



Financial Statements

For the Year Ended June 30, 2014

PIONEER LIBRARY SYSTEM

Index

June 30, 2014

	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 Assets	17
Statement of Changes in Fiduciary Net Assets	18
Notes to Financial Statements	19
Required Supplementary Information:	
Budgetary Comparison Schedule - General Fund (Unaudited)	32
Schedule of Changes in Net Pension Liability	34
Schedule of Net Pension Liability	35
Schedule of Pension Contributions	36
Schedule of Investment Returns	37
Compliance and Internal Control	
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>	38



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INDEPENDENT AUDITORS' REPORT

September 25, 2014

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, 2014, 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, 2014, 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 25, 2014

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5–12 and 32–33 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 25, 2014, 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, 2014

This discussion and analysis of the financial performance of Pioneer Library System (Library) provides an overall review of the System's financial condition and results of operations for the fiscal year ended June 30, 2014. Readers should read this information in conjunction with the System's financial statements.

The Library implemented Governmental Accounting Standards Board (GASB) statement 67 for the year ended June 30, 2014.

Financial Highlights

For fiscal year 2013-2014, the Library's general fund reported an ending balance of \$3,944,101 versus \$4,686,009 for the fiscal year 2012-2013. Of the 2013-14 year end-total, \$192,188 is committed for outstanding encumbrances and \$918,996 is assigned for service upgrades and improvements of library services at current and future libraries within the system. Although the remaining balance of \$2,832,917 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 3.4% this year. This increase, along with the use of fund balance reserve funds, allowed the Library to complete the remodeling project of the new building. The Library began the remodeling of the old Borders Book Store building in December of 2012. This remodeling project was completed and the Library took occupancy of the building in October 2014. The building is being used to house the administrative offices of the Library and a new branch library leased by the City of Norman. The total cost associated with the remodeling of the building in 2013-2014 was \$1,272,584. In addition, most of the furnishings, equipment, and open day collection costs for the new building and the library were paid out of the current year and totaled \$497,865.

The Pioneer Library System Foundation (Foundation) completed its fourth year of operation as of June 30, 2014. The Foundation was organized for the purpose of supporting, promoting and improving the programs, collections, facilities and services of the Library. The Foundation provided financial support for many of the Library's programs including the 2014 Big Read and the Libraries System-Wide summer programming. The Foundation has been included as a component unit of the Library and the Foundation has issued its own financial statements, available from the Library Foundation administrative office.

Grant highlight for FY14 included the following: The Oklahoma Department of Libraries awarded the Library a \$94,753 grant to fund Pottawatomie County's TANF program.

The general fund balance decreased by \$741,908 from fiscal year 2013 due to the completion of the remodeling, furniture, and equipment cost associated with the new building.

Overview of the Financial Statement

The Library's basic financial statements consist of 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 and liabilities, with the difference between assets and liabilities 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 assets 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 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'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 general operations.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the Library'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'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 2013-14 governmental fund balances changed as follows:

	General Fund Funds	Other Governmental Funds	Total Governmental Funds
Revenues	\$ 14,906,225	\$ 293,580	\$15,199,805
Expenditures	\$ 15,648,133	\$ 304,897	\$15,953,030
Net Decrease	\$ (741,908)	\$ (11,317)	\$ (753,225)

For fiscal year 2012-13 governmental fund balances changed as follows:

	General Fund Funds	Other Governmental Funds	Total Governmental Funds
Revenues	\$ 14,420,333	\$ 239,557	\$14,659,890
Expenditures	\$ 15,341,622	\$ 197,111	\$15,538,733
Net Decrease	\$ (921,289)	\$ 42,446	\$ (878,843)

General Fund:

The Library is primarily (or 96%) funded by Ad Valorem (property) tax. For the 2013-14 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 2013-14, the Counties' assessed property value had an increase of 2.3% versus 2.6% for 2012-13. Actual tax collections increased by 2.9% versus 2.8% for the prior year. The increase of 2.9% was due to the collection of more tax revenue. Fine and other charges for services revenue for 2013-14 increased by \$90,258 from 2012-13. This increase was due to the lease payments received by the Library from the City of Norman and Michaelangelo's for the space they lease in the new building. State Aid increased by \$1,273 over the prior year. This increase was caused by the state giving us more money. Interest income decreased by \$2,479 over the prior year. This decrease is attributed to less funds being held in reserve because some reserve funds were spent on the building project.

