Pioneer
LIBRARY SYSTEM

Financial Statements

For the Year Ended June 30, 2013

PIONEER LIBRARY SYSTEM

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June 30, 2013

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INDEPENDENT AUDITORS' REPORT

September 24, 2013

To the Board of Directors 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, 2013, 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, 2013, 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.

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 5–11 and 31–32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2013, 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, 2013

Pioneer
LIBRARY SYSTEM

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, 2013. Readers should read this information in conjunction with the System's financial statements.

Financial Highlights

For fiscal year 2012-2013, the Library's general fund reported an ending balance of $4,686,009 versus $5,447,930 for the fiscal year 2011-2012. Of the 2012-13 year end-total, $1,945,464 is reserved for outstanding encumbrances and $918,996 is designated for service upgrades and improvements of library services at current and future libraries within the system. Although the remaining balance of $1,821,549 is unrestricted, the Library administration, with the Board of Trustee's approval, will use some of these funds, if necessary, to complete the remodeling of the building that the Library purchased in December 2011. 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 Pioneer Library System's operating revenue increased by 2.4% this year. This increase, along with the use of fund balance reserve funds, allowed the library system to undertake the remodeling project of the new building. The Library System began the remodeling of the old Borders Book Store building in December. The Library System plans to use the building 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 2012-2013 was $1,860,232. In addition, most of the furnishings and equipment costs for the new building and the library were paid out of the current year and totaled $215,607.

The Pioneer Library System Foundation completed its third year of operation as of June 30, 2013. 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 2013 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 highlight for FY13 included the following: The Oklahoma Department of Libraries awarded the Library a $90,642 grant to fund Pottawatomie County's TANF program.

The general fund balance decreased by $921,289 from fiscal year 2012 due to the remodeling, furniture, and equipment cost associated with the new building.

The governmental fund beginning balance from 2012 was increased by $282,022.26. This adjustment was made to record the value of the contributions made to the Communities Foundation of Oklahoma by the Pioneer Library System as of June 30, 2012 as assets on the Pioneer Library System's balance sheet.

Overview of the Financial Statement

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

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 assets represents information on all of the Library's assets and liabilities, with the difference between assets and liabilities reported as net assets. Over time, increases or decreases in net assets 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 12 and 13 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, including the comparative statement between budget and actual expenditures.

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 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)

For fiscal year 2011-12 governmental fund balances changed as follows:

	General Fund Funds	Other Governmental Funds	Total Governmental Funds
Revenues	$ 14,088,150	$ 187,999	$14,276,149
Expenditures	$ 15,384,036	$ 255,292	$15,639,328
Net Decrease	$ (1,295,886)	$ (67,293)	$ (1,363,179)

General Fund:

The Library System is primarily (or 96%) funded by Ad Valorem (property) tax. For the 2012-13 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 2012-13, the Counties' assessed property value had an increase of 2.6% versus 3.8% for 2011-12. Actual tax collections increased by 2.8% versus 3.3% for the prior year. Fine and other charges for services revenue for 2012-13 decreased by $41,030 from 2011-12. This decrease was due to a decrease in fine revenue, which was a direct result of the Library waiving fines in the aftermath of the May tornado, and an insurance reimbursement check was received in 2011-12 that wasn't received this year. State Aid increased by $743 over the prior year. This increase was caused by the state giving us more money. Interest income decreased by $8,349 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 2012 to 2013 due to an increase in hospitalization expense, the 2.5% graduated COLA that was given to the staff, an increase in workers compensation insurance, an increase in disability insurance, an increase in unemployment, and an increase in retirement costs. The Expense category of Materials was decreased because some of the costs of the opening day collection for the Southwest Oklahoma City library were paid out of last year's budget and therefore weren't spent out of this year's budget. Some of the funds for this budget were budgeted to reserves for use in the future. The Technology and Automation category was lower in 2013 than 2012 due to the fact that the purchases of the equipment for the Southwest Oklahoma City library were made during 2012 and the fact that several items had been ordered but not received as of June 30 and therefore are encumbered out of this year's budget.

