the technology items purchased for the new Norman Public Library Central
- The Strategy & Innovation budget expenses were moved to another budget category.
- The Marketing and Communications budget decreased \$35,700 to reflect the movement of Orange Boy expenses to the Professional Services budget category.
- The Assigned Fund Balance reflects several items: Cleveland County, \$124,560; McClain County, \$173,996; Pottawatomie County, \$50,000; Library Projects, \$220,000. This amount for Cleveland County was decreased \$620,440 to cover the opening day collections materials costs for the new Norman Public Library Central.
- Committed Fund Balance was decreased to reflect the change in outstanding purchase orders compared to last year.
- Unassigned Fund Balance was decreased \$670,334 to cover the technology cost for the purchase of items for the new Norman Public Library Central.

Capital Asset and Long-Term Debt

The Library System's investment in capital assets, net of accumulated depreciation, as of June 30, 2019 was \$10,165,744 and \$9,328,483 on June 30, 2018. Of the total depreciable capital assets, net of accumulated depreciation, on June 30, 2019, 19% are furniture, equipment and vehicles; 41% are building and property; and the remaining 40% are books and materials. Of the total depreciable capital assets, net of accumulated depreciation, on June 30, 2018, 17% are furniture, equipment, and vehicles; 45% are building and property; and the remaining 38% are books and materials.

The Library System has no long-term liabilities. The Board limits borrowing to short-term, usually in the fall in anticipation of ad valorem receipts beginning in December. Typically the note pays off mid-January. In 2018-2019, the Library borrowed no money and incurred no interest expense.

Economic Environment and Next Year's Budget

The Library System's primary revenue is Ad Valorem (property) tax. The annual growth in the Cleveland, McClain and Pottawatomie County's property value is the most important factor for the Library System's revenue outlook. For the most recent fiscal year the System collected 6.11, 6.11 and 6.06 mills of the assessed property value from the respective

counties. The fractional part of the millage is due to the abolishment of the personal property tax in two of the counties. The system is now at the millage cap allowed by state law.

In general, the Library System still expects a continued growth in the tax revenue for the next year. The Cleveland County Assessor has certified 3.86% growth in property value for 2019; the Pottawatomie County Assessor has certified a 1.42% growth and the McClain County Assessor has certified a 7.84% growth.

For fiscal year 2019-2020, the Library Board plans to approve a general fund budget of \$19,734,429 versus \$19,455,102 for 2018-2019.

- A 4.0% salary adjustment for staff who received a successful or outstanding rating on their annual performance evaluation and aren't in their training period.
- Health Insurance line item was increased \$217,600 to cover an expected increase in costs for the last three months of the fiscal year when we receive the new rates for Medical and Dental Insurance in April.
- Retirement line item increased \$100,000 to reflect an additional contribution to the Defined Contribution retirement plan.
- Group Term Life Insurance line item was decreased \$5,000 to reflect lower rates caused by a change in insurance carriers.
- Disability Insurance line item was decreased \$11,000 to reflect lower rates caused by a change in insurance carriers.
- Contract Labor line item was increased \$7,000 to cover the cost of temporary workers needed this year.
- Workers Compensation line item was increased \$5,000 to reflect actual costs.
- Materials line item was increased \$150,000 to reflect additional funds needed for Kanopy expenses.
- Materials Norman Central line item was decreased to reflect the fact that almost all of the materials for the opening day collection for the new Norman Public Library Central were purchased out of the 18/19 budget.
- Professional Services line item was increased \$150,500 to cover additional costs for the moving of the Norman Central collection to the new building, to cover additional Phase Two expenses, to cover additional costs for the excessive moisture remediation at the 300 Norman Center Court location, to cover costs of a pay compensation study, and to cover the costs of drug testing employees.
- Equipment line item was decreased \$30,000 to reflect actual costs.
- Supplies line item was increased \$10,000 to reflect actual costs associated with adding a new branch library.
- Telephone line item was decreased \$10,000 to reflect the fact that the system will no longer be paying for the phone lines at the Norman Central branch.
- Vehicles line item was increased \$19,000 to reflect the fact the purchase of last year's vehicle came from this year's budget.
- Audit line item was increased \$3,750 to reflect the anticipated increase in audit price when we go out to bid this year.
- Reprographics line item was decreased \$15,000 to reflect actual costs.
- Revaluation was increased to \$8,000 to reflect actual costs.
- Technology Norman Central line item was decreased to reflect the fact that almost all of the technology items for the new Norman Public Library Central were purchased from the 2018/2019 budget year.
- Continuing Education line item was increased \$8,000 to reflect the costs associated with the PLA conference and the additional staff attending OLA since the Executive Director of Pioneer is the OLA President this year.
- Marketing and Communication line item was increased \$40,000 to cover expenses encumbered from the prior year and to cover cost associated with opening the new Norman Public Library Central library.
- Programming line item was increased \$5,000 to reflect actual costs.
- Literacy line item was increased \$19,000 to reflect the fact that class instructors are not paid out of this line item now.
- System Facilities was increased \$83,000 to reflect the replacement of HVAC units at the 300 Norman Center Court location.
- System Outreach was increased \$5,000 to reflect actual costs.

- Fund Balance Carryover Current Year increased \$771,775 to reflect excess revenue not allocated to expense categories this year.
- Assigned Fund Balance reflects several items: Cleveland County, \$274,560; McClain County, \$173,996; and Pottawatomie County, \$50,000; Library Projects, \$220,000.
- Committed Fund Balance decreased to zero to as this amount was added to expense categories this year.
- Unassigned Fund Balance increased \$1,915,491.
- Total Fund Balance for 2019-2020 is anticipated to be \$9,470,139.