The Expense category Personnel Services increased from 2013 to 2014 due to an increase in hospitalization expense, an increase in dental insurance expense, the 2.0% salary adjustment that was given to the staff who qualified for the adjustment, and an increase in disability insurance. The Expense category of Materials was increased because the majority of the costs of the opening day collection for the Norman West branch library were paid out of the current year's budget. The Technology and Automation category was higher in 2014 than 2013 due to the fact that the purchases of the equipment for the Norman West branch library were paid out of the current year's budget.

The System Services and General and Administrative expense categories were different in 2014 than in 2013 because of the following:

- The increase in attorney fees was due to revisions in the retirement plans, revisions in the purchase and other policies, and relinquishing the Library's 501(C) 3 status.
- The Professional Services was a new expense category added for 2014 and contains some expenses that were previously budgeted in the contract labor category and contains some new expenses.

- The increase in equipment is due to the fact that equipment and furniture purchases for the new building were made out of this year's budget.
- The Outreach expense category increased due to targeted mailings and other efforts to reach out to and provide library services to the outlying areas of the Library's three counties.
- The Continuing Education expenses decreased because there was less new staff hired during the current year and less conferences were attended this year.
- Supplies increased because additional supplies were purchased this year due to the addition of the Norman West branch library.
- System facilities decreased because the Library vacated a leased property on McGee Street when they moved into the new building and therefore did not have to pay the lease or utilities cost for the entire year.
- 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.
- Insurance increased because additional coverage was needed to insure the remodeled building and its equipment and furnishings. In addition, the purchase of a new delivery vehicle increased the insurance costs.
- Postage costs decreased because the Library continues to send items electronically when at all possible.
- Vehicle costs increased because a new delivery van was purchased and it was converted to CNG which is much more efficient and cost effective.
- Revaluation costs decreased because the cost of the service decreased.
- Interest expense increased because the Library borrowed money this year due to the timing of the completion of the building project.
- The Development expenses increased because some items that were encumbered out of last year's budget were paid out of the current year's expenses.
- Reprographics decreased because the leases on three copiers expired during the year and they haven't been renewed yet.
- Data Processing increased because some expenses that were paid out of another budget were moved to this budget.
- Fine Collection Service cost increased as this service was used more during this year than the prior year.
- Bad debt expense was a new expense item for this year. It was added to reflect the reduction in value of the note receivable to reflect the actual amount of the note that was collected.
- Travel expenses decreased this year when compared to the prior year.
- Telephone expenses decreased this year when compared to the prior year.

Other Governmental Funds:

Gifts/Grants Funds – In FY14, the Library received \$211,214 in gifts and grants. Outright gifts to PLS totaled \$50,505, over half of which was provided by Friends groups throughout the Library (\$33,077). This past year, the Library received \$160,709 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 \$22,824, 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 for \$2,607. The Oklahoma Department of Libraries also awarded the Library the Lego Stem Grant for \$21,445. This grant allowed the Library to purchase Lego Classroom packs for use in their summer reading programs. The City of Purcell donated \$11,000 to fund programs at the Purcell Library. Hastings Entertainment donated \$1,087 to help fund literacy programs within the Pioneer Library System. A Norman customer won an Oklahoma College Savings Plan Grant for \$1,000 from the Oklahoma Department of Libraries which was awarded to the Norman Library. 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 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 Library as a Whole

	<u>2013-14</u>	<u>2012-13</u>
Assets		
Current and Other Assets	\$ 4,986,544	\$ 5,926,051
Capital Assets	<u>10,459,787</u>	<u>9,504,024</u>
Total Assets	15,446,331	15,430,075
Liabilities		
Accounts Payable and Accrued Expenses	128,665	318,980
Other Liabilities	<u>333,138</u>	<u>329,105</u>
Total Liabilities	461,803	648,085
Net Assets		
Invested in Capital Assets	10,459,787	9,504,024
Unreserved/Unrestricted Net Assets	3,944,101	4,686,009
Restricted Net Assets	<u>580,640</u>	<u>591,957</u>
Total Net Assets	<u>\$14,984,528</u>	<u>\$14,781,990</u>
Change in Net Position:		
Beginning Net Position	\$14,781,990	\$ 14,195,154
Restatement	<u>(238,013)</u>	<u>-</u>
Beginning Net Position as restated	14,543,977	14,195,154
Revenues		
Property Taxes	14,278,341	13,883,622
Charges for Services	460,786	368,407
Operating Grants	211,214	201,104
Capital Grants	94,570	1,410
State Aid	156,401	155,128
Investment Earnings	54,251	51,629
Loss on Disposal	<u>(3,856)</u>	<u>(8,512)</u>
Total Revenues	<u>15,251,707</u>	<u>14,652,788</u>
Expenses		
Public Library Services	9,672,198	9,736,292
Administrative Services	2,611,152	2,232,920
Depreciation – unallocated	<u>2,527,806</u>	<u>2,096,740</u>
Total Expenses	14,811,156	14,065,952
Increase in Net Assets	<u>440,551</u>	<u>586,836</u>
Ending Net Assets	<u>\$14,984,528</u>	<u>\$14,781,990</u>

