



Financial Statements

For the Year Ended June 30, 2012

PIONEER LIBRARY SYSTEM

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June 30, 2012

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INDEPENDENT AUDITORS' REPORT

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September 19, 2012

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

We have audited the accompanying statements of financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pioneer Library System (the Library) as of and for the year ended June 30, 2012, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pioneer Library System, as of June 30, 2012, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2012, on our consideration of Pioneer Library System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 28 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.

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Pioneer Library System Management's Discussion and Analysis for the Fiscal year Ended June 30, 2012

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, 2012. Readers should read this information in conjunction with the System's financial statements.

Pioneer Library System implemented Governmental Accounting Standards Board (GASB) statement 34 in 2004.

Financial Highlights

For fiscal year 2011-2012, the Library's general fund reported an ending balance of \$5,447,930 versus \$6,743,816 for the fiscal year 2010-2011. Of the 2011-12 year end-total, \$213,318 is reserved for outstanding encumbrances and \$718,996 is designated for service upgrades and improvements of library services at current and future libraries within the system. Although the remaining balance of \$4,515,616 is unrestricted, the Library administration, with the Board of Trustee's approval, plans to use some of these funds to help fund the remodeling of the building that the Library purchased last year. The building will house administrative offices of the Library System and a branch library leased by the City of Norman. 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 2.6% this year. This increase, along with the use of fund balance reserve funds, allowed the library system to undertake numerous projects throughout the system. The Library System purchased the old Borders Book Store building. 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 this project in 2011-2012 was \$1,683,714. The Southwest Oklahoma City library opened in March and the Library System spent \$491,784 in the areas of materials, equipment, and technology during 2011-2012 for this project. The Purcell Library was remodeled at a cost of \$23,205 to the Library System.

The Pioneer Library System Foundation completed its second year of operation as of June 30, 2012. 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 has been included as a component unit of the Library System and the Foundation has issued its own financial statements, available from the Library Foundation administrative office.

Grant highlights for FY12 included the following: The computer lab at the Shawnee Library was completed. This project was funded by a \$65,000.00 grant from the Oklahoma Department of Libraries which was made during the previous fiscal year along with funds from the Library System. The Norman Arts Council awarded the Library System a \$4,588 Readers and Writers Workshop grant. The Oklahoma Humanities Council awarded the Purcell Library a grant to help fund their Key Ingredients event which included a traveling exhibit from the Smithsonian Institution.

The general fund balance decreased by \$1,295,886 or 19.3% from fiscal year 2011 due to the purchase of the old Borders Book Store building and the completion of the Southwest Oklahoma City Library project.

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 11 and 12 of this report.

Fund Financial Statements

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

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

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

Other Governmental Funds include Gift/Grant Funds.

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

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

Notes to the Financial Statements

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

Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, such as comparative statement between budget and actual expenditures, and combined financial statements for other governmental funds.

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 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)

For fiscal year 2010-11 governmental fund balances changed as follows:

	General Fund Funds	Other Governmental Funds	Total Governmental Funds
Revenues	\$ 13,731,457	\$ 326,346	\$14,057,803
Expenditures	\$ 12,799,835	\$ 298,165	\$13,098,000
Net Increase	\$ 931,622	\$ 28,181	\$ 959,803

General Fund:

The Library System is primarily (or 96%) funded by Ad Valorem (property) tax. For the 2011-12 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 2011-12, the Counties' assessed property value had an increase of 3.8% versus 4.4% for 2010-11. Actual tax collections increased by 3.3% versus 5% for the prior year. The smaller increase was due to the slowed growth of the economy. Fine and other charges for services revenue for 2011-12 increased by \$17,484 from 2010-11. This increase was due to an increase in the number of customers and the increased size of the collection with the opening of the new Southwest Oklahoma City Library. State Aid decreased by \$31,648 over the prior year. This decrease was caused by state budget cuts due to the economy. Interest income decreased by \$25,079 over the prior year. This decrease is attributed to lower interest rates caused by the downturn in the economy and less funds being held in reserve.