Contacting the Library System's Financial Management

This financial report is designed to provide a general overview of the Pioneer Library System, to comply with finance-related laws and regulations, and demonstrate the Library System's commitment to transparency and public accountability. If you have any questions about this report or would like to request additional information, contact the Library System's Business Office at 300 Norman Center Court, Norman, OK 73072.

PIONEER LIBRARY SYSTEM
Statement of Net Position
June 30, 2019

	Primary Government Governmental Activities	Component Unit Library Foundation
Assets		
Cash and Cash Equivalents	\$ 10,491,067	\$ 222,393
Beneficial Interest in asset held by others	412,138	51,105
Ad Valorem Tax Receivable	103,301	-
Accrued Interest Receivable	-	368
Other Current Assets	717,595	15,839
Other Receivable	23,755	-
Non-Depreciable Capital Assets	1,731,253	-
Depreciable Capital Assets, Net	<u>8,434,491</u>	<u>-</u>
Total Assets	<u>\$ 21,913,600</u>	<u>\$ 289,705</u>
Deferred Outflows of Resources		
Outflows related to net pension liability	<u>\$ 812,852</u>	<u>\$ -</u>
Liabilities		
Accounts Payable and Accrued Expenses	\$ 522,794	\$ 24,506
Compensated Absences Payable	422,150	-
Net Pension Liability	<u>600,034</u>	<u>-</u>
Total Liabilities	<u>\$ 1,544,978</u>	<u>\$ 24,506</u>
Deferred Inflows of Resources		
Inflows related to net pension liability	<u>\$ 374,942</u>	<u>\$ -</u>
Net Position		
Net Investment in Capital Assets	\$ 10,165,744	\$ -
Restricted - Non Spendable Net Assets	-	40,178
Restricted - Literacy and Other Programs	646,045	58,119
Unrestricted - Board Designated Endowment	-	9,187
Unrestricted - Undesignated	<u>9,994,743</u>	<u>157,715</u>
Total Net Position	<u>\$ 20,806,532</u>	<u>\$ 265,199</u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Activities
For the Year Ended June 30, 2019

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	(Expense) Revenue and Changes in Net Assets
					Primary Government Governmental Activities	Component Unit Library Foundation
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Public Library Services	\$ 12,643,871	\$ 429,849	\$ 94,187	\$ 12,346	\$ (12,107,489)	
Administrative Services	2,196,693	-	-	-	(2,196,693)	
Depreciation - unallocated	2,090,644	-	-	-	(2,090,644)	
Total Primary Government	<u>\$ 16,931,208</u>	<u>\$ 429,849</u>	<u>\$ 94,187</u>	<u>\$ 12,346</u>	<u>\$ (16,394,826)</u>	
Component Unit						
Library Foundation	<u>\$ 161,099</u>	<u>\$ -</u>	<u>\$ 166,004</u>	<u>\$ -</u>		<u>\$ 4,905</u>
General Revenues:						
Property taxes, levied for general purposes					\$ 17,969,160	\$ -
State Aid					117,445	-
Net Change in Beneficial Assets held by others					18,608	13,459
Miscellaneous Income					-	275
Investment earnings					229,808	(6,381)
Loss on Disposals					(4,121)	-
Total General Revenues					<u>\$ 18,330,900</u>	<u>\$ 7,353</u>
Change in net assets					\$ 1,936,074	\$ 12,258
Net position - beginning					18,870,458	252,941
Net position - ending					<u>\$ 20,806,532</u>	<u>\$ 265,199</u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Balance Sheet
Governmental Funds
June 30, 2019

	ASSETS	General Fund	Gifts and Grants Fund	Total Governmental Funds
Cash		\$ 10,404,415	\$ 86,651	\$ 10,491,066
Investments		-	412,138	412,138
Receivable from General Fund		-	126,272	126,272
Ad Valorem Tax Receivable		103,301	-	103,301
Other Receivable		2,580	21,175	23,755
Deposit		9,200	-	9,200
Prepaid Expenses		708,396	-	708,396
Total Assets		\$ 11,227,892	\$ 646,236	\$ 11,874,128
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable		\$ 326,623	\$ 192	\$ 326,815
Accrued Salaries and Employee Benefits		195,979	-	195,979
Compensated Absences Payable		422,150	-	422,150
Payable to Special Revenue		126,272	-	126,272
Total Liabilities		\$ 1,071,024	\$ 192	\$ 1,071,216
Fund Balances				
Assigned for Service Upgrades and Improvements		\$ 568,556	\$ 639,799	\$ 1,208,355
Committed for Outstanding Encumbrances		686,729	6,245	692,974
Unassigned		8,901,583	-	8,901,583
Fund Balances, End of Year		\$ 10,156,868	\$ 646,044	\$ 10,802,912
Total Liabilities and Fund Balances		\$ 11,227,892	\$ 646,236	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$30,010,214, including \$1,731,253 of non-depreciable assets, and the accumulated depreciation is \$19,844,470.	10,165,744
Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities.	
Net Pension Liability	(600,034)
Deferred outflows of resources related to net pension liability	812,852
Deferred inflows of resources related to net pension liability	(374,942)

Total Net Position - Governmental Activities	\$ 20,806,532
----------------------------------------------	----------------------