General Fund Budgetary Highlights

The General Fund budget for fiscal year 2013-14 was \$16,404,894. This was a 7.89% decrease over the previous year. The highlights of the budget include:

- A 2.0% salary adjustment for all staff who qualified and were still employed on August 31, 2013.
- The Materials budget shows an increase to include items that were encumbered at year end. In addition, the Norman Westside Library materials budget was increased because most of the opening day collection will be purchased out of this year's budget.

- Health insurance was increased to cover an expected increase in the medical and dental insurance rates.
- Disability insurance was increased by \$5,900 to reflect the new rate of the plan.
- Unemployment insurance was increased to reflect actual costs.
- Equipment was increased \$71,802 to cover the costs of equipment and furnishings for the new building.
- Contract Labor was decreased by \$66,800 because most of these costs were moved to a new budget line item.
- Professional Services is a new budget line item and contains costs moved from the contract labor budget.
- Attorney Fees was increase by \$5,000 to more accurately reflect actual usage.
- Revaluation was increased by \$16,000 to reflect actual and estimated costs.
- Insurance was increased \$29,500 which reflects the new rates provided by our insurance provider. The main reason for the increase was the addition of the Pioneer building to our insurance coverage and the fact that we were under-insured for the contents of the facilities across the board.
- Postage was decreased by \$15,000 which reflects the decrease in actual usage.
- Interest Expense was added back to the budget for the current year as we anticipate borrowing money this year due to the timing of the completion of the building project.
- Data Processing was increased by \$15,000 to cover expenses that were moved to this budget from another budget.
- The Technology budget was increased to cover the costs of items that were encumbered last year but not received and paid for until this year. In addition, the Technology West Side Norman branch was increased to reflect the addition of items that were encumbered out of last year's budget and the fact that more items will be purchased out of this year's budget for the new library.
- Virtual Library was increased to reflect the addition of items encumbered out of last year's budget.
- Construction Project Norman Center Court was decreased because a majority of the construction project was paid out of last year's budget.
- Development was decreased by \$7,680 to reflect the addition of encumbered items from last year's budget.
- System Facilities was decreased because we will not be leasing the facility on McGee Street for the entire year or paying utilities on the facility for the entire year.
- Contractual Services has been reallocated to other budget line items.
- Fund Balance Designated Current Year is zero as no funds from the current operating budget are being budgeted to fund balance
- Reserved for Encumbrances is zero because these funds are now added to the expense line item in the budget.
- The Designated 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's investment in capital assets, net of accumulated depreciation, as of June 30, 2014 was \$10,459,787 and on June 30, 2013 was \$9,505,024. Of the total 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. Of the total depreciable capital assets, net of accumulated depreciation, on June 30, 2013 12% are furniture, equipment, and vehicles; 37 % are building and property; and the remaining 51% are books and materials.

The Library 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 2013-14, the Library borrowed \$850,000 and incurred \$3,694 in interest expense for a total amount due of \$853,694. The total amount due was repaid by January 4, 2014.

Economic Environment and Next Year's Budget

The Library'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'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 than in previous years due to the continued recovery from the effects of the tornados last May and the continued recovery of the economy.

In general, the Library still expects a continued growth in the tax revenue for the next year. The Cleveland County Assessor has certified a 3.82% growth in property value for 2014; the Pottawatomie County Assessor has certified a 9.24% growth and the McClain County Assessor has certified a 3.65% growth.

For fiscal year 2014-15, the Library Board approved a general fund budget of \$15,111,577 versus \$16,404,894 for 2013-14.

