



Financial Statements

For the Year Ended June 30, 2015

PIONEER LIBRARY SYSTEM

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June 30, 2015

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INDEPENDENT AUDITORS' REPORT

September 22, 2015

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, 2015, 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.

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 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, 2015, 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.



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To the Board of Trustees of
Pioneer Library System
September 22, 2015

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 pages 32–33, 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 22, 2015, on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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



**Pioneer Library System
Management's Discussion and Analysis for the
Fiscal year Ended June 30, 2015**

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, 2015. Readers should read this information in conjunction with the System's financial statements.

Pioneer Library System implemented Governmental Accounting Standards Board (GASB) statements 68 and 71 as of June 30, 2015.

Financial Highlights

For fiscal year 2014-2015, the Library's general fund reported an ending balance of \$5,463,737 versus \$3,944,101 for the fiscal year 2013-2014. Of the 2014-15 year end-total, \$229,045 is committed for outstanding encumbrances, \$1,138,996 is assigned for service upgrades and improvements of library services at current and future libraries within the system and \$230,000 is assigned for the purchase of a maker space vehicle. Although the remaining balance of \$3,865,696 is unassigned, the Library administration, with the Board of Trustee's approval, may use some of these funds, if necessary, to complete upcoming library projects in several of its locations. The remainder of the money in these funds will be prudently used or committed to alleviate summer/fall cash flow problems and other emergencies that might arise.

The Library's operating revenue increased by 3.9% this year. This increase allowed the library system to complete the remodeling project of the new building, to set aside funds for upcoming projects including the purchase of a maker space vehicle, and to pay for the creation of the Library's own mobile phone application. The Library System began the remodeling of the old Borders Book Store building in December of 2012. This remodeling project was completed and the Library System took occupancy of the building in October 2014. The building is being used to house the administrative offices of the Library System and a new branch library leased by the City of Norman. The total cost associated with the remodeling of the building in 2014-2015 was \$24,273. In addition, some equipment costs were paid out of the current year and totaled \$37,590. The Library set aside \$230,000 out of this year's funds to pay for the creation of a maker space vehicle. The maker space vehicle will travel throughout the three counties of the library system and offer maker space programming to the citizens of each county. The Library paid \$121,470 towards the development of its own mobile phone application. When completed, this application will make accessing all of the libraries on-line services easier and more accessible to its customers.

The Pioneer Library System Foundation completed its fifth year of operation as of June 30, 2015. The Foundation was organized for the purpose of supporting, promoting and improving the programs, collections, facilities and services of the Pioneer Library System. The Foundation provided financial support for many of the Library's programs including the 2015 Big Read and the Libraries System-Wide summer programming. 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.

Grant highlights for FY15 included the following: The Oklahoma Department of Libraries awarded the Library a \$109,070 grant to fund Pottawatomie County's TANF program.

The general fund balance increased by \$1,519,636 from fiscal year 2014 due to the increase in collection of revenue and the decrease in expense categories that were related to the remodeling and supplying of the building last year.

Overview of the Financial Statement

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

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.

For fiscal year 2014-15 governmental fund balances changed as follows:

	General Fund Funds	Other Governmental Funds	Total Governmental Funds
Revenues	\$ 15,484,448	\$ 320,546	\$ 15,804,994
Expenditures	\$ 13,964,812	\$ 309,532	\$ 14,274,344
Net Increase	\$ 1,519,636	\$ 11,014	\$ 1,530,650

For fiscal year 2013-14 governmental fund balances changed as follows:

	General Fund Funds	Other Governmental Funds	Total Governmental Funds
Revenues	\$ 14,906,225	\$ 293,580	\$ 15,199,895
Expenditures	\$ 15,648,133	\$ 304,897	\$ 15,953,030
Net Decrease	\$ (741,908)	\$ (11,317)	\$ (753,225)

General Fund:

The Library System is primarily (or 96%) funded by Ad Valorem (property) tax. For the 2014-15 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 2014-15, the Counties' assessed property value had an increase of 4.5% versus 2.3% for 2013-14. Actual tax collections increased by 4.3% versus 2.9% for the prior year. The increase of 4.3% was due to the collection of more tax revenue. Fine and other charges for services revenue for 2014-15 decreased by \$22,323 from 2013-14. This decrease was caused by a decrease in fine revenue, a decrease in fax revenue and a decrease in other contracts revenue. State Aid decreased by \$5,300 over the prior year. This decrease was caused by the state giving us less money. Interest income increased by \$1,682 over the prior year. This increase is attributed to more funds being held in reserve because no reserve funds were needed to fund the building project this year.

The Expense category Personnel Services increased from 2014 to 2015 due to an increase in hospitalization expense, an increase in dental insurance expense, the 3.5% salary adjustment that was given to the staff who qualified for the adjustment, and an increase in workers compensation insurance, disability insurance, and group-term life insurance. The Expense category of Materials was decreased because the majority of the costs of the opening day collection for the Norman West branch library were paid out of the prior year's budget. The Technology and Automation category was lower in 2015 than 2014 due to the fact that the purchases of the equipment for the Norman West branch library were paid out of the prior year's budget.