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2019

	General Fund	Gifts and Grants Fund	Total Governmental Funds
Revenues:			
Property Taxes	\$ 17,969,160	\$ -	\$ 17,969,160
Collections on Book Fines and Copy Services	279,453	-	279,453
Gifts and Grants	-	94,187	94,187
State Revenue	117,445	-	117,445
Other Contracts	150,396	-	150,396
In-Kind Donations	-	12,346	12,346
Interest	229,808	18,608	248,416
Total Revenues	<u>\$ 18,746,262</u>	<u>\$ 125,141</u>	<u>\$ 18,871,403</u>
Expenditures			
Personal Services	\$ 11,236,909	\$ -	\$ 11,236,909
Materials	2,948,224	118,137	3,066,361
General and Administrative	1,030,421	-	1,030,421
Technology and Automation	1,857,663	-	1,857,663
System Services	536,225	-	536,225
Total Expenditures	<u>\$ 17,609,442</u>	<u>\$ 118,137</u>	<u>\$ 17,727,579</u>
Net Change in Fund Balance	\$ 1,136,820	\$ 7,004	\$ 1,143,824
Beginning Fund Balance	<u>9,020,048</u>	<u>639,040</u>	<u>9,659,088</u>
Ending Fund Balances	<u><u>\$ 10,156,868</u></u>	<u><u>\$ 646,044</u></u>	<u><u>\$ 10,802,912</u></u>
Total net changes in fund balances - governmental funds			\$ 1,143,824

The change in nets assets reported in the statement of activities is different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation during the period.

Depreciation Expense	\$ (2,090,644)	
Capital Outlay	<u>2,932,026</u>	841,382

Disposals of capital assets are not considered to be expenditures in the governmental funds. They are however, recorded as a loss in the statement of activities. (4,121)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:
Change in pension expense per actuarly calculation (45,011)

Change in net position of governmental activities \$ 1,936,074

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2019

	<u>Pension Fund</u>
ASSETS	
Current Assets	
Investments	<u>\$ 3,729,554</u>
Total Assets	<u><u>\$ 3,729,554</u></u>
NET POSITION	
Restricted Net Assets	
Held in Trust for Pension	
Benefits and Other Purposes	<u><u>\$ 3,729,554</u></u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Year Ended June 30, 2019

	<u>Pension Fund</u>
Additions	
Contributions	
Employer	\$ 300,255
Net Increase/(Decrease) in the Fair Value of Investments	<u>264,030</u>
Total Additions	<u>\$ 564,285</u>
Deductions	
Benefits Paid	\$ 382,347
Trustee and Management Fees	<u>32,174</u>
Total Deductions	<u>\$ 414,521</u>
Net Increase	\$ 149,764
Net Position, Beginning of Year	<u>3,579,790</u>
Net Position, End of Year	<u><u>\$ 3,729,554</u></u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2019

Note 1 – Summary of Significant Accounting Policies

The Reporting Entity –

Pioneer Library System (the System) is a corporate body for public purposes created under Title 65 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes.

The System is governed by trustees composed of 15 voting members. The System operations are conducted by a librarian appointed by the trustees. Trustees include voting members who are appointees of the various cities and counties in which the System has locations.

The System's financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The System's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The System's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Financial Statement Presentation –

In evaluating how to define the System, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the System and/or its citizens, or whether the activity is conducted within the geographic boundaries of the System and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the System is able to exercise oversight responsibilities. Based upon the application of these criteria, the Pioneer Library System Foundation meets the criteria, which requires a component unit to be presented discretely and including in the System's reporting entity.

Complete financial statements for the Foundation are available from the Foundation administrative office.

Basic Financial Statements – Government-Wide Statements –

The System's basic financial statements include both government-wide (reporting the Library System as a whole) and fund financial statements (reporting the System's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The System does not have any activities classified as business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. Fiduciary funds are excluded.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2019

Note 1 – Summary of Significant Account Policies (continued)

In the government-wide Statement of Net Position, the System's governmental activities are reported using the economic resources measurement focus and the accrual basis of accounting. The System's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Revenues are recognized when earned and expenses are recognized when incurred.

The government-wide Statement of Activities reports both the gross and net cost of each of the System's programs and functions. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The pension trust fund recognizes employer and participant contributions in the period in which contributions are due and the System has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. See Note 9.

The net costs are normally covered by general revenue (property taxes, State aid, other taxes etc.).

The government-wide focus is more on the sustainability of the System as an entity and the change in the System's net position resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

Fund financial statements report detailed information about the System. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Non-major funds are aggregated and presented in a single column.

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis revenues are recorded when susceptible to accrual; i.e. both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

The System reports the following major governmental funds:

General Fund – is the primary operating fund of the System. It is used to account for all financial resources except those required to be accounted for in another fund.

Gifts and Grants Fund – is used to account for all gifts and grants made to the System, which are to be used for specific purposes.

The System reports the following fiduciary funds:

Pension Trust Funds – The Pension Trust Funds are used to account for the receipt, investment and distribution of retirement contributions to the Pioneer Library System Pension Plan and Trust (the Plan). See also Note 9.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balance:

Fund Balance – In the government-wide financial statements, equity is classified as net assets and displayed in three components:

1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted net assets are available for use, generally it is the System's policy to use restricted resources first.

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

- a) Non-spendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.
- b) Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by contributors, grantors, or amounts constrained due to constitutional provisions or enabling legislation.
- c) Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the System through formal action of the highest level of decision making authority. The Board of Trustees is the highest level of decision making authority that can commit fund balance. Once committed, the limitation imposed remains in place until a similar action is taken to remove or revise the limitation.
- d) Assigned – Includes fund balance amounts that are constrained by the System's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be stipulated by the Board of Trustees. With the exception of the General Fund, this is the residual fund balance of the classification for all governmental funds with positive balances.
- e) Unassigned – Includes the residual balance of the General Fund that has not been assigned to other funds and that has not be restricted, committed, or assigned to specific purposes with the General Fund.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the System considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Basis of Accounting – Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Capital Assets – Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and Fixtures	7 years
Computer Equipment	4 years
Vehicles	5 years
Books and Materials	5 years
Buildings	40 years

Compensated Absences – The System accrues accumulated unpaid annual leave when earned by the employee. Generally, annual leave must be taken during the calendar year earned. Eligible employees who end their employment with the System are reimbursed for each day of accumulated annual leave.