The System Services and General and Administrative expense categories were different in 2013 than in 2012 because of the following:

- The increase in attorney fees was due to the negotiation of several contracts including the remodeling of the new building, revisions in the retirement plans, and revisions in the personnel policy and purchase policy.

- The decrease in system signage was caused by the fact that phase two of an ongoing project to install new interior signage throughout the system was completed last year.
- The increase in equipment is due to the fact that equipment purchases for the new building were made this year.
- Outreach expense category decreased because a customer survey was conducted for Norman residents to determine the needs and wants of the library customers was done during the prior year and not this year.
- The Continuing Education expenses decreased because there was less new staff hired during the current year and less conferences were attended this year.
- Supplies decreased because additional supplies that were purchased last year due to the addition of the Southwest Oklahoma City Library weren't purchased this year.
- System facilities decreased because the purchase of a building was made out of this category last year
- A construction project account was added this year to reflect the construction and remodeling of the building that was purchased the previous year.
- Insurance increased because additional coverage was needed to insure the remodeling building and its equipment and furnishings. In addition, the rates were increased and the level of coverage was increased as it was determine that the libraries assets were under- insured.
- Postage costs decreased because board packets were sent electronically this year and more overdue materials notices were sent electronically. In addition, the overdue notices that are mailed are now being mailed as postcards and therefore are mailed at a lower rate.
- Vehicle costs decreased because the new vehicle that was ordered this year had not arrived by June 30 and therefore is encumbered and will be paid for next year.
- Revaluation costs increased because the cost of the service increased.
- Programming costs decreased because business service programming expenses were paid last year that weren't paid this year and some programs hadn't occurred as of June and therefore are encumbered.
- The decrease in development is due to the fact that some expenses were encumbered at year end and will be paid for next year.
- The decrease in contract services is because these expenses were paid out of other budget categories.

Other Governmental Funds:

Gifts/Grants Funds – In FY13, Pioneer Library System received $201,104 in gifts and grants.
Outright gifts to PLS totaled $90,490, over half of which was provided by Friends groups throughout the library system ($48,027). This past year, Pioneer Library System received $110,614 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 $17,345, 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 $1,624. The Mom's Club of Norman donated $3,981 from their Touch a Truck event for the Norman Public Library's Children's Department. The City of Purcell donated $11,000 to fund programs at the Purcell Library. Tinker Federal Credit Union donated $1,000 to the Moore Library to help fund the movie night in the park program. Hastings Entertainment donated $1,342 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. The Tecumseh Library received a $1,000 People and Stories Grant to fund a Story Talk Program. 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 System as a Whole

	2012-13	2011-12
Assets		
Current and Other Assets	5,926,051	6,515,807
Capital Assets	9,504,024	8,038,345
Total Assets	15,430,075	14,272,130
Liabilities		
Accounts Payable and Accrued Expenses	318,980	55,357
Other Liabilities	329,105	303,641
Total Liabilities	648,085	358,998
Net Assets		
Invested in Capital Assets	9,504,024	8,038,345
Unreserved/Unrestricted Net Assets	4,686,009	5,607,298
Restricted Net Assets	591,957	549,511
Total Net Assets	14,781,990	14,195,154
Change in Net Assets:		
Beginning Net Assets	14,195,154	13,588,759
Revenues		
Property Taxes	13,883,622	13,418,882
Charges for Services	368,407	410,276
Operating Grants	201,104	183,590
Capital Grants	1,410	11,520
State Aid	155,128	154,385
Investment Earnings	51,629	25,934
Loss on Disposal	(8,512)	(6,631)
Total Revenues	14,652,788	14,197,956
Expenses		
Public Library Services	9,736,292	9,924,894
Administrative Services	2,232,920	2,198,142
Depreciation – unallocated	2,096,740	2,168,525
Total Expenses	14,065,952	13,591,561
Increase in Net Assets	586,836	606,395
Ending Net Assets	14,781,990	14,195,154

General Fund Budgetary Highlights

The General Fund budget for fiscal year 2012-13 was $17,698,191. This was a 11.84% increase over the previous year. The highlights of the budget include:

- A 2.5% cost of living increase averaged over the pay grades was awarded to all staff.
- The Materials budget shows a decrease because purchases of the Southwest Oklahoma City Library opening day collections were purchased during the prior year. In addition, $200,000 was budgeted to reserve funds out of the current year budget. There was also a line item created for the Norman Westside Library for $175,000.
- Health insurance cost increased 13% over last year.
- The Continuing Education budget was decreased by $9,300.
- Workers compensation was increased by $5,200 to reflect actual costs.
- Equipment was increased by $282,226 to cover the costs of equipment and furnishings for the new building.