The System Services and General and Administrative expense categories were different in 2015 than in 2014 because of the following:

- The decrease in attorney fees is due to the fact that the attorney's did less work for us this year than last year.
- The increase in professional services is due to the consulting agreement with Orange Boy and the compensation survey conducted by Singer and Associates.
- The Continuing Education expenses increased because the costs increased and more staff attended conferences.
- The decrease in equipment is due to the fact that equipment and furniture purchases for the new building were made out of last year's budget.
- Insurance decreased due to the new insurance provider offering cheaper rates.
- Postage costs increased due to the rate increase.
- Telephone expenses decreased this year when compared to the prior year.
- Travel expenses decreased this year when compared to the prior year.
- Vehicle costs decreased this year because a car was purchased this year instead of a delivery van.
- Interest expense decreased because less money was borrowed this year when compared to last year.
- Bad debt expense decreased to zero because there was no note receivable to write off this year.
- Reprographics expense increased this year because actual usage of copiers increased.
- Data processing expense decreased because the payroll software was upgraded.
- Revaluation expense increased because the cost of the service increased.
- The construction project account decreased because more of the remodeling and construction costs for the new building were paid out of last year's budget than the current year's budget.
- Public Information expense increased as additional advertising was paid for this year.
- Programming expense increased because additional programs were offered this year.
- System signage expense decreased because signage for the new building was paid out of last year.
- Outreach expense category decreased this year because some mailings conducted last year weren't done this year.
- System facilities decreased because the Library System reduced the amount of space and the costs related to leasing of the space located on Gray Street.

Other Governmental Funds:

Gifts/Grants Funds – In FY15, Pioneer Library System received \$305,345 in gifts and grants.

Outright gifts to PLS totaled \$69,281, over half of which was provided by Friends groups throughout the library system (\$50,378). This past year, Pioneer Library System received \$236,064 in grants. In addition to the grants mentioned in the financial highlights section there were several other grants received this year. With a combined gift of \$17,919, the Oklahoma Department of Libraries continued to support adult literacy in all three counties. The Oklahoma Department of Libraries also provided continuing education grants to the library system for \$1,450. The Oklahoma Department of Libraries also awarded the Library System the Immigration and Citizenship grant for \$15,000. This grant allows the Library System Literacy Office to assist immigrants in achieving citizenship by connecting them to the information and resources they need. The New York Council for Humanities awarded the Library System a Muslim Voices grant for \$1,000. This grant focuses on cultural diversity. The City of Purcell donated \$8,925 to fund programs at the Purcell Library. Hastings Entertainment donated \$1,187 to help fund literacy programs within the Pioneer Library System. All of the grantors and donors have not only provided financial support but have also been active partners providing excellent library services to the community.

Fiduciary Funds:

The investments of the System Pension Plan decreased due to the decrease 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 Library System changed the provider of all the retirement plans this year by switching from Bank of Oklahoma to Mass Mutual.

The Library System as a Whole

	2014-2015	2013-2014
Assets		
Current and Other Assets	\$ 6,577,374	\$ 4,986,544
Capital Assets	9,813,682	10,459,787
Total Assets	16,391,056	15,446,331
Deferred Outflows of Resources		
Outflows Related to Net Pension Liability	512,340	84,000
Total Deferred Outflows of Resources	512,340	84,000
Liabilities		
Accounts Payable and Accrued Expenses	189,987	128,665
Other Liabilities	331,996	333,138
Net Pension Liability	460,351	440,795
Total Liabilities	982,334	902,598
Deferred Inflows of Resources		
Inflows Related to Net Pension Liability	772,936	-
Total Deferred Inflows of Resources	772,936	-
Net Position		
Net Investment in Capital Assets	9,813,682	10,459,787
Restricted Net Assets	591,654	580,640
Unrestricted Net Assets	4,742,790	3,587,306
Total Net Position	\$ 15,148,126	\$ 14,627,733
Change in Net Position		
Beginning Net Position	\$ 14,984,528	\$ 14,781,990
Restatement	(356,795)	(238,013)
Beginning Net Position as Restated	14,627,733	14,543,977
Revenues		
Property Taxes	14,881,775	14,278,341
Charges for Services	439,193	460,786
Operating Grants	305,345	211,214
Capital Grants	10,461	94,570
State Aid	151,101	156,401
Investment Earnings	17,119	54,251
Loss on Disposal	(3,443)	(3,856)
Total Revenues	15,801,551	15,251,707
Expenses		
Public Library Services	10,305,513	9,672,198
Administrative Services	2,526,467	2,967,947
Depreciation-Unallocated	2,449,178	2,527,806
Total Expenses	15,281,158	15,167,951
Increase in Net Position	520,393	83,756
Ending Net Position	\$ 15,148,126	\$ 14,627,733

General Fund Budgetary Highlights

The General Fund budget for fiscal year 2014-15 was \$15,111,577. This was a 7.88% decrease over the previous year. The highlights of the budget include:

- A 3.5% salary adjustment for all staff who qualified and were still employed on August 31, 2014.
- The Retirement budget was increased \$9,164 to reflect actual costs.
- The Health Insurance budget was increased to cover an expected increase in costs for medical and dental insurance.
- The Disability Insurance budget was increased by \$1,005 to reflect additional costs due to the salary increase.
- The Workers Compensation budget was increased by \$2,103 to reflect actual costs.
- The Unemployment Insurance budget was decreased \$1,000 to reflect actual costs.
- The Materials budget shows a decrease because all of the expenses of the opening day materials collection for the Norman Westside Library were paid out of the previous year's materials budget.
- The Professional Services budget was increased to reflect anticipated cost of several projects including: Board book preservation, Orange Boy consulting, BoardDocs expansion, and other improvements in online services.
- The Attorney Fees budget was increased \$15,000 to reflect actual usage and to cover the costs associated with the change in retirement plan vendors.
- The Continuing Education budget was increased \$29,545 to cover items that were encumbered out of the prior year's budget and to cover increased costs.
- The Equipment budget was decreased by \$144,028 because last year's budget included the furnishings and equipment for the new building.
- The Insurance budget was increased by \$10,000 which reflected the new rates from the insurance carrier. The main reason for the increase was the addition of the Pioneer building's contents to the insurance coverage and the additional of a new vehicle to the fleet.
- The Postage budget was decreased by \$10,000 which reflects the decrease in actual usage.
- The Supplies budget was increased by \$4,164 to cover the items that were encumbered out of the 2013-14 budget.
- The Vehicle budget was decreased by \$9,256 to reflect the fact that a car will be purchased instead of a delivery truck.
- The Interest Expense budget was decreased to reflect actual cost from the prior year.
- The Reprographics budget was decreased \$7,000 to reflect actual usage and the expiration of some copier leases.
- The Data Processing budget was increased \$15,800 to cover actual expenses and the addition of an on-line applicant tracking system.
- The Fine Collection budget was increased by \$3,000 to reflect actual costs.
- The Revaluation budget was decreased by \$9,000 to reflect actual and estimated costs.
- The Technology budget was decreased because almost all of the technology items for the Norman Westside Library were paid out of last year's technology budget.
- The Virtual Library budget was increased to reflect the addition of items encumbered out of last year's budget.
- The Construction Project Norman Center Court budget was decreased because a majority of the construction project was paid out of last year's budget.
- The Development budget was increased by \$7,200 to reflect the addition of encumbered items from last year's budget.
- The System Signage budget was decreased by \$11,092 to reflect actual costs and all the signage for the new building was purchased out of the prior year's budget.
- The Public Information budget was increased by \$15,074 to reflect the addition of items that were encumbered out of last year's budget and to cover expenses for additional activities as the new strategic plan is implemented.
- The Programming budget was increased by \$43,000 to cover the expenses of additional programming as the new strategic plan is implemented.
- The System Facilities budget was increased by \$58,000 to reflect actual costs of running Pioneer facilities and to cover some additional items, such as outside pole lights.

- The System Outreach budget was increased \$35,000 to cover additional outreach costs anticipated during the year as the new strategic plan is implemented.
- The Fund Balance Assigned Current Year is \$220,000 as these funds will be used for anticipated library projects.
- The Assigned Fund Balance reflects several items: Cleveland County, \$695,000; McClain County, \$173,996; and Pottawatomie County, \$50,000.

Capital Asset and Long-Term Debt

The Library System's investment in capital assets, net of accumulated depreciation, as of June 30, 2015 was \$9,813,682 and on June 30, 2014 was \$10,459,787. Of the total depreciable capital assets, net of accumulated depreciation, on June 30, 2015, 12% are furniture, equipment and vehicles; 48% 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, 2014 12% are furniture, equipment, and vehicles; 45 % are building and property; and the remaining 43% 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. The note is usually paid off in mid-January. In 2014-2015, the Library borrowed \$700,000 and incurred \$2,392 in interest expense for a total amount due of \$702,392. The total amount due was repaid by January 5, 2015.

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 voters in all three counties approved a two mill increase in May of 2008. The millage increase was much needed, especially since there had been no increase in millage since the voters approved the 4 mill increase in 1990 for Cleveland County and in 1992 for the other two 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.

The presence of interstate traffic in all three counties has accounted for some of the continued growth as well as being in the middle of the State and near the State Capitol. The dramatic growth in facilities and related commercial services emanating from the University of Oklahoma has made a favorable climate around the Norman area. Moore has grown dramatically as more shopping centers along I-35 have been and continue to be developed. This growth continues in Norman as well with the implementation of a TIF district along I-35. The growth continued this year at a higher rate in Cleveland and Pottawatomie Counties and at a slower rate in McClain County when compared to the previous year.

In general, the Library System still expects a continued growth in the tax revenue for the next year. The Cleveland County Assessor has certified a 5.1% growth in property value for 2015; the Pottawatomie County Assessor has certified a 2.47% growth and the McClain County Assessor has certified a 7.86% growth.

For fiscal year 2015-16, the Library Board approved a general fund budget of \$15,981,949 versus \$15,111,577 for 2014-15.

- A 3.0% salary adjustment for staff who received a successful or outstanding rating on their annual performance evaluation and aren't in their training period.
- Recruitment was decreased \$1,000 to reflect actual costs.
- Retirement was increased by \$47,092 to cover the June 30, 2015 defined benefit contribution, to increase the contribution for 2015-2016 to the defined benefit pension plan and to cover the additional costs associated with switching retirement plan vendors.
- Health insurance was increased to cover anticipated increases in the renewal rates which take effect on May 1, 2016.
- Group Term Life Insurance was increased by \$1,825 to reflect additional costs due to the salary increase.
- Disability Insurance was increased by \$495 to reflect additional costs due the salary increase.