Budgets and Budgetary Accounting – The System is required by state law to prepare an annual budget. The budget is filed with the various County Excise Boards.

Budgets generally assume the expenditure of all available resources. Therefore, when the legal budget is prepared, it is assumed these funds will not have a carryover balance to a subsequent year. Program revenue received but not spent is restricted and deferred to the subsequent fiscal year. Amounts reported as program revenue includes (1) charges to customers, (2) operating grants and contributions, and (3) capital grants and contributions.

Cash and Cash Equivalents – The System considers all cash on hand, demand deposits, money market checking and certificates of deposit with an initial maturity of three months or less, held at an individual bank which are subject to early withdrawal penalties no matter what the maturity period, to be cash. All short-term cash surpluses are maintained in a cash pool, the earnings from which are allocated to each fund based on month-end deposit balances.

Fair Market Value Measurement – Fair value is defined as “the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at a measurement date.” Accounting standards set a framework for measuring fair value using a three tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 – Values are unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2 – Inputs other than quoted prices for identical assets or liabilities that are observable in the market place. For example, Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices are observable for the asset or

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (continued)

liability (such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates), and market-corroborated inputs.

Level 3 – Inputs that are unobservable (supported by little or no market value activity) and are significant to the fair value measurement. Unobservable inputs reflect the System's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Financial assets and liabilities carried at fair value on a recurring basis include beneficial interests in assets held by others.

Receivables – All taxes receivable are expected to be collected in one year.

Property Tax Revenues – Property taxes attach an enforceable lien on property as of January 1. Taxes are levied annually on November 1 and are due one-half by December 31 and one-half by March 31. The County Assessor's office bills and collects the property taxes and remits to the System its portion. Property taxes not paid prior to April are considered delinquent. Such delinquent tax payments have not historically been material. Delinquent tax payments are received throughout the year and are recognized as revenue in the year received, except for those received within 60 days of year end, which are recognized as revenues as of June 30, 2018 in both the government-wide and fund financial statements.

State Revenues – The System receives revenue from the state to administer certain categorical library programs. The board of trustees has designated these funds to be used in technology.

Interfund Balances - During the course of normal operations, the System has transactions between funds including expenditures and transfers of resources to provide services, purchase assets and service debt. Transactions that are normal and recurring between funds are recorded as operating transfers.

Contributed Facilities and Services - The System operates several branches located in government-owned buildings and receives certain services without charge. The estimated fair rental value of the premises and service is not reported in the accompanying statement of revenues, expenditures, and changes in fund balance.

Grants - The System records income from grants in the period received or to the extent of expenses paid prior to reimbursement by a grant.

Income Taxes - The System was established under the provisions of the Oklahoma Constitution and as such is exempt from income taxes under the Internal Revenue Code as a unit of government.

Prepaid Expenses - The System records prepaid insurance, subscriptions and maintenance agreements for that portion of payments which have not been used at year-end for government-wide financial statement purposes. Prepaid expense is included in other current assets in the statement of net assets.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Restricted Resources - The System records gifts and grants as restricted when the donor specifies a restriction on the timing or use of the gift or grant. Expenses are allocated first to the restricted resource. If additional expense is incurred, the expense is allocated to unrestricted funds when the restriction has been depleted.

Deferred Outflows and Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

See Note 9 for discussion of the System's deferred outflows of resources and deferred inflows of resources.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount 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.

New Accounting Pronouncements – During the year, GASB Statement No. 83, *Certain Asset Retirement Obligations* and GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, became effective but do not affect the Libraries financial statements.

Subsequent Events - Subsequent events have been evaluated through the issuance of this report.

Note 2 – Cash and Investments

The System's investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. A certificate of deposit in the amount of \$9,200 is pledged on a letter of credit for a security deposit.

Custodial Credit Risk - Deposits – Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. At June 30, 2019, none of the System's bank balance of \$10,835,437 was exposed to custodial credit risk because it was not insured or collateralized. The balance is partially collateralized with securities held by First Fidelity Bank in the System's name. The market value of these securities as of June 30, 2019 was \$14,303,869 plus \$250,000 of FDIC insurance gives coverage of \$14,553,869.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2019

Note 2 – Cash and Investments (continued)

Beneficial interest in assets held by others – In previous years the System transferred funds to the Communities Foundation of Oklahoma (CFO) and the Norman Communities Foundation (managed by the Communities Foundation of Oklahoma) for investment. The recorded portion of all of these funds consists of transfers to CFO from the System and the earnings thereon.

The following methods and assumptions were used to estimate the fair value of the beneficial interest in assets held by others reported at fair market value in the accompanying financial statements.

The organization believes that fair value of the future cash flows to be received from its beneficial interest in assets held by other the CFO which primarily include a diversified portfolio of marketable securities. The organization classifies its beneficial interest in the assets held by the CFO as level 3.

As of June 30 2019, assets measured at fair value on a recurring basis are classified within the fair value hierarchy as follows:

	Total	Level 1	Level 2	Level 3
Beneficial interest in assets held by CFO	\$ 412,138	\$ -	\$ -	\$ 412,138
Total Recurring Fair Value Measurements	<u>\$ 412,138</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 412,138</u>

Grant awards shall be available for distribution on a yearly basis, subject to final approval by the Board of Directors of CFO, and based on a specified percentage of the fair market value of assets on a rolling average of the previous eight quarters. The Community Foundation maintains variance power over these assets. Variance power assures donors that if the charitable purpose of their contribution becomes impractical or impossible, the distributions will be directed to similar purposes in the community. The System's board may, by an affirmative vote of two thirds of the board, for an unusual circumstance, recommend and request distribution of all or part of the assets held by CFO. However, the CFO has the ultimate authority over and control of all property held by CFO. Distributions in the amount of \$20,140 for the year ended June 30, 2019, was received by the System from these combined funds.