- Contract Labor was decreased by $33,000. There were several projects that were completed last year.
- Vehicles was increased by $30,000 to cover the purchase of an additional box delivery vehicle.
- Revaluation was increased by $8,000 to reflect actual and estimated costs.
- Insurance was increased $23,500 to cover the new insurance policy on our security officers and to cover the increased costs associated with the purchase of the Pioneer building.
- 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, a new line item was added to the budget reflecting the expected purchases for the Pioneer building.
- Virtual Library was decreased by $10,000.
- Construction Project Norman Center Court was a new line item to reflect the costs associated with the remodeling of the Pioneer building.
- Development was decreased by $5,000.
- Public Information was decreased by $5,000.
- System Facilities was decreased due to the fact that last year's budget contained the cost of the building purchase.
- Fund Balance Designated Current Year is a new line time that reflects the amount of the current year income that is being budgeted to fund reserves for the materials budget. $200,000 was budgeted for this year.
- The Designated Fund Balance reflects several items: Cleveland County, $495,000; McClain County, $173,996; and Pottawatomie County, $50,000.
- Undesignated Fund Balance decrease because these funds were moved to the operating budget to offset the expenses for the remodeling project of the Pioneer building.

Capital Asset and Long-Term Debt

The Library System's investment in capital assets, net of accumulated depreciation, as of June 30, 2013 was $9,504,024 and on June 30, 2012 was $8,038,345. 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. Of the total depreciable capital assets, net of accumulated depreciation, on June 30, 2012 13% are furniture, equipment, and vehicles; 21 % are building and property; and the remaining 66% 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. This year the library system didn't need to borrow any money.

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 did continue this past year but at a slower rate than previous years due to the effects of the May tornados and the legislative changes that were passed in November.

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 2.3% growth in property value for 2013; the Pottawatomie County Assessor has certified a 3.34% growth and the McClain County Assessor has certified a 1.72% growth.

For fiscal year 2013-14, the Library Board approved a general fund budget of $16,404,894 versus $17,698,191 for 2012-13.

- A 2% 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 $37,057 to cover anticipated increases in the renewal rates which take effect on May 1, 2014.
- Contract labor was decreased $66,800 because a new expense account was added that covers most of these costs.
- Unemployment was increased by $5,200 to reflect actual costs.
- Retirement was increased $9,400 to reflect actual costs.
- Disability insurance was increased $5,900 to reflect the new rates.
- The Materials budget was increased by $11,219 to reflect year end encumbrances for items ordered last year but not yet received as of June 30.
- Materials Westside Norman was increased to cover the cost of the opening day collection.
- Professional Services is a new line item containing expenses that used to be in contract labor.
- Attorney Fees was increased $5,000 to reflect actual expenses.
- Equipment was increased by $71,802 to account for the equipment for the Pioneer building project..
- Insurance was increased $29,500 to cover the increased costs associated with the new Pioneer building and its contents. In addition, the Library increased its level of coverage on its furniture, materials, and equipment.
- Revaluation was increased by $16,000 to reflect actual and estimated costs.
- Postage was decreased $15,000 because board packets and most overdue item notices are now sent electronically.
- Data processing was increased $15,000 to account for expenses that were previously paid from another category.
- Interest expense was increased because we will have to borrow money this year due to the timing of building project completion.
- The Technology budget was increased $18,511 which reflects the movement of some expenses from another budget line item and the addition of items that were encumbered out of last year's budget.
- Technology Westside Norman was increased $110,000 to cover the cost of the technology for the new building.
- 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 $7,680 to cover items that were encumbered out of last year's budget.
- System Facilities was decreased to reflect the fact that the Library will not be leasing the property on McGee Street or paying the utilities of the facility for the entire year.
- Contractual services have been reallocated to other line items.
- Fund Balance Designated Current Year is zero as no funds from the current year operating budget are being budgeted to fund balance.
- Reserved for encumbrances is zero because these funds are now being added to the expense line item in the budget.
- Designated Fund Balance reflects several items: Cleveland County, $645,000; McClain County, $198,996; and Pottawatomie County, $75,000.