- A 3.5% 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 was increased to cover anticipated increases in the renewal rates which take effect on May 1, 2015.
- Workers Compensation was increased \$2,103 to reflect actual costs.
- Unemployment was decreased by \$1,000 to reflect actual costs.
- Disability insurance was increased \$1,005 to reflect additional costs due to the salary increases.
- The Materials budget was increased by \$8,165 to restore prior decreases in this budget item.
- Materials Westside Norman was decreased to zero since the materials for the opening day collection were purchased in 2013-14.
- Professional Services was increased \$60,402 to reflect anticipated costs of several projects: Board book preservation, Orange Boy, BoardDocs expansion and other improvements in online services.
- Attorney Fees was increased \$15,000 to accurately reflect usage.
- Equipment was decreased \$144,028 because last year's budget included furnishings and equipment for the new building.
- Insurance was increased \$10,000 to cover the increased costs associated with the new Pioneer building and its contents and to cover the addition of a new vehicle to the fleet.
- Revaluation was decreased by \$9,000 to reflect actual and estimated costs.
- Postage was decreased \$10,000 which reflects the decrease in actual usage.
- Data processing was increased \$15,800 to cover actual expenses and the possible addition of an on-line application tracking system.
- Interest expense was decreased \$2,500 to reflect actual costs from the prior year.
- Supplies was increased \$4,164 to cover the items that were encumbered out of the 2013-14 budget.
- Vehicles was decreased \$9,256 because a car instead of a delivery truck will be purchased this year.
- Reprographics was decreased \$7,000 to reflect actual usage and the expiration of the black and white copier leases during 2013-14.
- Fine Collection was increased \$9,000 to reflect actual costs.
- The Technology budget was increased \$125,633 which reflects additional equipment purchases, costs associated with maintaining equipment purchased, and the addition of items encumbered from the 2013-14 budget.
- Technology Westside Norman was decreased \$312,056 because most of the equipment for the new branch was purchased from last year's budget.
- Virtual Library was increased to cover items that were encumbered out of last year's budget.
- Construction Project Norman Center Court was decreased because a majority of the cost of the remodeling project was paid out of last year's budget.

- Development was increased \$7,200 to cover items that were encumbered out of last year's budget.
- System Signage was decreased by \$11,092 to reflect actual costs and the fact that all the signage for the new building was purchased from the prior year's budget.
- Public Information 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.
- Programming was increased \$43,000 to cover the costs of additional programming as the new strategic plan is implemented.
- System Facilities was increased \$58,000 to reflect actual costs of running PLS facilities and to cover some additional items, such as outside pole lights, etc.
- System Outreach was increased \$35,000 to cover additional outreach cost anticipated during the year as the new strategic plan is implemented.
- Fund Balance Designated Current Year is \$220,000 as these funds will be used for future anticipated library projects.
- Assigned Fund Balance reflects several items: Cleveland County, \$695,000; McClain County, \$173,996; and Pottawatomie County, \$50,000.

Contacting the Library'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's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the Library's Business Office at 300 Norman Center Court, Norman, OK 73072.

PIONEER LIBRARY SYSTEM
Statement of Net Position
June 30, 2014

	Primary Government <u>Governmental Activities</u>	Component Unit <u>Library Foundation</u>
Assets		
Cash and Cash Equivalents	\$ 4,070,712	\$ 117,447
Investments	331,231	-
Ad Valorem Tax Receivable	123,811	-
Accrued Interest Receivable	870	20
Other Current Assets	423,378	11,240
Other Receivable	36,542	10,000
Non-Depreciable Capital Assets	161,179	-
Depreciable Capital Assets, Net	<u>10,298,608</u>	<u>-</u>
Total Assets	<u>\$ 15,446,331</u>	<u>\$ 138,707</u>
Liabilities		
Accounts Payable and Accrued Expenses	\$ 128,665	\$ 9,663
Compensated Absences Payable	<u>333,138</u>	<u>-</u>
Total Liabilities	<u>\$ 461,803</u>	<u>\$ 9,663</u>
Net Position		
Net Investment in Capital Assets	\$ 10,459,787	\$ -
Restricted Net Assets	580,640	48,134
Unrestricted Net Assets	<u>3,944,101</u>	<u>80,910</u>
Total Net Position	<u>\$ 14,984,528</u>	<u>\$ 129,044</u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Activities
For the Year Ended June 30, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	(Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit Library Foundation
Governmental Activities:						
Public Library Services	\$ 9,616,523	\$ 460,786	\$ 211,214	\$ 15,095	\$ (8,929,428)	
Administrative Services	2,611,152	-	-	23,800	(2,587,352)	
Depreciation - unallocated	2,527,806	-	-	-	(2,527,806)	
Total Primary Government	<u>\$ 14,755,481</u>	<u>\$ 460,786</u>	<u>\$ 211,214</u>	<u>\$ 38,895</u>	<u>\$ (14,044,586)</u>	
Component Unit						
Library Foundation	<u>\$ 172,286</u>	<u>\$ -</u>	<u>\$ 183,294</u>	<u>\$ -</u>		<u>\$ 11,008</u>
General Revenues:						
Property taxes, levied for general purposes					\$ 14,278,341	\$ -
State Aid					156,401	-
Book Sales					-	1,685
Investment earnings					54,251	-
Loss on Disposals					(3,856)	-
Total General Revenues					<u>\$ 14,485,137</u>	<u>\$ 1,685</u>
Change in net assets					\$ 440,551	\$ 12,693
Net position - beginning					14,781,990	116,351
Restatement					(238,013)	
Net position - beginning as restated					14,543,977	
Net position - ending					<u>\$ 14,984,528</u>	<u>\$ 129,044</u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Balance Sheet
Governmental Funds
June 30, 2014