The Community Foundation maintains legal ownership of the funds. However, accounting principles generally accepted in the United States of America require the Organization to reflect its beneficial interest in these assets in its financial statements. At June 30, 2019, assets transferred to the Community Foundation by the Organization had a fair value of \$412,138 based on the approximate present value of future cash flows from CFO.

Direct donations to existing funds at the Community Foundation from individuals are restricted for endowment purposes and are not recorded as assets of the System. Only the earnings on these funds can be distributed to the System.

Distributions in the amount of \$1,582 for the year ended June 30, 2019, were received by the System. The fair value of the funds originally donated by third parties at June 30, 2019 was \$32,341. The Organization has no remainder interest in the corpus of these funds.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2019

Note 2 – Cash and Investments (continued)

Investment Interest Rate Risk - The investments of the Pension Plan (see also Note 9) are invested in various mutual funds with the MassMutual, and may be used only for the payment of benefits to the members of the Plan. The composition of the pension trust fund at fair value is shown in the following table:

	Market Value	Credit Exposure as a Percentage of Total Investments
Pension Fund		
Pooled Equity Funds	\$ 2,041,788	54.75%
Pooled Fixed Income Funds	1,317,150	35.32%
Alternative Investments	370,616	9.94%
Total Pension Fund Investments	<u>\$ 3,729,554</u>	<u>100.00%</u>

The following investments represent 5% or more of the net assets of the Plan at June 30, 2019:

Barings Premium High Yield Bond Fund	\$ 296,867
Northern Trust MM MSCI EAFE Intl Index Equity Fund	371,598
Northern Trust MM RSI 2000 SmCp Index Equity Fund	181,855
Northern Trust MM S&P 500 Index II Equity Fund	1,121,561
Northern Trust MM S&P Mid Cap Index Equity Fund	366,774
Barings Premium Core Bond Fund	509,123
Western Sel Stratbond Bond Fund	511,160
Global Real Estate Securitees Fd	183,000
Utilities MFS	187,616

The fair values of the Company's pension investments by asset category as of June 30, 2019 were as follows:

	Total	Level 1	Level 2	Level 3
Common Stock:				
Pooled Equity Funds	\$ 2,041,788	\$ -	\$ 2,041,788	\$ -
Corporate Debt Instruments				
Pooled Fixed Income Funds	\$ 1,317,150	\$ -	\$ 1,317,150	\$ -
Other, Net	\$ 370,616	\$ -	\$ 370,616	\$ -
Total Recurring Fair Value Measurements	<u>\$ 3,729,554</u>	<u>\$ -</u>	<u>\$ 3,729,554</u>	<u>\$ -</u>

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2019

Note 2 – Cash and Investments (continued)

Pension Fund Policy

The Pioneer Library System Pension Plan and Trust provides for investment managers who have full discretion of assets allocated to them subject to the overall investment guidelines set out in the policy.

Manager performance is reviewed by a consultant who provides reports to the retirement plans investment and administrative committee and to the board. Any changes in the investment management firm must be reported as they occur. Overall investment guidelines provide for diversification and allow investment in domestic and international common stocks, fixed income securities, cash equivalents, index funds, collective trust funds and mutual funds. The Plan addresses custodial credit risk with policy providing for the engagement of a custodian who accepts possession of securities for safekeeping; collects and disburses income; collects principal of sold, matured, or called items; and provides periodic accounting to the board. The pension trust fund holds \$3,729,554 in investments. This amount is held by the investment counterparty, not in the name of the pension fund or the System.

Pension Trust investing is restricted by Oklahoma Statutes to the Prudent Investor Rule.

Note 3 – Collections

The System has not capitalized existing inexhaustible collections, including research books, because the values are not readily determinable.

Note 4 – Short-Term Borrowing

On an annual basis, the System utilizes short-term unsecured promissory notes in anticipation of the collection of ad valorem taxes. In accordance with Title 65 Section 4-105 of the Oklahoma Statutes, the term of the loan may not exceed one year. As of June 30, 2019, no balance was owed. No interest expense was paid or incurred during the year ended June 30, 2019.

Note 5 – Other Current Liabilities

The liability balance and activity for the year were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 389,221	546,860	513,931	\$ 422,150	\$ 422,150

The general fund will be used to settle the compensated absences liability.

Note 6 – Commitments

Lease Commitments – The System leases a building, two postage machine and copiers for its branch facilities and for administration under operating leases. The leases are renewed on an annual basis. Lease expense under these leases for 2019 was \$62,768.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2019

Note 6 – Commitments (continued)

Encumbrances – As discussed in Note 1 above, budgetary information, budgetary basis of accounting, and encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At June 30, 2019 the amount of encumbrances expected to be honored upon performance by the vendor in the next year were:

General Fund	\$ 686,729
Gifts and Grants Fund	<u>6,245</u>
Total	<u>\$ 692,974</u>

Note 7 – Capital Assets

Capital assets of the System at June 30, 2019 are as follows:

	Beginning <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balances</u>
Non-depreciable Capital Assets:				
Land	\$ 161,179	\$ -	\$ -	\$ 161,179
Library Books	-	855,807	-	855,807
Computer Equipment	<u>-</u>	<u>714,267</u>	<u>-</u>	<u>714,267</u>
Total Non-Depreciable Capital Assets	<u>\$ 161,179</u>	<u>\$ 1,570,074</u>	<u>\$ -</u>	<u>\$ 1,731,253</u>
Depreciable Capital Assets:				
Library Books	\$ 18,255,013	\$ 1,018,769	\$ 1,567,626	\$ 17,706,156
Building	4,714,836	-	-	4,714,836
Furniture and Fixtures	1,372,119	7,065	5,563	1,373,621
Computer Equipment	3,818,339	274,326	98,049	3,994,616
Vehicles	<u>454,939</u>	<u>61,792</u>	<u>26,999</u>	<u>489,732</u>
Total Depreciable Capital Assets	<u>28,615,246</u>	<u>1,361,952</u>	<u>1,698,237</u>	<u>28,278,961</u>
Less Accumulated Depreciation for:				
Library Books	14,769,575	1,342,957	1,567,626	14,544,906
Building	558,793	117,902	-	676,695
Furniture and Fixtures	1,240,632	52,124	5,073	1,287,683
Computer Equipment	2,583,267	508,398	94,418	2,997,247
Vehicles	<u>295,675</u>	<u>69,263</u>	<u>26,999</u>	<u>337,939</u>
Total Accumulated Depreciation	<u>19,447,942</u>	<u>2,090,644</u>	<u>1,694,116</u>	<u>19,844,470</u>
Total Depreciable Capital Assets, Net	<u>\$ 9,167,304</u>	<u>\$ (728,692)</u>	<u>\$ 4,121</u>	<u>\$ 8,434,491</u>

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2019

Note 8 – Fund Balance

The following table shows the fund balance classifications as shown on the governmental funds balance sheet as of June 30, 2019:

	General Fund	Gifts and Grants Fund	Total Governmental Funds
Fund Balance			
Assigned:			
Cleveland County Libraries	\$ 124,560	\$ -	\$ 124,560
McClain County Libraries	173,996	-	173,996
Pottawatomie County Libraries	50,000	-	50,000
Library Projects	220,000	-	220,000
Special Revenue Funds	-	639,799	639,799
Committed:			
Reserved for Encumbrances	686,729	6,245	692,974
Unassigned	8,901,583	-	8,901,583
Total Fund Balance	<u>\$ 10,156,868</u>	<u>\$ 646,044</u>	<u>\$ 10,802,912</u>

Note 9 – Defined Benefit Retirement Plan

Plan Description - The Pioneer Library System Pension Plan and Trust (The Plan) is a single-employer public employees' retirement system (PERS) plan that covers all full-time employees of the System. This plan was frozen as of December 31, 2008 and closed to new entrants. Retirement benefits are based on length of service and salary. Normal retirement for the plan is 65 years of age. Death and deferred vested benefits are also available under the plan. All benefits vest after 10 years of credited service. Pioneer employees who retire after age sixty-five with more than four years of credited service are entitled to an annual retirement benefit, payable monthly, in an amount equal to one percent of their average salary based on their highest five consecutive years within 10 years of retirement. If an employee has less than 10 years of vesting service, the amount of the benefit is reduced by 1/10th for each vesting year of service fewer than ten. Actuarial valuations are performed annually on January 1.

Plan membership as at June 30, 2019 consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	27
Inactive plan members entitled to but not yet receiving benefits	32
Active plan members	<u>60</u>
Total plan members	<u>119</u>

Funding Policy - Employees of the System are not required to contribute to the plan. The System is required to make annual contributions based on an actuarially computed percentage of covered wages in amounts sufficient to cover normal cost of benefits and amortize the prior service liabilities. The Pioneer Library System Board of Trustees has the authority to establish and or amend the funding policy of the plan. Contributions for the year ending June 30, 2019 to the defined benefit plan were \$300,255.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2019

Note 9 – Defined Benefit Retirement Plan (continued)

Net Pension Liability – The System’s net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability in the December 31, 2018 actuarial valuation was determined using an interest rate and investment rate of return of 6%. This long-term expected rate of return was obtained from the trustee of the plan assets.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2018 through December 31, 2018. In addition, the mortality rates were based on the RP-2014 Mortality Table using Scale MP-2018 instead of the RP-2014 Mortality Table using scale MP-2017 which was the table used for the previous year’s calculation. This change in assumption caused an increase in the pension liability.

The discount rate used to measure the total pension liability was 6%. The projection of cash flows used to determine the discount rate assumed that contributions from the System will be made at contractually required rates, as actuarially determined. Based on this assumption, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability – Changes in the System’s net pension liability for the year ended June 30, 2019 were as follows:

	Increase (Decrease)		
	Total	Plan	Net Pension
	Pension	Fiduciary	Liability
	Liability	Net Position	(a) - (b)
Balance, June 30, 2018	\$ 4,063,725	\$ 3,748,372	\$ 315,353
Changes for the year:			
Interest	227,221	-	227,221
Difference between expected and actual experience	45,793	-	45,793
Net investment income	-	(166,936)	166,936
Administrative Expense	-	(32,844)	32,844
Change of assumptions	(8,364)	-	(8,364)
Contributions - employer	-	179,749	(179,749)
Benefit payments including refunds of employee contributions	(393,085)	(393,085)	-
Net Changes	(128,435)	(413,116)	284,681
Balance, June 30, 2019	<u>\$ 3,935,290</u>	<u>\$ 3,335,256</u>	<u>\$ 600,034</u>

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2019

Note – 9 Defined Benefit Retirement Plan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability calculated using the discount rate of 6%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5%) or 1 percentage point higher (7%) than the current rate:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
Pension Liability	\$ 4,358,351	\$ 3,935,290	\$ 3,580,220
Fiduciary Net Position	3,335,256	3,335,256	3,335,256
Net Pension Liability	<u>\$ 1,023,095</u>	<u>\$ 600,034</u>	<u>\$ 244,964</u>

The Plan's annual financial report is available from the Business Office of the Pioneer Library System, 300 Norman Center Court, Norman, Oklahoma 73072.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources – For the year ended June 30, 2019; the System recognized a pension expense of \$42,011. At June 30, 2019, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Balances at June 30, 2018	
<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 233,363	\$ (18,575)
Changes of assumptions	169,880	(167,933)
Net difference between projected and actual earnings on investments	669	
Contribution to pension plan after measurement date	220,506	-
Total	<u>\$ 624,418</u>	<u>\$ (186,508)</u>