- Workers Compensation was decreased \$6,103 to reflect actual costs.
- Unemployment was increased by \$1,000 to reflect actual costs.
- Contract Labor was decreased by \$3,000 to reflect actual costs.
- The Materials budget was increased by \$209,773 to reflect the consolidation of the virtual library materials budget into the overall materials budget. This places all databases under one budget and all e-material expenditures in the entire materials budget.
- Professional Services was increased \$5,000 to reflect the increase in cost of the Orange Boy contract and to cover costs associated with a ULC project.
- Continuing Education was increased \$18,000 to cover the purchase of a training site and a Learning Management System which will provide additional staff training and track all staff training. In addition, the Board Retreat expenses were added to this budget.
- Equipment was decreased \$166,150 to reflect actual usage.
- Postage was increased by \$5,000 which reflects the increased in actual usage.
- Supplies was increased to cover branch promotional items that were formerly paid by Public Information.
- Telephone was decreased by \$13,000 to reflect actual costs.
- Travel was decreased by \$3,000 to reflect the Board Retreat expenses being moved to another budget.
- Vehicle was decreased by \$10,000 to reflect the fact that we will purchase a car instead of delivery truck.
- Interest Expense was decreased \$1,500 to reflect actual costs.
- Data processing was increased \$10,000 to cover actual expenses and the addition of an on-line application tracking system.
- Fine Collection was decreased \$1,000 to reflect actual costs.
- The Technology budget was increased by \$226,361 which reflects additional equipment purchases and costs associated with maintaining equipment purchased.
- Technology Westside Norman was decreased to zero because all of the equipment for the new branch has been purchased and paid for out of prior year's budgets.
- Virtual Library was decreased by \$137,275 which reflects the relocation of the ematerial expenditures to the materials budget.
- Construction Project Norman Center Court was decreased to zero because the building project is complete.
- Development was increased \$15,697 to reflect the removal of encumbered items that were added to last year's budget.
- System Signage was increased by \$10,000 to reflect actual costs and to cover the cost of wrapping all of the PLS vehicles.
- Public Information was increased by \$62,231 to reflect the increased amount of community advertising and to cover the cost of the outsourcing of wide-format printing.
- System Facilities was increased \$30,000 to cover the additional expenses of paying a subsidy to the new café operator and to cover the maintenance contracts on café and staff room equipment.
- System Outreach was decreased \$35,000 to reflect actual expenses.
- Assigned Fund Balance reflects several items: Cleveland County, \$695,000; McClain County, \$173,996; and Pottawatomie County, \$50,000; Library Projects, \$220,000; Maker Space Vehicle, \$230,000.

Contacting the Library System's Financial Management

This financial report is designed to provide a general overview of the Pioneer Library System, comply with finance-related laws and regulations, and demonstrate the Library System's commitment to 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, 2015

	Primary Government <u>Governmental Activities</u>	Component Unit <u>Library Foundation</u>
Assets		
Cash and Cash Equivalents	\$ 5,524,722	\$ 143,372
Investments	406,726	-
Ad Valorem Tax Receivable	100,709	-
Accrued Interest Receivable	-	24
Other Current Assets	507,664	314,465
Other Receivable	37,553	-
Non-Depreciable Capital Assets	161,179	-
Depreciable Capital Assets, Net	<u>9,652,503</u>	<u>-</u>
Total Assets	<u>16,391,056</u>	<u>457,861</u>
Deferred Outflows of Resources		
Outflows related to net pension liability	<u>512,340</u>	<u>-</u>
Liabilities		
Accounts Payable and Accrued Expenses	189,987	235
Compensated Absences Payable	331,996	-
Net Pension Liability	<u>460,351</u>	<u>-</u>
Total Liabilities	<u>982,334</u>	<u>235</u>
Deferred Inflows of Resources		
Inflows related to net pension liability	<u>772,936</u>	<u>-</u>
Net Position		
Net Investment in Capital Assets	9,813,682	-
Restricted Net Assets	591,654	378,875
Unrestricted Net Assets	<u>4,742,790</u>	<u>78,751</u>
Total Net Position	<u>\$ 15,148,126</u>	<u>\$ 457,626</u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense)	(Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets	Revenue Changes in Net Assets
					Primary Governmental Activities	Component Unit Library Foundation
Governmental Activities:						
Public Library Services	\$ 10,305,513	\$ 439,193	\$ 305,345	\$ 10,461	\$ (9,550,514)	
Administrative Services	2,526,467	-	-	-	(2,526,467)	
Depreciation - unallocated	2,449,178	-	-	-	(2,449,178)	
Total Primary Government	<u>\$ 15,281,158</u>	<u>\$ 439,193</u>	<u>\$ 305,345</u>	<u>\$ 10,461</u>	<u>\$ (14,526,159)</u>	
Component Unit						
Library Foundation	<u>\$ 186,944</u>	<u>\$ -</u>	<u>\$ 515,259</u>	<u>\$ -</u>		<u>\$ 328,315</u>
General Revenues:						
Property taxes, levied for general purposes					\$ 14,881,775	\$ -
State Aid					151,101	-
Book Sales					-	-
Investment earnings					17,119	267
Loss on Disposals					(3,443)	-
Total General Revenues					<u>\$ 15,046,552</u>	<u>\$ 267</u>
Change in net assets					\$ 520,393	\$ 328,582
Net position - beginning					14,984,528	129,044
Restatement					(356,795)	-
Net position - beginning as restated					14,627,733	-
Net position - ending					<u>\$ 15,148,126</u>	<u>\$ 457,626</u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Balance Sheet
Governmental Funds
June 30, 2015

ASSETS	General Fund	Gifts and Grants Fund	Total Governmental Funds
Cash	\$ 5,453,454	\$ 71,268	\$ 5,524,722
Investments	-	406,726	406,726
Receivable from General Fund	-	86,614	86,614
Ad Valorem Tax Receivable	100,709	-	100,709
Accrued Interest Receivable	-	-	-
Grants Receivable	-	27,228	27,228
Other Receivable	10,325	-	10,325
Deposit	9,200	-	9,200
Prepaid Expenses	498,464	-	498,464
Total Assets	\$ 6,072,152	\$ 591,836	\$ 6,663,988