ASSETS	General Fund	Gifts and Grants Fund	Total Governmental Funds
Cash	\$ 3,919,096	\$ 151,616	\$ 4,070,712
Investments	-	331,231	331,231
Receivable from General Fund	-	86,733	86,733
Ad Valorem Tax Receivable	123,811	-	123,811
Accrued Interest Receivable	870	-	870
Grants Receivable	-	13,671	13,671
Other Receivable	22,871	-	22,871
Deposit	9,200	-	9,200
Prepaid Expenses	414,178	-	414,178
Total Assets	\$ 4,490,026	\$ 583,251	\$ 5,073,277
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 71,289	\$ 2,611	\$ 73,900
Accrued Salaries and Employee Benefits	54,765	-	54,765
Compensated Absences Payable	333,138	-	333,138
Payable to Special Revenue	86,733	-	86,733
Total Liabilities	\$ 545,925	\$ 2,611	\$ 548,536
Fund Balances			
Assigned	\$ 918,996	\$ 580,640	\$ 1,499,636
Committed	192,188	-	192,188
Unassigned	2,832,917	-	2,832,917
Fund Balances, End of Year	\$ 3,944,101	\$ 580,640	\$ 4,524,741
Total Liabilities and Fund Balances	\$ 4,490,026	\$ 583,251	

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 \$23,541,280, including \$161,179 of non-depreciable assets, and the accumulated depreciation is \$13,081,493.

10,459,787

Total Net Assets - Governmental Activities

\$ 14,984,528

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, 2014

	General Fund	Gifts and Grants Fund	Total Governmental Funds
Revenues:			
Property Taxes	\$ 14,278,341	\$ -	\$ 14,278,341
Collections on Book Fines and Copy Services	321,579	-	321,579
Gifts and Grants	-	211,214	211,214
State Revenue	156,401	-	156,401
Other Contracts	139,207	-	139,207
In-Kind Donations		38,812	38,812
Interest	10,697	43,554	54,251
Total Revenues	<u>\$ 14,906,225</u>	<u>\$ 293,580</u>	<u>\$ 15,199,805</u>
Expenditures			
Personal Services	\$ 9,187,060	\$ -	\$ 9,187,060
Materials	2,212,868	281,097	2,493,965
General and Administrative	1,501,066	23,800	1,524,866
Technology and Automation	1,255,068	-	1,255,068
System Services	1,492,071		1,492,071
Total Expenditures	<u>\$ 15,648,133</u>	<u>\$ 304,897</u>	<u>\$ 15,953,030</u>
Net Change in Fund Balance	\$ (741,908)	\$ (11,317)	\$ (753,225)
Beginning Fund Balance	4,686,009	591,957	5,277,966
Ending Fund Balances	<u>\$ 3,944,101</u>	<u>\$ 580,640</u>	<u>\$ 4,524,741</u>
Total net changes in fund balances - governmental funds			\$ (753,225)

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	\$ (2,527,806)	
Capital Outlay	<u>3,725,438</u>	1,197,632
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.		<u>(3,856)</u>
Change in net assets of governmental activities		<u>\$ 440,551</u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Fiduciary Net Assets
Fiduciary Fund

	Pension Fund
	<u> </u>
ASSETS	
Current Assets	
Cash	\$ 89,468
Receivables	1,926
Investments	<u> 3,643,100</u>
Total Assets	<u><u>\$ 3,734,494</u></u>
NET ASSETS	
Net Assets	
Held in Trust for Pension	
Benefits and Other Purposes	<u><u>\$ 3,734,494</u></u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2014

	Pension Fund
Additions	
Contributions	
Employer	\$ 188,000
Interest and Dividend Income	73,385
Net Increase in the Fair Value of Investments	396,680
Realized Gain	<u>56,190</u>
Total Additions	<u>\$ 714,255</u>
Deductions	
Benefits Paid	\$ 301,093
Trustee and Management Fees	<u>18,019</u>
Total Deductions	<u>\$ 319,112</u>
Net Increase	\$ 395,143
Net Assets, Beginning of Year	<u>3,339,351</u>
Net Assets, End of Year	<u><u>\$ 3,734,494</u></u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2014

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, 2014

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 Assets, 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 10.