Deferred outflows of resources related to pensions resulting from System contributions of \$220,506 subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year</u>	
2019	\$ 71,607
2020	11,862
2021	68,183
2022	56,506
2023	9,246
Thereafter	-

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2019

Note 10 – Defined Contribution Retirement Plan

Plan Description - On January 1, 2009 the System implemented this plan. Normal retirement age for this plan is 65 years of age. Death and deferred vested benefits are also available under this plan. All benefits vest after 5 years of credited service. Employees who retire after age sixty-five will receive their vested benefits in one of the following manners out of the amount accumulated in their accounts: (i) by lump sum payments, or (ii) in equal monthly, quarterly, semi-annual or annual installment payments; provided an installment election must be for a period less than their life expectancy or the life expectancy of their beneficiaries.

Funding Policy - Employees of the System are not required to contribute to the plan. The System makes an annual contribution based on a percentage of an employee's salary. For employees that are members of the Defined Benefit retirement plan that was frozen in 2008, the percentage of salary was based on an actuarial calculation that was done in 2008. These percentages were reviewed and recalculated during the current year which resulted in several of the percentages being changed. These new percentages were used when calculating the contributions to participants' accounts for 2019. The Pioneer Library System Board of Trustees has the authority to establish and or amend the funding policy of the plan. Contributions paid to the plan for the year ended June 30, 2019 totaled \$458,271.

Note 11 – Risk Management

The System is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the System carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Note 12 – Related Party Leases

The System leases space to the City of Norman (City) under an operating lease with annual mutual renewal, for a term of twenty years. Rent revenue under this lease equaled \$119,711, included in Other Contracts on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds. Under this lease agreement the City agreed to pay \$50,000 a year for ten years as reimbursement for costs incurred to remodel the space for a total of \$500,000. If the lease is not mutually renewed the remainder of \$200,000 is to be remitted to the System.

The cost of the leased space is included in the Building category in Note 7 – Capital Assets, and the amount of accumulated depreciation thereon. The amount of cost attributable to only the leased space is not determinable and therefore not disclosed here.

PIONEER LIBRARY SYSTEM
Budgetary Comparison Schedule – General Fund (Unaudited)
For the Year Ended June 30, 2019

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts GAAP Basis	Budget to GAAP Differences Over(Under)	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
Resources (inflows)						
Property Taxes	\$ 17,023,099	\$ 17,757,678	\$ 17,969,160	\$ (32,827)	\$ 18,001,987	\$ 244,309
State Revenue	132,431	143,468	117,445	-	117,445	(26,023)
Interest	50,000	65,000	229,808	-	229,808	164,808
Other	396,646	389,396	429,849	87,954	341,895	(47,501)
Use of Designated Fund Balance	-	1,099,560	-	-	-	(1,099,560)
Amounts Available for Appropriation	<u>17,602,176</u>	<u>19,455,102</u>	<u>18,746,262</u>	<u>55,127</u>	<u>18,691,135</u>	<u>(763,967)</u>
Charges to Appropriations (outflows)						
Personnel Services	11,391,368	11,804,452	11,236,909	(134,255)	11,102,654	701,798
Materials	2,350,000	3,250,000	2,948,224	119,678	3,067,902	182,098
General and Administrative	965,650	1,140,750	1,030,421	522	1,030,943	109,807
Technology	1,357,000	2,653,900	1,857,663	129,445	1,987,108	666,792
System Services	793,417	606,000	536,225	55,008	591,233	14,767
Total Charges to Appropriations	<u>16,857,435</u>	<u>19,455,102</u>	<u>17,609,442</u>	<u>170,398</u>	<u>17,779,840</u>	<u>1,675,262</u>
Change in Net Assets	744,741	-	1,136,820	(115,271)	911,295	2,439,229
Beginning Fund Balance	<u>7,313,201</u>	<u>7,670,835</u>	<u>9,020,048</u>	<u>(1,349,213)</u>	<u>7,670,835</u>	<u>-</u>
Ending Fund Balance	<u>\$ 8,057,942</u>	<u>\$ 7,670,835</u>	<u>\$ 10,156,868</u>	<u>\$ (1,464,484)</u>	<u>\$ 8,582,130</u>	<u>\$ 2,439,229</u>

Budget to Actual Reconciliation:

Revenues on a budgetary basis are based on cash received rather than the modified accrual basis used for financial reporting

\$ 55,127

Encumbrances for the prior fiscal year which were included in the year ordered for budgetary purposes but were cancelled during the current budgetary year

(170,398)

The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the District's budget. This amount differs from the fund balance reported in the statement of revenues, expenditures and changes in fund balances because of the cumulative effect of transactions such as those described above.

(1,349,213)

\$ (1,464,484)

Notes to required Budgetary Information

Note Budgeting and Budgetary Control

Oklahoma Statute requires the System to prepare an annual budget. The budget is filed with the various County Excise Boards. The System adopts its budget at the fund level.

Budgetary Basis of Accounting

Under the budgetary basis of accounting, revenues are recognized when they are received rather than earned. Purchases of materials, outside services and capital outlay are recognized as expenditures when the commitment to purchase is made (encumbered).