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 225 North Webster, Norman, OK 73069.

PIONEER LIBRARY SYSTEM
Statement of Net Position
June 30, 2013

	Primary Government	Component Unit
	Governmental Activities	Library Foundation
Assets		
Cash and Cash Equivalents	$ 4,998,917	$ 110,229
Investments	311,097	
Ad Valorem Tax Receivable, net of Allowance for Uncollectible Taxes	127,080	-
Accrued Interest Receivable	898	22
Other Current Assets	390,849	6,100
Note Receivable	97,210	-
Depreciable Capital Assets, Net	9,504,024	-
Total Assets	$ 15,430,075	$ 116,351
Liabilities		
Accounts Payable and Accrued Expenses	$ 289,462	$ -
Deferred Revenue	29,518	-
Compensated Absences Payable	329,105	-
Total Liabilities	$ 648,085	$ -
Net Position		
Net Investment in Capital Assets	$ 9,504,024	$ -
Restricted Net Assets	591,957	38,335
Unrestricted Net Assets	4,686,009	78,016
Total Net Position	$ 14,781,990	$ 116,351

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government Governmental Activities	(Expense) Revenue and Changes in Net Assets: Component Unit Library Foundation
Governmental Activities:						
Public Library Services	$ 9,736,292	$ 368,407	$ 201,104	$ 1,410	$ (9,165,371)	
Administrative Services	2,232,920	-	-	-	(2,232,920)	
Depreciation - unallocated	2,096,740	-	-	-	(2,096,740)	
Total Primary Government	$ 14,065,952	$ 368,407	$ 201,104	$ 1,410	$ (13,495,031)	
Component Unit						
Library Foundation	$ 137,174	$ -	$ 171,829	-		$ 34,655
General Revenues:						
Property taxes, levied for general purposes					$ 13,883,622	$ -
State Aid					155,128	-
Book Sales					-	618
Investment earnings					51,629	250
Loss on Disposals					(8,512)	-
Total General Revenues					$ 14,081,867	$ 868
Change in net assets					$ 586,836	$ 35,523
Net position - beginning					14,195,154	80,828
Net position - ending					$ 14,781,990	$ 116,351

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Balance Sheet
Governmental Funds
June 30, 2013

ASSETS	General Fund	Gifts and Grants Fund	Total Governmental Funds
Cash	$ 4,892,669	$ 106,248	$ 4,998,917
Investments	-	301,897	301,897
Receivable from General Fund	-	69,434	69,434
Ad Valorem Tax Receivable	127,080	-	127,080
Accrued Interest Receivable	898	-	898
Grants Receivable	-	15,277	15,277
Note Receivable	-	97,210	97,210
Foundation Receivable	-	2,686	2,686
Deposit	9,200	-	9,200
Other Receivable	-	-	-
Prepaid Expenses	372,885	-	372,885
Total Assets	$ 5,402,732	$ 592,752	$ 5,995,484
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	$ 234,395	$ 795	$ 235,190
Accrued Salaries and Employee Benefits	54,271	-	54,271
Compensated Absences Payable	329,105	-	329,105
Payable to Special Revenue	69,434	-	69,434
Deferred Revenue	29,518	-	29,518
Total Liabilities	$ 716,723	$ 795	$ 717,518
Fund Balances			
Assigned	$ 918,996	$ 568,544	$ 1,487,540
Committed	1,945,464	23,413	1,968,877
Unassigned	1,821,549	-	1,821,549
Fund Balances, End of Year	$ 4,686,009	$ 591,957	$ 5,277,966
Total Liabilities and Fund Balances	$ 5,402,732	$ 592,752	