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 assets 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, 2014

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 10.

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, 2014

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, 2014 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, 2014

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 2010 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.

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.

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.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2014

Note 2 – Cash and Investments (continued)

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, 2014, \$26,720 of the Library's bank balance of \$4,816,790 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, 2014 was \$4,540,070 plus \$250,000 of FDIC insurance gives coverage of \$4,790,000.

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 recorded portion 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 \$14,205 for the year ended June 30, 2014, 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, 2014, assets transferred to the Community Foundation by the Organization had a fair value of \$331,231 based on the approximate present value of future cash flows from CFO.

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 \$887 for the year ended June 30, 2014, were received by the Library. The fair value of the funds originally donated by third parties at June 30, 2014 was \$20,597. 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 10) are invested in various mutual funds with the Bank of Oklahoma, 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.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2014

	Market Value	Credit Exposure as a Percentage of Total Investments
Pension Fund		
Pooled Equity Funds	\$ 2,067,245	56.75%
Pooled Fixed Income Funds	1,302,602	35.75%
Alternative Investments	273,253	7.50%
Total Pension Fund Investments	<u>\$ 3,643,100</u>	<u>100.00%</u>

The following investments represent 5% or more of the net assets of the Plan at June 30, 2014:

DFA US Large Cap Value I	\$380,297
Fidelity Contrafund	232,620
T Rowe Price Growth Stock I	232,155
Vanguard Institutional Index I	316,162
PIMCO Total Return Institutional	412,880
Templeton Global Bond Advantage	264,028
Vanguard Short-term Bond Index Signal	210,683

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 \$3,643,100 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.

Note 3 – Note Receivable

The Library received a note receivable included in the settlement of an estate during the year ended June 30, 2005. The original note was \$100,000 at zero interest, and was due in 2014. The Pioneer Library System Board of Trustees accepted \$80,000 in certified funds in satisfaction of the obligation of the note.

Note 4 – Collections

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

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2014

Note 5 – 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, 2014, no balance was owed. Interest expense of \$3,694 was paid during the year ended June 30, 2014.

Note 6 – 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	\$ 329,105	453,871	449,838	\$ 333,138	\$ 333,138

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

Note 7 – Commitments

Lease Commitments – The Library leases a building for the service center, a building for the development office, telephone equipment, a postage machine and copiers for its branch facilities and for administration under operating leases. The building lease for the service center was terminated in September when the service center staff moved into the new Pioneer building. The other leases are renewed on an annual basis. Lease expense under these leases for 2014 was \$104,898.

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, 2014 the amount of encumbrances expected to be honored upon performance by the vendor in the next year were:

General Fund	\$ 192,188
Gifts and Grants Fund	-
Total	<u>\$ 192,188</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, 2014, 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, 2014

Note 8 – Capital Assets

Capital assets of the Library at June 30, 2014 are as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Non-depreciable Capital Assets:				
Land	\$ 161,179	\$ -	\$ -	\$ 161,179
Depreciable Capital Assets:				
Library Books	13,169,153	1,615,623	481,358	14,303,418
Building	3,382,767	1,272,584	-	4,655,351
Furniture and Fixtures	1,043,443	241,554	7,136	1,277,861
Computer Equipment	2,415,797	552,076	31,429	2,936,444
Vehicles	163,426	43,601	-	207,027
Total Capital Assets	<u>20,335,765</u>	<u>3,725,438</u>	<u>519,923</u>	<u>23,541,280</u>
Less Accumulated				
Depreciation for:				
Library Books	8,332,345	1,959,833	481,358	9,810,820
Building	-	87,288	-	87,288
Furniture and Fixtures	778,736	109,112	5,153	882,695
Computer Equipment	1,847,095	342,890	29,556	2,160,429
Vehicles	111,578	28,683	-	140,261
Total Accumulated				
Depreciation	<u>11,069,754</u>	<u>2,527,806</u>	<u>516,067</u>	<u>13,081,493</u>
Total Depreciable Capital				
Assets, Net	<u>\$ 9,266,011</u>	<u>\$ 1,197,632</u>	<u>\$ 3,856</u>	<u>\$ 10,459,787</u>

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2014

Note 9 – Fund Balance

Effective July 1, 2012, the Library implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The following table shows the fund balance classifications as shown on the governmental funds balance sheet in accordance with GASB No. 54 as of June 30, 2014:

Fund Balance	General <u>Fund</u>	Gifts and Grants <u>Fund</u>	Total Governmental <u>Funds</u>
Assigned:			
Cleveland County Libraries	\$ 695,000	\$ -	\$ 695,000
McClain County Libraries	173,996	-	173,996
Pottawatomie County Libraries	50,000	-	50,000
Special Revenue Funds	-	580,640	580,640
Committed:			
Reserved for Encumbrances	192,188	-	192,188
Unassigned:	<u>2,832,917</u>	<u>-</u>	<u>2,832,917</u>
Total Fund Balance	<u>\$ 3,944,101</u>	<u>\$ 580,640</u>	<u>\$ 4,524,741</u>

Note 10 – 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. 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.