The Expense category Personnel Services increased from 2011 to 2012 due to a large increase in hospitalization expense, the 2.5% graduated COLA that was given to the staff, the addition of staff for the Southwest Oklahoma City branch, an increase in workers compensation insurance, an increase in group term life and disability insurance, an increase in unemployment, and an increase in retirement costs. The Expense category of Materials was decreased because a majority 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. The Technology and Automation category was higher in 2012 than 2011 due to the purchase of the equipment for the Southwest Oklahoma City library.

The System Services and General and Administrative expense categories were different in 2012 than in 2011 because of the following:

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

- The decrease in literacy expense was due to the fact that the Prime Time family literacy program wasn't held this year.
- The increase in system signage supported phase two of an ongoing project to install new interior signage throughout the system.
- The decrease in equipment is due to the fact that most of the equipment purchases for the Southwest Oklahoma City Library were purchased last year and there weren't as many equipment requests made from the branches this year.
- The Outreach expense category increased because a customer survey was conducted for Norman residents to determine the needs and wants of the library customers.
- The Public Information expenses increased to pay for additional advertising and promotion for the system and for business services materials.
- The Reprographics expenses increased because the PIO department created more in house materials this year than last year and a new copier was added with the opening of the Southwest Oklahoma City Library.
- The Continuing Education expenses increased in order to provide system-wide program coverage and to provide interactive training for new staff, especially at the Southwest Oklahoma City Library. In addition, several staff members were sent to the Public Library Association Conference.
- Supplies increased because additional supplies were purchased due to the addition of the Southwest Oklahoma City Library.
- System facilities increased because of the purchase of a building and addition of the Southwest Oklahoma City Library location.
- Insurance increased because additional coverage was needed to insure the building that was purchased and a law enforcement legal liability policy was added to cover the Libraries security officers.
- Postage costs increased because postage rates were increased.
- Travel costs increased due to the fact that the Library System paid for the travel expenses for Amy Tan to speak at the Big Read Event, and the opening of a new branch added new staff.
- Vehicle costs increased because two vans that were ordered last year weren't paid for until the current year.
- Data processing cost increased because the cost of processing payroll increased.
- Revaluation costs increased because the cost of the service increased.
- Programming costs increased in order to provide business service programming.

Other Governmental Funds:

Gifts/Grants Funds – In FY12, Pioneer Library System received \$183,590 in gifts and grants.

Outright gifts to PLS totaled \$88,834, almost half of which was provided by Friends groups throughout the library system (\$43,675). This past year, Pioneer Library System received \$94,756 in grants. In addition to the grants mentioned in the financial highlights section there were several other grants received this year. A \$54,971 award was granted by the Oklahoma Department of Libraries for Pottawatomie County's ongoing TANF program. With a combined gift of \$12,002, 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 \$1,961. The Oklahoma Department of Libraries awarded an early literacy book giveaway for \$2,500 to the library system. The Mom's Club of Norman donated \$4,090 to fund the Touch a Truck program for the Norman Public Library's Children's Department. Hastings Entertainment donated \$1,138 to help fund literacy programs within the Pioneer Library System. All of the grantors and donors have not only provided financial support but have also been active partners providing excellent library services to the community.

Fiduciary Funds:

The investments of the System Pension Plan decreased due to the decrease in the stock market. The Pioneer Library System Board of Trustees froze the defined benefit pension plan as of December 31, 2008 and instituted a defined contribution retirement plan.