LIABILITIES AND FUND BALANCES

Liabilities			
Accounts Payable	\$ 112,047	\$ 182	\$ 112,229
Accrued Salaries and Employee Benefits	77,758	-	77,758
Compensated Absences Payable	331,996	-	331,996
Payable to Special Revenue	86,614	-	86,614
Total Liabilities	\$ 608,415	\$ 182	\$ 608,597
Fund Balances			
Assigned	\$ 1,368,996	\$ 588,254	\$ 1,957,250
Committed	229,045	3,400	232,445
Unassigned	3,865,696	-	3,865,696
Fund Balances, End of Year	\$ 5,463,737	\$ 591,654	\$ 6,055,391
Total Liabilities and Fund Balances	\$ 6,072,152	\$ 591,836	

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 \$24,919,957, including \$161,179 of non-depreciable assets, and the accumulated depreciation is \$15,106,275.	9,813,682
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	(460,351)
Deferred outflows of resources related to net pension liability	512,340
Deferred inflows of resources related to net pension liability	(772,936)

Total Net Position - Governmental Activities	\$ 15,148,126
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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, 2015

	General Fund	Gifts and Grants Fund	Total Governmental Funds
Revenues:			
Property Taxes	\$ 14,881,775	\$ -	\$ 14,881,775
Collections on Book Fines and Copy Services	310,064	-	310,064
Gifts and Grants	-	305,345	305,345
State Revenue	151,101	-	151,101
Other Contracts	129,129	-	129,129
In-Kind Donations	-	10,461	10,461
Interest	12,379	4,740	17,119
Total Revenues	<u>\$ 15,484,448</u>	<u>\$ 320,546</u>	<u>\$ 15,804,994</u>
Expenditures			
Personal Services	\$ 9,435,550	\$ -	\$ 9,435,550
Materials	1,951,711	309,532	2,261,243
General and Administrative	1,067,213	-	1,067,213
Technology and Automation	1,222,321	-	1,222,321
System Services	288,017	-	288,017
Total Expenditures	<u>\$ 13,964,812</u>	<u>\$ 309,532</u>	<u>\$ 14,274,344</u>
Net Change in Fund Balance	\$ 1,519,636	\$ 11,014	\$ 1,530,650
Beginning Fund Balance	3,944,101	580,640	4,524,741
Ending Fund Balances	<u>\$ 5,463,737</u>	<u>\$ 591,654</u>	<u>\$ 6,055,391</u>
Total net changes in fund balances - governmental funds			\$ 1,530,650

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	\$ (2,449,178)	
Capital Outlay	<u>1,806,516</u>	(642,662)

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. (3,443)

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:

Increase in net pension liability	<u>(364,152)</u>
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Change in net position of governmental activities \$ 520,393

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Fiduciary Net Position
Fiduciary Fund

	<u>Pension Fund</u>
ASSETS	
Current Assets	
Cash	\$ 91,461
Investments	<u>3,504,884</u>
Total Assets	<u>\$ 3,596,345</u>

NET POSITION

Restricted Net Assets	
Held in Trust for Pension	
Benefits and Other Purposes	<u>\$ 3,596,345</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, 2015

	<u>Pension Fund</u>
Additions	
Contributions	
Employer	\$ 41,592
Interest and Dividend Income	51,150
Net Decrease in the Fair Value of Investments	(678,956)
Realized Gain	<u>667,926</u>
Total Additions	<u>81,712</u>
Deductions	
Benefits Paid	151,392
Trustee and Management Fees	<u>68,469</u>
Total Deductions	<u>219,861</u>
Net Increase	(138,149)
Net Position, Beginning of Year	<u>3,734,494</u>
Net Position, End of Year	<u><u>\$ 3,596,345</u></u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2015

Note 1 – Summary of Significant Accounting Policies

The Reporting Entity –

Pioneer Library System (The Library) 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 Library is governed by trustees composed of 16 voting members. The Library operations are conducted by a librarian appointed by the trustees. Trustees include voting members who are appointees of the various cities in which the Library has locations.

The Library's financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The Library'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 Library'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 Library, 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 Library and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Library 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 Library 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 Library's reporting entity.

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

Basic Financial Statements – Government-Wide Statements –

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Library

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2015

Note 1 – Summary of Significant Accounting Policies (continued)

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.

In the government-wide Statement of Net Position, the Library’s governmental activities are reported using the accrual basis of accounting. The Library’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 Library’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 Library 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 Library as an entity and the change in the Library’s net position resulting from the current year’s activities.

Basic Financial Statements – Fund Financial Statements

Fund financial statements report detailed information about the Library. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Nonmajor 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 Library reports the following major governmental funds:

General Fund – is the primary operating fund of the Library. 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 Library, which are to be used for specific purposes.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2015

Note 1 – Summary of Significant Accounting Policies (continued)

The Library 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.

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 Library'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 Library 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 Library'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.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2015

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 Library 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 Library are reimbursed for each day of accumulated annual leave.

Budgets and Budgetary Accounting – The Library is required by state law to prepare an annual budget. The various County Excise Boards formally approve an annual budget for the general fund.

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 Library 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.

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 Library 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, 2015 in both the government-wide and fund financial statements.

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

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2015

Note 1 – Summary of Significant Accounting Policies (continued)

Interfund Balances - During the course of normal operations, the Library 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 Library 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 Library records income from grants in the period received or to the extent of expenses paid prior to reimbursement by a grant.