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, 2014 to the defined benefit plan were \$188,000.

Net Pension Obligation and Annual Pension Cost – The required contribution was determined as part of the January 1, 2014 actuarial valuation using the Unit Credit Cost Method. This is a change from the prior year when the Aggregate Cost Method was used. Both methods amortize the unfunded liability over the average working lifetime of the remaining participants, however, the unit cost method amortization will remain level until the initial unfunded liability is paid off, whereas the aggregate cost method will not because the amortization is refreshed each year. The change in method was recommended by the actuary. The most recent actuarial valuation was for the calendar year 2014 and the period is closed. The actuarial assumptions included the following:

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2014

The interest rate used was 6%. This is also the expected rate of return. Last year the interest rate assumption was 5.5% for pre-retirement and 4.5% for post-retirement. This change was suggested by the actuary.

The mortality table used was for both pre and post-commencement was the 2013 IRS Mortality table. Last year the 94-Gar table was used, post commencement only. This change was suggested by the actuary.

Note 11 – Retirement Plan

The annual net pension obligation and annual pension cost for the current year were as follows:

Net Pension Obligation, Beginning of Year	\$ 1,526,442
Earning from Investments	73,385
Unrealized Appreciation	56,190
Contribution	188,000
Distributions	(301,093)
Fees and Commissions	(18,019)
Change in Valuation	(978,726)
Net Pension Obligation, End of Year	<u>\$ 546,179</u>

Present Value of Future Benefits	\$ 4,280,673
Valuation of Assets	3,734,494
Net Pension Obligation	<u>\$ 546,179</u>

Components of Annual Pension Cost:	
Annual Contribution Necessary to Avoid a Funding Deficiency	<u>\$ 56,500</u>

Three year trend information is as follows:

<u>Three-Year Trend Information</u>				
<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>Actual Contrib</u>
06/30/2012	\$ 197,670	81.7%	\$1,509,029	\$ 161,500
06/30/2013	\$ 176,976	117.5%	\$1,526,442	\$ 208,000
06/30/2014	\$ 56,500	332.7%	\$ 546,179	\$ 188,000

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2014

Note 11 – Retirement Plan (continued)

Plan membership as at June 30, 2014 consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	18
Inactive plan members entitled to but not yet receiving benefits	44
Active plan members	<u>88</u>
Total plan members	<u>150</u>

Multi-year trend information for the plan is as follows:

Schedule of Funding Progress for Pioneer Library System Pension Plan and Trust						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
06/30/2012	\$3,063,057	\$4,572,086	\$1,509,029	67.0%	\$ -	N/A
06/30/2013	\$3,339,351	\$4,865,793	\$1,526,442	68.6%	\$ -	N/A
06/30/2014	\$3,734,494	\$4,280,673	\$ 546,179	87.2%	\$ -	N/A

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

Note 12 – 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.

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 will be used when calculating the contributions to participants accounts for 2014. The Pioneer Library System Board of Trustees has the authority to establish and or amend the funding policy of the plan. Benefits paid for 2014 to the plan were \$369,831.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2014

Note 13 – 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 14 – 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 \$109,690, 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.

Note 15 - Prior Period Adjustments

In the previous fiscal year the amount of depreciation expense was understated by \$238,013. This understatement of depreciation expense caused the net investment in capital assets to be overstated and the net position to be overstated. Accordingly the Organization has restated its net position as of the beginning of the year in order to comply with professional standards. The effect of this correction was to decrease the net position at the beginning of the fiscal year as follows:

June 30, 2013 net position, prior to correction	\$ 14,781,990
Correction to net position classification	<u>(238,013)</u>
Net position at the beginning of the year as corrected	<u>\$14,543,977</u>

PIONEER LIBRARY SYSTEM
Budgetary Comparison Schedule – General Fund (Unaudited)
For the Year Ended June 30, 2014