The Library System as a Whole

	<u>2011-12</u>	<u>2010-11</u>
Assets		
Current and Other Assets	6,233,785	7,682,125
Capital Assets	<u>8,038,345</u>	<u>5,985,690</u>
Total Assets	14,272,130	13,667,815
Liabilities		
Accounts Payable and Accrued Expenses	55,357	81,495
Other Liabilities	<u>303,641</u>	<u>279,582</u>
Total Liabilities	358,998	361,077
Net Assets		
Invested in Capital Assets	8,038,345	5,985,690
Unreserved/Unrestricted Net Assets	5,607,298	6,986,266
Restricted Net Assets	<u>267,489</u>	<u>334,782</u>
Total Net Assets	<u>13,913,132</u>	<u>13,306,738</u>
Change in Net Assets:		
Beginning Net Assets	13,306,737	11,603,849
Revenues		
Property Taxes	13,418,882	12,921,337
Charges for Services	410,276	391,578
Operating Grants	183,590	322,148
Capital Grants	11,520	28,925
State Aid	154,385	186,033
Investment Earnings	25,934	50,801
Loss on Disposal	<u>(6,631)</u>	<u>(2,095)</u>
Total Revenues	<u>14,197,956</u>	<u>13,898,727</u>
Expenses		
Public Library Services	9,924,894	8,407,166
Administrative Services	2,198,142	1,937,689
Depreciation – unallocated	<u>2,168,525</u>	<u>1,850,983</u>
Total Expenses	13,591,561	12,195,838
Increase in Net Assets	<u>606,395</u>	<u>1,702,889</u>
Ending Net Assets	<u>13,913,132</u>	<u>13,306,738</u>

General Fund Budgetary Highlights

The General Fund budget for fiscal year 2011-12 was \$15,825,495. This was a 6.4% 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 a majority of the Southwest Oklahoma City Library opening day collections were purchased during the prior year.
- Health insurance cost increased 34%.
- The Continuing Education budget was increased by \$15,000 to provide system-wide program coverage and innovative, interactive training for new staff.
- Supplies were increased \$13,000 in response to the addition of two locations.

- Contract Labor was increased by \$20,000 to cover branch re-design projects in Purcell and Tecumseh, phase three of the pay compensation study including performance evaluation revisions, service contracts for system video surveillance, and other outsourced projects.
- Vehicles were decreased by \$25,000 to cover the replacement cost of only one vehicle.
- Audit expenses were increased \$7,000 to cover the new contract price and the audit needed for the operation of the Pioneer Library System Foundation.
- Reprographics was increased by \$7,000 to cover the increased amount of in-house generated public information items and for the addition of services at the Gray Street and Southwest Oklahoma City locations.
- Fine Collection was decreased \$5,000 to reflect actual expenses.
- Revaluation was increased by \$5,000 to reflect actual and estimated costs.
- The Technology budget was decreased because the purchase of technology for the Southwest Oklahoma City Library was mostly completed last year.
- The System Services budget was increased to cover the costs of standardizing branch signage, to cover Business Services programs and marketing and publicity, and to reflect the costs of leasing and operating two facilities and the purchase of the old Borders Book Store building.
- Fund Balance Reserved For Encumbrances is a new line item which reflects outstanding purchase orders at year end.
- The Designated Fund Balance was decreased because the fund balance designated for the Southwest Oklahoma City Library project was released once the project was complete.
- The Library Automation Services Agreement with the Norman Public Schools was renewed and the funds received were classified as general funds.

Capital Asset and Long-Term Debt

The Library System's investment in capital assets, net of accumulated depreciation, as of June 30, 2012 was \$8,038,345 and on June 30, 2011 was \$5,985,690. 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. Of the total depreciable capital assets, net of accumulated depreciation, on June 30, 2011 14% are furniture, equipment, and vehicles; 0 % are building and property; and the remaining 86% 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. The investment policy that the board of trustee's adopted this year was a major factor in the library system not having to borrow money during the year.

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 that went into effect for the previous budget year. 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 factional 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 downturn in the economy.

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 2.17% growth in property value for 2012; the Pottawatomie County Assessor has certified a 2.49% growth and the McClain County Assessor has certified a 5.70% growth.

For fiscal year 2012-13, the Library Board approved a general fund budget of \$14,142,084 versus \$15,825,495 for 2011-12.