Income Taxes - The Library 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. The Library is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Library has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions. No provision for federal or state income taxes has been recorded. There was no interest or penalties to the Internal Revenue Service included in these financial statements. Tax years before 2011 are no longer subject to examination by the Internal Revenue Service and the State of Oklahoma.

Prepaid Expenses - The Library 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.

Restricted Resources - The Library 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 Library'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

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2015

Note 1 – Summary of Significant Accounting Policies (continued)

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, the Library implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. The statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses for pension plans. For defined benefit plans, the statement also identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. See Note 9.

Note 2 – Cash and Investments

The Library'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 Library's deposits may not be returned to it. At June 30, 2015, none of the Library's bank balance of \$6,124,250 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 Library's name. The market value of these securities as of June 30, 2015 was \$8,250,068 plus \$250,000 of FDIC insurance gives coverage of \$8,500,068.

Beneficial interest in assets held by others – In previous years the Library transferred funds to the Communities Foundation of Oklahoma (CFO) and the Norman Communities Foundation (managed by the Communities Foundation of Oklahoma) for investment. The Library also transferred \$86,000 to the CFO during fiscal year ended June 30, 2015. The recorded portion of all of these funds consists of transfers to CFO from the Library and the earnings thereon.

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 Library's board may, by an affirmative vote of two third 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 \$15,245 for the year ended June 30, 2015, was received by the Library 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, 2015, assets transferred to the Community Foundation by the Organization had a fair value of \$406,726 based on the approximate present value of future cash flows from CFO.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2015

Note 2 - Cash and Investments (continued)

Direct donations to the Community Foundation from individuals are restricted for endowment purposes and are not recorded as assets of the Library. Only the earnings on these funds can be distributed to the Library. Distributions in the amount of \$949 for the year ended June 30, 2015, were received by the Library. The fair value of the funds originally donated by third parties at June 30, 2015 was \$31,853. The Organization has no remainder interest in the corpus of these funds.

Investment Interest Rate Risk - The investments of the Pension Plan (see also Note 9) are invested in various mutual funds with 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	\$ 1,988,997	56.75%
Pooled Fixed Income Funds	1,172,338	33.45%
Alternative Investments	343,549	9.80%
Total Pension Fund Investments	<u>\$ 3,504,884</u>	<u>100.00%</u>

The following investments represent 5% or more of the net assets of the Plan at June 30, 2015:

Babson Premium High Yield Bond Fund	\$ 274,973
Northern Trust MM MSCI EAFE Intl Index Equity Fund	358,642
Northern Trust MM RSI 200 SmCp Index Equity Fund	182,774
Northern Trust MM S&P 500 Index Equity Fund	1,087,574
Northern Trust MM S&P Mid Cap Index Equity Fund	360,008
Babson Premium Core Bond Fund	449,326
Western Sel Stratbond Bond Fund	448,039

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 \$3,504,884 in investments. This amount is held by the investment counterparty, not in the name of the pension fund or the Library.

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

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2015

Note 3 – Collections

The Library 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 Library 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, 2015, no balance was owed. Interest expense of \$2,392 was paid during the year ended June 30, 2015.

Note 5 – Other Current Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 333,138	\$ 461,541	\$ 462,683	\$ 331,996	\$ 331,996

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

Note 6 – Commitments

Lease Commitments – The Library leases a building, telephone equipment, a 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 2015 was \$94,064.

Encumbrances – As discussed in Note 1 above, budgetary information, and budgetary basis of accounting, 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, 2015 the amount of encumbrances expected to be honored upon performance by the vendor in the next year were:

General Fund	\$ 229,045
Gifts and Grants Fund	3,400
Total	<u>\$ 232,445</u>

Other Commitments – In the year ended June 30, 2005, the Library received a distribution from an estate that was to be used for the Noble Public Library. Construction commenced on an addition to the Noble library building in 2006. During 2007 construction was completed. Costs incurred during the year ended June 30, 2007 were approximately \$639,000, for a total of \$1,096,000. These costs have been expensed since the building will be owned by the City of Noble. As of June 30, 2015, the City of Noble has not signed the Inter-local agreement taking ownership of the building.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2015

Note 7 – Capital Assets

Capital assets of the Library at June 30, 2015 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
Depreciable Capital Assets:				
Library Books	14,303,418	1,330,721	295,917	15,338,222
Building	4,655,351	55,566	-	4,710,917
Furniture and Fixtures	1,277,861	31,842	-	1,309,703
Computer Equipment	2,936,444	366,657	131,922	3,171,179
Vehicles	<u>207,027</u>	<u>21,730</u>	<u>-</u>	<u>228,757</u>
Total Capital Assets	<u>23,541,280</u>	<u>1,806,516</u>	<u>427,839</u>	<u>24,919,957</u>
Less Accumulated				
Depreciation for:				
Library Books	9,810,820	1,844,986	295,917	11,359,889
Building	87,288	117,799	-	205,087
Furniture and Fixtures	882,695	96,570	-	979,265
Computer Equipment	2,160,429	362,844	128,479	2,394,794
Vehicles	<u>140,261</u>	<u>26,979</u>	<u>-</u>	<u>167,240</u>
Total Accumulated				
Depreciation	<u>13,081,493</u>	<u>2,449,178</u>	<u>424,396</u>	<u>15,106,275</u>
Total Depreciable Capital				
Assets, Net	<u>\$ 10,459,787</u>	<u>\$ (642,662)</u>	<u>\$ 3,443</u>	<u>\$ 9,813,682</u>

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2015

Note 8 – Fund Balance

The following table shows the fund balance classifications as shown on the governmental funds balance sheet as of June 30, 2015:

Fund Balance	General Fund	Gifts and Grants Fund	Total Governmental Funds
Assigned:			
Cleveland County Libraries	\$ 695,000	\$ -	\$ 695,000
McClain County Libraries	173,996	-	173,996
Pottawatomie County Libraries	50,000	-	50,000
Library Projects	220,000	-	220,000
Maker Space Vehicle	230,000	-	230,000
Special Revenue Funds	-	588,254	588,254
Committed:			
Reserved for Encumbrances	229,045	3,400	232,445
Unassigned:	<u>3,865,696</u>	<u>-</u>	<u>3,865,696</u>
Total Fund Balance	<u>\$ 5,463,737</u>	<u>\$ 591,654</u>	<u>\$ 6,055,391</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 Library. 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 averages 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, 2015 consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	20
Inactive plan members entitled to but not yet receiving benefits	46
Active plan members	<u>83</u>
Total plan members	<u>149</u>

Funding Policy - Employees of the library are not required to contribute to the plan. The library 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, 2015 to the defined benefit plan were \$41,592.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2015

Note 9 – Defined Benefit Retirement Plan (Continued)

Net Pension Liability – The Library’s net pension liability was measured as of December 31, 2014, 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, 2014 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, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2014. In addition, mortality rates were based on the 2013 IRS Mortality Optional Combined Table for Small Plans.

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 Library will be made at contractually required rates, 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 Library’s net pension liability for the year ended June 30, 2015 were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, June 30, 2014	\$ 4,155,993	\$ 3,715,198	\$ 440,795
Changes for the year:			
Interest	240,458	-	240,458
Difference between expected and actual and experience	(29,079)	-	(29,079)
Net investment income	-	135,323	(135,323)
Contributions - employer	-	56,500	(56,500)
Benefit payments including refunds of employee contributions	(259,643)	(259,643)	-
Net Changes	(48,264)	(67,820)	19,556
Balance, June 30, 2015	<u>\$ 4,107,729</u>	<u>\$ 3,647,378</u>	<u>\$ 460,351</u>

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	\$ 4,571,540	\$ 4,107,729	\$ 3,719,598
Fiduciary Net Position	3,647,378	3,647,378	3,647,378
Net Pension Liability	<u>\$ 924,162</u>	<u>\$ 460,351</u>	<u>\$ 72,220</u>

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2015

Note – 9 Defined Benefit Retirement Plan (Continued)

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, 2015, the Library recognized pension expense of \$364,152. At June 30, 2015, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Source</u>	Balances at June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 232,135	\$ (88,279)
Changes of assumptions	131,892	(459,608)
Net difference between projected and actual earnings on investments	-	(118,328)
Contribution to pension plan after measurement date	41,592	-
Total	<u>\$ 405,619</u>	<u>\$ (666,215)</u>

\$41,592 reported as deferred outflows of resources related to pensions resulting from Library contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year</u>	
2016	\$ (50,572)
2017	(92,098)
2018	(65,521)
2019	(12,256)
2020	(38,177)
Thereafter	(43,564)

Note 10 – Defined Contribution Retirement Plan

Plan Description - On January 1, 2009 the library 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.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2015

Note 10 – Defined Contribution Retirement Plan (Continued)

Funding Policy - Employees of the library are not required to contribute to the plan. The library 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 2015. 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, 2015 totaled \$468,195.

Note 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 and natural disasters for which the Library 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 Library 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 \$127,211, 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 \$500,000 is to be remitted to the Library.

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.

Note 13 – Prior Period Restatement

During the year, the Library implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. See Note 1 for a description of the statement. As required by GASB Statement No. 68, the Library restated its net position in order to reflect the beginning net pension liability of \$440,795, measured as of December 31, 2013 and reflects the deferred outflows of resources resulting from contributions made to the plan between January 1, 2014 and June 30, 2014 of \$84,000. The effect of this correction was to decrease the unrestricted net position as follows:

June 30, 2014 net position, prior to correction	\$14,984,528
Adjustment to net position	<u>(356,795)</u>
Net position at the beginning of the year, as corrected	<u>\$14,627,733</u>

PIONEER LIBRARY SYSTEM
Budgetary Comparison Schedule – General Fund (Unaudited)
For the Year Ended June 30, 2015

	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	\$ 13,870,600	\$ 14,498,920	\$ 14,881,775	\$ (23,102)	\$ 14,904,877	\$ 405,957
State Revenue	149,662	149,662	151,101	-	151,101	1,439
Interest	-	-	12,379	(871)	13,250	13,250
Other	493,407	490,807	438,463	-	438,463	(52,344)
Release of Fund Balance	-	192,188	-	-	192,188	-
Use of Designated Fund Balance	-	-	-	-	-	-
Amounts Available for Appropriation	<u>14,513,669</u>	<u>15,331,577</u>	<u>15,483,718</u>	<u>(23,973)</u>	<u>15,699,879</u>	<u>368,302</u>
Charges to Appropriations (outflows)						
Personnel Services	9,810,570	9,902,301	9,435,550	(672)	9,434,878	467,423
Materials	1,980,000	2,000,227	1,951,711	38,562	1,990,273	9,954
Materials-West Side Norman	-	-	-	-	-	-
General and Administrative	1,192,411	1,364,923	1,067,213	(102,017)	965,196	399,727
Technology	953,496	1,023,639	831,705	66,856	898,561	125,078
Technology-West Side Norman	-	40,000	37,590	-	37,590	2,410
Virtual Library	200,000	250,275	353,026	(80,215)	272,811	(22,536)
Construction Project	-	23,246	23,216	1,057	24,273	(1,027)
System Services	<u>377,192</u>	<u>506,966</u>	<u>264,801</u>	<u>103,089</u>	<u>367,890</u>	<u>139,076</u>
Total Charges to Appropriations	14,513,669	15,111,577	13,964,812	26,660	13,991,472	1,120,105
Change in Net Assets	-	220,000	1,518,906	(50,633)	1,708,407	1,488,407
Beginning Fund Balance	<u>2,709,845</u>	<u>3,628,938</u>	<u>3,944,101</u>	<u>315,163</u>	<u>3,628,938</u>	<u>-</u>
Ending Fund Balance	<u>\$ 2,709,845</u>	<u>\$ 3,848,938</u>	<u>\$ 5,463,007</u>	<u>\$ 264,530</u>	<u>\$ 5,337,345</u>	<u>\$ 1,488,407</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