	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	\$ 13,555,668	\$ 13,870,600	\$ 14,278,341	\$ (3,269)	\$ 14,281,610	\$ 411,010
State Revenue	149,662	149,662	156,401	-	156,401	6,739
Interest	-	-	10,697	-	10,697	10,697
Other	436,918	439,168	460,786	10,563	450,223	11,055
Release of Fund Balance	-	1,945,464	-	-	1,945,464	-
Use of Designated Fund Balance	138,420	-	-	-	-	-
Amounts Available for Appropriation	<u>14,280,668</u>	<u>16,404,894</u>	<u>14,906,225</u>	<u>7,294</u>	<u>16,844,395</u>	<u>439,501</u>
Charges to Appropriations (outflows)						
Personnel Services	9,338,189	9,505,686	9,187,060	(3,119)	9,183,941	321,745
Materials	1,980,000	1,992,062	1,903,511	53,682	1,957,193	34,869
Materials-West Side Norman	200,000	374,857	309,357	9,620	318,977	55,880
General and Administrative	1,018,336	1,408,793	1,501,066	104,671	1,605,737	(196,944)
Technology	825,000	898,006	861,091	7,637	868,728	29,278
Technology-West Side Norman	206,000	352,056	209,033	-	209,033	143,023
Virtual Library	190,000	248,398	184,944	18,379	203,323	45,075
Construction Project	118,689	1,265,752	1,251,573	(1,057)	1,250,516	15,236
System Services	404,454	359,284	240,498	(737)	239,761	119,523
Total Charges to Appropriations	<u>14,280,668</u>	<u>16,404,894</u>	<u>15,648,133</u>	<u>189,076</u>	<u>15,837,209</u>	<u>567,685</u>
Change in Net Assets	-	-	(741,908)	(181,782)	200,000	1,007,186
Beginning Fund Balance	<u>1,637,366</u>	<u>2,709,845</u>	<u>4,686,009</u>	<u>1,976,164</u>	<u>2,709,845</u>	<u>-</u>
Ending Fund Balance	<u>\$ 1,637,366</u>	<u>\$ 2,709,845</u>	<u>\$ 3,944,101</u>	<u>\$ 1,794,382</u>	<u>\$ 2,909,845</u>	<u>\$ 1,007,186</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

\$ 7,294

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

(189,076)

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.

1,976,164
\$ 1,794,382

PIONEER LIBRARY SYSTEM
Budgetary Comparison Schedule – General Fund (Unaudited)
For the Year Ended June 30, 2014

Notes to required Budgetary Information

Note Budgeting and Budgetary Control

Oklahoma Statute 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

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

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

Note: Information is not provided for years prior to 2008 due to it not being available.

The numbers shown are as of the plan year end. The numbers would be different if shown as of June 30.

PIONEER LIBRARY SYSTEM
Schedule of Net Pension Liability

For the Year Ended December 31	2013	2012	2011	2010	2009	2008
Total Pension Liability	\$ 4,155,993	\$ 4,724,071	\$ 4,438,918	\$ 4,221,692	\$ 3,992,632	\$ 3,845,411
Plan fiduciary net position	3,715,198	3,278,007	2,960,080	3,000,552	2,614,077	2,093,150
Net pension liability (asset)	<u>\$ 440,795</u>	<u>\$ 1,446,064</u>	<u>\$ 1,478,838</u>	<u>\$ 1,221,140</u>	<u>\$ 1,378,555</u>	<u>\$ 1,752,261</u>
Plan fiduciary net position as a percentage of the total pension liability	89.39%	69.39%	66.68%	71.07%	65.47%	54.43%
Covered-employee Payroll	N/A	N/A	N/A	N/A	N/A	3,537,158
Net pension liability (asset) as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	49.54%

Note: Information is not provided for years prior to 2008 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.

The numbers shown are as of the plan year end. The numbers would be different if shown as of June 30.

PIONEER LIBRARY SYSTEM
Schedule of Pension Contributions

For the Year Ended December 31	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Actuarially determined contribution	\$ 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	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	3,537,158	2,519,292	2,360,410	2,160,380	2,032,303
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	6.85%	8.59%	8.61%	8.54%	10.83%

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

The numbers shown are as of the plan year end. The numbers would be different if shown as of June 30.

PIONEER LIBRARY SYSTEM
Schedule of Investment Returns

For the Year Ended December 31	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Annual money-weighted rate of return, net of investment expenses	15.32%	11.04%	-0.40%	12.25%	19.53%	-24.41%	7.10%	10.78%	6.41%	10.93%

Note: The numbers shown are as of the plan year end. The numbers would be different if shown as of June 30.



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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 25, 2014

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, 2014, 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 25, 2014.

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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principa | alliance
MEMBER

To the Board of Trustees of
Pioneer Library System
September 25, 2014

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