- A 2.5% cost of living increased averaged over the pay grades will be awarded to all staff.
- Health insurance costs increased 13% this year.
- Contract labor was decreased \$33,000. There were several projects that were completed last year.
- Workers compensation insurance was increased by \$5,200.
- The Materials budget was decreased by \$455,000. \$200,000 of this decrease was placed into designated fund balance and \$255,000 of the decrease reflects the fact that last year's budget included amounts for the Southwest OKC branch collection.
- Continuing Education was decreased \$9,300.
- Equipment was decreased by \$60,000. This amount will be increased when the budget is revised in January to account for the equipment for the Pioneer building project.
- Vehicles was increased \$30,000 to cover the cost of the purchase of an additional box delivery vehicle. The new vehicle will be a CNG vehicle.
- Insurance was increased \$23,500 to cover the new insurance policy on our security officers and to cover the increased cost associated with the purchase of the Pioneer building. This amount may be adjusted \$2,000 in the January Revised Budget to reflect coverage of the 24/7 library which will be an additional service outlet that will be located in East Norman.
- Revaluation was increased by \$8,000 to reflect actual and estimated costs.
- The Technology budget was decreased by \$100,000. This decrease reflects the fact that last year's budget included amounts for the opening of the Southwest Oklahoma City branch. This item will be increased when the budget is revised in January for the Pioneer building project.
- Virtual Library was decreased by \$10,000.
- Construction Project Norman Center Court is a new line item in the budget to reflect the costs associated with the remodeling of the Pioneer building. This amount will be revised when the budget is revised in January.
- Development was decreased by \$5,000.
- Public Information was increased \$5,000.
- System Facilities was decreased to reflect the fact that last year's budget included the cost of purchasing the Pioneer building.
- Fund Balance Designated Current Year is a new line item that reflects the amount of the current year income that is being budgeted to fund balance reserves from the materials budget: \$150,000 will be designated for Cleveland County materials and \$25,000 each for materials for McClain and Pottawatomie Counties.
- Designated Fund Balance reflects several items: Cleveland County, \$495,000; McClain County, \$173,996; and Pottawatomie County, \$50,000.

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 Assets

June 30, 2012

	Primary Government Governmental Activities	Component Unit Library Foundation
Assets		
Cash and Cash Equivalents	\$ 5,633,999	\$ 75,957
Ad Valorem Tax Receivable, net of Allowance for Uncollectible Taxes	252,748	--
Pledges Receivable	--	150
Accrued Interest Receivable	1,690	21
Other Current Assets	319,797	7,900
Note Receivable	92,581	--
Depreciable Capital Assets, Net	8,038,345	--
Total Assets	<u>\$ 14,339,160</u>	<u>\$ 84,028</u>
Liabilities		
Accounts Payable and Accrued Expenses	\$ 122,387	\$ 3,200
Compensated Absences Payable	303,641	--
Total Liabilities	<u>\$ 426,028</u>	<u>\$ 3,200</u>
Net Assets		
Invested in Capital Assets	\$ 8,038,345	\$ -
Unrestricted Net Assets	5,607,298	30,813
Restricted Net Assets	267,489	50,015
Total Net Assets	<u><u>\$ 13,913,132</u></u>	<u><u>\$ 80,828</u></u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Program Revenues				Net (Expense)	(Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets	Revenue and Changes in Net Assets
Governmental Activities:					Primary Governmental Activities	Component Unit Library Foundation
Public Library Services	\$ 9,224,894	\$ 410,276	\$ 183,590	\$ 11,520	\$ (8,619,508)	
Administrative Services	2,198,142	-	-	-	(2,198,142)	
Depreciation - unallocated	2,168,525	-	-	-	(2,168,525)	
Total Primary Government	<u>\$ 13,591,561</u>	<u>\$ 410,276</u>	<u>\$ 183,590</u>	<u>\$ 11,520</u>	<u>\$ (12,986,175)</u>	
Component Unit						
Library Foundation	<u>\$ 91,871</u>	<u>\$ --</u>	<u>\$ 128,934</u>	<u>--</u>		<u>\$ 37,063</u>
General Revenues:						
Property taxes, levied for general purposes					\$ 13,418,882	\$ -
State Aid					154,385	-
Book Sales					-	536
Investment earnings					25,934	145
Loss on Disposals					(6,631)	-
Total General Revenues					<u>\$ 13,592,570</u>	<u>\$ 681</u>
Change in net assets					\$ 606,395	\$ 37,744
Net assets - beginning					13,306,737	43,084
Net assets - ending					<u>\$ 13,913,132</u>	<u>\$ 80,828</u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM

Balance Sheet Governmental Funds June 30, 2012

ASSETS	General Fund	Gifts and Grants Fund	Total Governmental Funds
Cash	\$ 5,523,766	\$ 101,033	\$ 5,624,799
Receivable from General Fund	--	65,203	65,203
Ad Valorem Tax Receivable	252,748	--	252,748
Accrued Interest Receivable	1,690	--	1,690
Grants Receivable	--	8,422	8,422
Note Receivable	--	92,581	92,581
Foundation Receivable	3,704	250	3,954
Deposit	9,200	--	9,200
Other Receivable	1,821	--	1,821
Prepaid Expenses	305,600	--	305,600
Total Assets	\$ 6,098,529	\$ 267,489	\$ 6,366,018
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 69,825	\$ --	\$ 69,825
Accrued Salaries and Employee Benefits	52,562	--	52,562
Compensated Absences Payable	303,641	--	303,641
Payable to Special Revenue	65,203	--	65,203
Deferred Revenue	159,368	--	159,368
Total Liabilities	\$ 650,599	\$ --	\$ 650,599
Fund Balances			
Reserved for Encumbrances	\$ 213,318	\$ --	\$ 213,318
Designated for Service Upgrades/Improvements For			
Cleveland County Libraries	495,000	--	495,000
McClain County Libraries	173,996	--	173,996
Pottawatomie County Libraries	50,000	--	50,000
South OKC Libraries	--	--	--
Undesignated reported in :			
General Fund	4,515,616	--	4,515,616
Special Revenue Funds	--	267,489	267,489
Fund Balances, End of Year	\$ 5,447,930	\$ 267,489	\$ 5,715,419
Total Liabilities and Fund Balances	\$ 6,098,529	\$ 267,489	

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 \$17,865,447 and the accumulated depreciation is \$9,827,102.

8,038,345

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds

159,368

Total Net Assets - Governmental Activities

\$ 13,913,132

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, 2012

	General Fund	Gifts and Grants Fund	Total Governmental Funds
Revenues:			
Property Taxes	\$ 13,501,964	\$ --	\$ 13,501,964
Collections on Book Fines and Copy Services	382,060	--	382,060
Gifts and Grants	--	183,590	183,590
State Revenue	154,385	--	154,385
Other Contracts	28,216	--	28,216
Interest	21,525	4,409	25,934
Total Revenues	<u>\$ 14,088,150</u>	<u>\$ 187,999</u>	<u>\$ 14,276,149</u>
Expenditures			
Personal Services	\$ 8,668,944	\$ --	\$ 8,668,944
Materials	2,482,045	255,292	2,737,337
General and Administrative	975,030	--	975,030
Technology and Automation	1,284,207	--	1,284,207
System Services	1,973,810	--	1,973,810
Total Expenditures	<u>\$ 15,384,036</u>	<u>\$ 255,292</u>	<u>\$ 15,639,328</u>
Net Change in Fund Balance	\$ (1,295,886)	\$ (67,293)	\$ (1,363,179)
Beginning Fund Balance	<u>6,743,816</u>	<u>334,782</u>	<u>7,078,598</u>
Ending Fund Balances	<u>\$ 5,447,930</u>	<u>\$ 267,489</u>	<u>\$ 5,715,419</u>
Total net changes in fund balances - governmental funds			\$ (1,363,179)

The change in net 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	\$ (2,168,525)	
Capital Outlay	<u>4,227,811</u>	2,059,286

Because some property taxes will not be collected for several months after the Library's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are, instead counted as deferred revenues. They are however, recorded as revenues in the statement of activities.