\$ (23,973)

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

(26,660)

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.

315,163
\$ 264,530

PIONEER LIBRARY SYSTEM
Budgetary Comparison Schedule – General Fund (Unaudited)
For the Year Ended June 30, 2015

Notes to required Budgetary Information

Note Budgeting and Budgetary Control

Oklahoma Statue requires the Library to prepare an annual budget. The various excise County Excise Boards formally approve the annual budget for the general fund. The Library 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).

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

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

For the Year Ended December 31	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total Pension Liability						
Service Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	240,458	252,881	238,612	248,546	237,066	228,147
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	(29,079)	49,618	247,559	(116,955)	75,052	4,988
Changes of assumptions	-	(618,094)	-	244,140	-	-
Benefit payments, including refunds of member contributions	(259,643)	(252,483)	(201,018)	(158,505)	(83,058)	(85,914)
Net change in total pension liability	<u>\$ (48,264)</u>	<u>\$ (568,078)</u>	<u>\$ 285,153</u>	<u>\$ 217,226</u>	<u>\$ 229,060</u>	<u>\$ 147,221</u>
Total Pension Liability--Beginning	<u>4,155,993</u>	<u>4,724,071</u>	<u>4,438,918</u>	<u>4,221,692</u>	<u>3,992,632</u>	<u>3,845,411</u>
Total Pension Liability--Ending (a)	<u>\$ 4,107,729</u>	<u>\$ 4,155,993</u>	<u>\$ 4,724,071</u>	<u>\$ 4,438,918</u>	<u>\$ 4,221,692</u>	<u>\$ 3,992,632</u>
Plan fiduciary net position						
Contributions--employer	\$ 56,500	\$ 208,000	\$ 208,000	\$ 146,000	\$ 159,000	\$ 199,260
Contributions--member	-	-	-	-	-	-
Net investment income	135,323	481,674	310,945	(27,967)	310,533	407,581
Benefit payments, including refunds of member contributions	(259,643)	(252,483)	(201,018)	(158,505)	(83,058)	(85,914)
Administrative expense	-	-	-	-	-	-
Other	-	-	-	-	-	-
Net change in plan fiduciary net position	<u>\$ (67,820)</u>	<u>\$ 437,191</u>	<u>\$ 317,927</u>	<u>\$ (40,472)</u>	<u>\$ 386,475</u>	<u>\$ 520,927</u>
Plan fiduciary net position--beginning	<u>3,715,198</u>	<u>3,278,007</u>	<u>2,960,080</u>	<u>3,000,552</u>	<u>2,614,077</u>	<u>2,093,150</u>
Plan fiduciary net position--ending (b)	<u>\$ 3,647,378</u>	<u>\$ 3,715,198</u>	<u>\$ 3,278,007</u>	<u>\$ 2,960,080</u>	<u>\$ 3,000,552</u>	<u>\$ 2,614,077</u>
PLS net pension liability (asset)--ending (a) - (b)	<u>\$ 460,351</u>	<u>\$ 440,795</u>	<u>\$ 1,446,064</u>	<u>\$ 1,478,838</u>	<u>\$ 1,221,140</u>	<u>\$ 1,378,555</u>
Plan fiduciary net position as a percentage of the total pension liability	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
Net pension liability (asset) as a percentage of covered-employee pay	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

Information is not provided for years prior to 2009 due to it not being available.

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.

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

Pioneer Library System Pension Plan and Trust
Schedule of Contributions

For the Year Ended December 31	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Actuarially determined contribution	\$ 56,500	\$ 176,976	\$ 197,670	\$ 149,985	\$ 163,645	\$ 205,063	\$ 250,574	\$ 223,631	\$ 210,136	\$ 190,850	\$ 207,958
Contributions in relation to the actuarially determined contribution	56,500	208,000	208,000	146,000	159,000	199,260	242,380	216,316	203,264	184,400	220,000
Contribution deficiency (excess)	\$ -	\$ (31,024)	\$ (10,330)	\$ 3,985	\$ 4,645	\$ 5,803	\$ 8,194	\$ 7,315	\$ 6,872	\$ 6,450	\$ (12,042)
Covered-employee Payroll	N/A	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	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

IRS Optional Combined Table for Small Plans.

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 22, 2015

To the Board of Trustees of
Pioneer Library System
Norman, 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, the aggregate discretely presented component unit, each major fund and the fiduciary fund type of Pioneer Library System (Library), as of and for the year ended June 30, 2015, 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 22, 2015.

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*.



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principia|alliance
MEMBER

To the Board of Trustees of
Pioneer Library System
September 22, 2015

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