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 $20,335,765 and the accumulated depreciation is $10,831,741. 9,504,024

Total Net Assets - Governmental Activities $ 14,781,990

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, 2013

	General Fund	Gifts and Grants Fund	Total Governmental Funds
Revenues:			
Property Taxes	$ 13,883,622	$ -	$ 13,883,622
Collections on Book Fines and Copy Services	341,010	-	341,010
Gifts and Grants	-	201,104	201,104
State Revenue	155,128	-	155,128
Other Contracts	27,397	-	27,397
Interest	13,176	38,453	51,629
Total Revenues	$ 14,420,333	$ 239,557	$ 14,659,890
Expenditures			
Personal Services	$ 9,122,652	$ -	$ 9,122,652
Materials	1,994,866	197,111	2,191,977
General and Administrative	1,100,869	-	1,100,869
Technology and Automation	1,073,100	-	1,073,100
System Services	2,050,135	-	2,050,135
Total Expenditures	$ 15,341,622	$ 197,111	$ 15,538,733
Net Change in Fund Balance	$ (921,289)	$ 42,446	$ (878,843)
Beginning Fund Balance	5,607,298	267,489	5,874,787
Restatement	-	282,022	282,022
Beginning Fund Balances, as restated	$ 5,607,298	$ 549,511	$ 6,156,809
Ending Fund Balances	$ 4,686,009	$ 591,957	$ 5,277,966
Total net changes in fund balances - governmental funds			$ (878,843)

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	$ (2,096,740)	
	Capital Outlay	3,570,931	1,474,191
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.			(8,512)
Change in net assets of governmental activities			$ 586,836

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Fiduciary Net Assets
Fiduciary Fund

	Pension Fund
ASSETS	
Current Assets	
Cash	$ 87,383
Receivables	1,944
Investments	3,250,024
Total Assets	$ 3,339,351
NET ASSETS	
Net Assets	
Held in Trust for Pension Benefits and Other Purposes	$ 3,339,351

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2013

	Pension Fund
Additions	
Contributions	
Employer	$ 208,000
Interest and Dividend Income	83,457
Net Increase in the Fair Value of Investments	31,009
Realized Gain	201,396
Total Additions	$ 523,862
Deductions	
Benefits Paid	$ 230,822
Trustee and Management Fees	16,746
Total Deductions	$ 247,568
Net Increase	$ 276,294
Net Assets, Beginning of Year	3,063,057
Net Assets, End of Year	$ 3,339,351

See Accompanying Notes to Financial Statements

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 require a component unit to be presented discretely and including in the Library System'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

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.

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 Directors 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 Directors. 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.

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

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 property taxes and remits to the Library its portion. Property taxes not paid prior to April and 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, 2013 in both 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.

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 2009 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.

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, 2013, none of the Library's bank balance of $6,040,047 was exposed to custodial credit risk because it was all insured and collateralized. The balance is collateralized with securities held by First Fidelity Bank in the Library's name. The market value of these securities as of June 30, 2013 was $8,891,463.

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 $13,950 for the year ended June 31, 2013, 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, 2013, assets transferred to the Community Foundation by the Organization had a fair value of $301,897 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 $873 for the year ended June 31, 2013, were received by the Library. The fair value of the funds originally donated by third parties at June 30, 2013 was $18,819. 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.

	Market Value	Credit Exposure as a Percentage of Total Investments
Pension Fund		
Pooled Equity Funds	$ 1,758,820	54.10%
Pooled Fixed Income Funds	1,292,067	39.80%
Alternative Investments	199,137	6.10%
Total Pension Fund Investments	$ 3,250,024	100.00%

The following investments represent 5% or more of the net assets of the Plan at June 30, 2013:

	2013
DFA US Large Cap Value I	$304,143
Fidelity Contrafund	189,230
T Rowe Price Growth Stock I	184,267
Vanguard Institutional Index I	264,712
PIMCO Total Return Institutional	410,694
Templeton Global Bond Advantage	261,389
Vanguard Short-term Bond Index Signal	205,268

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 a 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 $3,250,024 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 is $100,000 at zero interest, and is due in 2014. The note has been discounted to $97,210 to report it at its fair market value at June 30, 2013.