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Schedule of Changes in Net Pension Liability (Unaudited)
Last Ten Years

Pioneer Library System Pension Plan and Trust
Schedule of Changes in Net Pension Liability

For the Year Ended December 31	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total Pension Liability										
Service Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	227,221	235,645	252,873	239,135	240,458	252,881	238,612	248,546	237,066	228,147
Changes of benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	45,793	124,628	10,006	107,515	(29,079)	49,618	247,559	(116,955)	75,052	4,988
Changes of assumptions	(8,364)	(26,958)	-	357,460	-	(618,094)	-	244,140	-	-
Benefit payments, including refunds of member contributions	(393,085)	(394,007)	(706,017)	(244,284)	(259,643)	(252,483)	(201,018)	(158,505)	(83,058)	(85,914)
Net change in total pension liability	\$ (128,435)	\$ (60,692)	\$ (443,138)	\$ 459,826	\$ (48,264)	\$ (568,078)	\$ 285,153	\$ 217,226	\$ 229,060	\$ 147,221
Total Pension Liability--Beginning	4,063,725	4,124,417	4,567,555	4,107,729	4,155,993	4,724,071	4,438,918	4,221,692	3,992,632	3,845,411
Total Pension Liability--Ending (a)	\$ 3,935,290	\$ 4,063,725	\$ 4,124,417	\$ 4,567,555	\$ 4,107,729	\$ 4,155,993	\$ 4,724,071	\$ 4,438,918	\$ 4,221,692	\$ 3,992,632
Plan fiduciary net position										
Contributions--employer	\$ 179,749	\$ 269,607	\$ 490,156	\$ 83,368	\$ 56,500	\$ 208,000	\$ 208,000	\$ 146,000	\$ 159,000	\$ 199,260
Contributions--member	-	-	-	-	-	-	-	-	-	-
Net investment income	(166,936)	458,600	305,447	(63,755)	135,323	481,674	310,945	(27,967)	310,533	407,581
Benefit payments, including refunds of member contributions	(393,085)	(394,007)	(706,017)	(244,284)	(259,643)	(252,483)	(201,018)	(158,505)	(83,058)	(85,914)
Administrative expense	(32,844)	(32,981)	(33,731)	(31,409)	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net change in plan fiduciary net position	\$ (413,116)	\$ 301,219	\$ 55,855	\$ (256,080)	\$ (67,820)	\$ 437,191	\$ 317,927	\$ (40,472)	\$ 386,475	\$ 520,927
Plan fiduciary net position--beginning	3,748,372	3,447,153	3,391,298	3,647,378	3,715,198	3,278,007	2,960,080	3,000,552	2,614,077	2,093,150
Plan fiduciary net position--ending (b)	\$ 3,335,256	\$ 3,748,372	\$ 3,447,153	\$ 3,391,298	\$ 3,647,378	\$ 3,715,198	\$ 3,278,007	\$ 2,960,080	\$ 3,000,552	\$ 2,614,077
PLS net pension liability (asset)--ending (a) - (b)	\$ 600,034	\$ 315,353	\$ 677,264	\$ 1,176,257	\$ 460,351	\$ 440,795	\$ 1,446,064	\$ 1,478,838	\$ 1,221,140	\$ 1,378,555
Plan fiduciary net position as a percentage of the total pension liability	84.75%	92.24%	83.58%	74.25%	88.79%	89.39%	69.39%	66.68%	71.07%	65.47%
Covered-employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net pension liability (asset) as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

Covered-employee payroll is not provided after 2008 since the plan was frozen December 31, 2008 and participants no longer accrue additional benefits.

Changes of assumptions - In 2011, amounts reported as changes of assumptions resulted primarily from the actuary correcting an error based on him using the wrong assumptions for his lump sum calculations.

In 2013, amounts reported as changes of assumptions resulted primarily from changing the interest rate, changing the cost method, and changing the mortality tables.

In 2015, amounts reported as changes of assumptions resulted from the changing of the mortality tables.

In 2017, amounts reported as changes of assumptions resulted from the update to the mortality projection scale contained in the mortality tables.

In 2018, amounts reported as changes of assumptions resulted from the change to the mortality tables.

PIONEER LIBRARY SYSTEM
Schedule of Pension Contributions (Unaudited)
Last Ten Years

Pioneer Library System Pension Plan and Trust
Schedule of Pension Contributions

For the Year Ended December 31	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 157,203	\$ 169,607	\$ 240,155	\$ 68,369	\$ 56,500	\$ 176,976	\$ 197,670	\$ 149,985	\$ 163,645	\$ 205,063
Contributions in relation to the actuarially determined contribution	179,749	269,607	490,156	83,368	56,500	208,000	208,000	146,000	159,000	242,380
Contribution deficiency (excess)	<u>\$ (22,546)</u>	<u>\$ (100,000)</u>	<u>\$ (250,001)</u>	<u>\$ (14,999)</u>	<u>\$ -</u>	<u>\$ (31,024)</u>	<u>\$ (10,330)</u>	<u>\$ 3,985</u>	<u>\$ 4,645</u>	<u>\$ (37,317)</u>
Covered-employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, six months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method

Active and terminated vested participants are assumed to elect a 10 year Certain and Life Annuity upon retirement.

Amortization method

Level dollar

Remaining amortization period

Unfunded past service liability, 10 year closed period beginning January 1, 2014. Subsequent plan year gains and losses are amortized over five years.

Asset valuation method

Market value of assets

Inflation

N/A

Salary increases

N/A - plan is frozen

Investment rate of return

6.00%

Retirement age

100% at age 65

Mortality

RP - 2014 Mortality Table projected using scale MP-2018

Other information:

Covered-employee payroll is not provided since the plan was frozen December 31, 2008 and participants no longer accrue additional benefits.



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INDEPENDENT AUDITORS' 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*

September 24, 2019

To the Board of Trustees of
Pioneer Library System
Norman, Oklahoma

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund and the fiduciary fund type of Pioneer Library System (the System), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated September 24, 2019. We conducted our audit 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 aggregate discretely presented component unit, the Pioneer Library System Foundation, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Pioneer Library System Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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.

To the Board of Trustees of
Pioneer Library System
September 24, 2019

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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.

GRAY, BLODGETT & COMPANY, PLLC

Gray, Blodgett & Company, PLLC