Note 4 – Collections

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

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, 2013, no balance was owed. No interest expense was paid or incurred during the year ended June 30, 2013.

Note 6 – Compensated Absences

The compensated absences balance and activity for the year were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated Absences	$ 303,641	442,830	417,366	$329,105	$ 329,105

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 copier leases expired in March 2013. The other leases are renewed on an annual basis. Lease expense under these leases for 2013 was $158,576.

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, 2013 the amount of encumbrances expected to be honored upon performance by the vendor in the next year were:

General Fund	$ 1,945,464
Gifts and Grants Fund	23,413
Total	$ 1,968,877

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, 2013, the City of Noble has not signed the Inter-local agreement taking ownership of the building.

Note 8 – Capital Assets

Capital assets of the Library at June 30, 2013 are as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Non-depreciable Capital Assets:				
Construction in process	$ 1,683,714	$ 1,860,232	$ -	$ 3,543,946
Depreciable Capital Assets:				
Library Books	12,592,049	1,500,902	923,798	13,169,153
Building	-	-	-	-
Furniture and Fixtures	1,036,105	9,108	1,770	1,043,443
Computer Equipment	2,390,153	200,689	175,045	2,415,797
Vehicles	163,426	-	-	163,426
Total Capital Assets	17,865,447	3,570,931	1,100,613	20,335,765
Less Accumulated Depreciation for:				
Library Books	7,300,727	1,955,416	923,798	8,332,345
Furniture and Fixtures	691,410	89,095	1,769	778,736
Computer Equipment	1,746,257	29,359	166,534	1,609,082
Vehicles	88,708	22,870	-	111,578
Total Accumulated Depreciation	9,827,102	2,096,740	1,092,101	10,831,741
Total Depreciable Capital Assets, Net	$ 8,038,345	$ 1,474,191	$ 8,512	$ 9,504,024

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, 2013:

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
Special Revenue Funds	-	568,544	568,544
Committed:			
Reserved for Encumbrances	1,945,464	23,413	1,968,877
Unassigned:	1,821,549	-	1,821,549
Total Fund Balance	$ 4,686,009	$ 591,957	$ 5,277,966

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 new 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 $1/10^{th}$ 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, 2013 to the defined benefit plan were $208,000.

Net Pension Obligation and Annual Pension Cost – The required contribution was determined as part of the January 1, 2013 actuarial valuation using the aggregate salary method, which does not identify and separately amortize unfunded actuarial liabilities. The amortization method used was the level percent of compensation method. The most recent actuarial valuation was for the calendar year 2013 and the period is closed. The actuarial assumptions included

(a) 5.5% investment rate of return,
(b) projected salary increases of 5% and
(c) post-retirement increases of 4.5%.

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	$ 1,509,029
Earning from Investments	83,457
Unrealized Appreciation	201,396
Contribution	208,000
Distributions	(230,822)
Fees and Commissions	(16,746)
Change in Valuation	(227,872)
Net Pension Obligation, End of Year	$ 1,526,442

Present Value of Future Benefits	$ 4,865,793
Valuation of Assets	3,339,351
Net Pension Obligation	$ 1,526,442

Components of Annual Pension Cost:	
Normal Cost	$ 167,750
Interest at 5.5%	9,226
Annual Contribution Necessary to Avoid a Funding Deficiency	$ 176,976

Three year trend information is as follows:

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Actual Contrib
6/30/2011	$ 150,252	103.7%	$1,221,993	$155,750
6/30/2012	$ 197,670	81.7%	$1,509,029	$161,500
6/30/2013	$ 176,976	117.5%	$1,526,442	$208,000

Note 11 – Retirement Plan (continued)

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 Acccrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Coveered Payroll [(b-a)/c]
6/30/2011	$3,066,463	$4,348,456	$1,281,993	70.5%	$ -	N/A
6/30/2012	$3,063,057	$4,572,086	$1,509,029	67.0%	$ -	N/A
6/30/2013	$3,339,351	$4,865,793	$1,526,442	68.6%	$ -	N/A

The Plan's annual financial report is available from the Business Office of the Pioneer Library System, 225 North Webster, Norman, Oklahoma 73069.

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. The Pioneer Library System Board of Trustees has the authority to establish and or amend the funding policy of the plan. Benefits paid for 2013 to the plan were $367,821.

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 – Prior Period Adjustment

In previous years the Library has transferred funds to the Communities Foundation of Oklahoma (CFO) and the Norman Communities Foundation transferring variance power to the Communities foundations. These investment funds were removed from the Library's net assets as of June 30, 2010. At that time interpretations of professional standards indicated that if variance power is transferred, the funds are not assets of the Library. However, it has been determined that the funds transferred by the Organization to the Community Foundation are subject to FASB ASC 958-605, Transfers of Assets to a Not-for–Profit Organization or Charitable Trust that Raises or Holds Contributions for Others. Accordingly the Organization has restated its net assets as of the beginning of the year in order to comply with professional standards. The effect of this correction was to decrease the net assets at the beginning of the fiscal year as follows:

	Invested in Capital Assets	Unrestricted	Restricted	Total
June 30, 2012 Net assets, prior to correction	$8,038,345	$5,607,298	$ 267,489	$13,913,132
Correction to net asset classification	-	-	282,022	282,022
Net assets at the beginning of the year as corrected	$8,038,345	$5,607,298	$ 549,511	$14,195,154
Beneficial interest in assets held by others at the beginning of the year as corrected				$ 282,022

PIONEER LIBRARY SYSTEM
Budgetary Comparison Schedule – General Fund (Unaudited)
For the Year Ended June 30, 2013

	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	$ 13,217,349	$ 13,555,668	$ 13,883,622	$ (125,668)	$ 14,009,290	$ 453,622
State Revenue	149,662	149,662	155,128	-	155,128	5,466
Interest	-	-	13,176	(793)	13,969	13,969
Other	399,616	382,297	368,407	(146)	368,553	(13,744)
Release of Fund Balance	-	141,532	-	-	141,532	-
Use of Designated Fund Balance	1,856,638	3,669,032	-	-	664,638	(3,004,394)
Amounts Available for Appropriation	15,623,265	17,898,191	14,420,333	(126,607)	15,353,110	(2,545,081)
Charges to Appropriations (outflows)						
Personnel Services	9,290,135	9,403,689	9,122,652	(30,407)	9,092,245	311,444
Personnel Services SOKC	-	-	-	-	-	-
Materials	2,180,000	1,980,843	1,985,102	(21,214)	1,963,888	16,955
Materials-West Side Norman	-	175,000	9,764	(9,621)	143	174,857
General and Administrative	938,575	1,187,512	1,100,869	(203,654)	897,215	290,297
Technology	825,000	879,495	760,128	39,807	799,935	79,560
Technology-West Side Norman		241,500	150,547	-	150,547	90,953
Virtual Library	200,000	190,000	162,425	(67,529)	94,896	95,104
Construction Project		3,185,282	1,812,784	-	1,812,784	1,372,498
System Services	2,189,555	454,870	237,351	104,106	341,457	113,413
Total Charges to Appropriations	15,623,265	17,698,191	15,341,622	(188,512)	15,153,110	2,545,081
Change in Net Assets	-	200,000	(921,289)	61,905	200,000	-
Beginning Fund Balance	5,133,260	1,637,366	5,607,298	3,969,932	1,637,366	-
Ending Fund Balance	$ 5,133,260	$ 1,837,366	$ 4,686,009	$ 4,031,837	$ 1,837,366	$ -

Budget to Actual Reconcilation:

Revenues on a budgetary basis are based on cash received rather than the modified accrual basis used for financial reporting	$ (126,607)
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting	188,512
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.	3,969,932
	$ 4,031,837

Notes to required Supplementary 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).

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

September 24, 2013

To the Board of Directors 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, 2013, 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 24, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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