(83,081)

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.

(6,631)

Change in net assets of governmental activities

\$ 606,395

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Fiduciary Net Assets
Fiduciary Fund

	<u>Pension Fund</u>
ASSETS	
Current Assets	
Cash	\$ 53,504
Receivables	3,349
Investments	3,006,204
Payable	<u> -</u>
Total Assets	<u>\$ 3,063,057</u>

NET ASSETS	
Net Assets	
Held in Trust for Pension	
Benefits and Other Purposes	<u>\$ 3,063,057</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, 2012

	<u>Pension Fund</u>
Additions	
Contributions	
Employer	\$ 161,500
Interest and Dividend Income	85,978
Net Increase in the Fair Value of Investments	-
Realized Gain	<u>58,260</u>
Total Additions	<u>\$ 305,738</u>
Deductions	
Benefits Paid	\$ 167,619
Trustee and Management Fees	15,959
Net Decrease in the Fair Value of Investments	<u>125,566</u>
Total Deductions	<u>\$ 309,144</u>
Net Increase	\$ (3,406)
Net Assets, Beginning of Year	<u>3,066,463</u>
Net Assets, End of Year	<u>\$ 3,063,057</u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM

Notes to Financial Statements

June 30, 2012

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 – The financial statements are presented in accordance with Financial Accounting Standards Board Accounting Standards Codification 958 (FASB ASC 958), formerly Statement of Financial Accounting Standards No. 117, Financial Statements of Not-for-Profit Organizations, which requires the Organization to report net assets based on the existence or absence of donor-imposed restrictions.

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

PIONEER LIBRARY SYSTEM

Notes to Financial Statements

June 30, 2012

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 9.

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

The government-wide focus is more on the sustainability of the Library as an entity and the change in the Library’s net 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. In accordance with FASB ASC 958, formerly SFAS No. 116, Accounting for Contributions Received and Contributions Made, contributions, including unconditional promised to give, are recorded as made.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2012

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.

Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of resources are recorded as expenditures of the applicable funds, is used. This is an extension of the formal budgetary integration in the general fund. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Cash and Cash Equivalents - The Library considers all cash on hand, demand deposits, money market checking and certificates of deposit, 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 - The Library is authorized by state law to levy property taxes which consist of ad valorem taxes on real and personal property within the County. The County Assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax roll for submission to the county treasurer prior to October 1. The county treasurer must commence tax collection

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2012

Note 1 – Summary of Significant Accounting Policies (continued)

within fifteen days of receipt of the tax rolls. The first half of the taxes is due prior to January 1. The second half is due prior to April 1.

If the first payment is not made timely, the entire tax becomes due and payable on January 1. Second half taxes become delinquent on April 1 of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of taxes due. The owner has two years to redeem the property by paying the taxes and penalty owed. If at the end of two years the owner has not Done so, the purchaser is issued a deed to the property. The Offices of Cleveland, McClain and Pottawatomie Counties bill and collect the property taxes and remit its share to the Library.

Property taxes receivable by the Library include uncollected taxes assessed as of October 1, 2005 and earlier. Provision for uncollectible taxes of \$4,850 has been recorded. No provision has been made in the other funds for uncollectible amounts. All property taxes earned at year-end but not yet received are included in receivables reported on the government-wide statements. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Any remaining property taxes due are deferred until they become available.

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.

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. The 2009, 2010, and 2011 tax years remain open and are 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.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2012

Note 1 – Summary of Significant Accounting Policies (continued)

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 certification 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, 2012, none of the Library's bank balance of \$5,555,108 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, 2012 was \$9,741,665.

Investment Interest Rate Risk - The investments of the Pension Plan (see also Note 9) 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	\$ 1,563,979	51.10%
Pooled Fixed Income Funds	1,305,190	42.60%
Alternative Investments	<u>190,540</u>	<u>6.30%</u>
Total Pension Fund Investments	<u>\$ 3,059,709</u>	<u>100.00%</u>

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 newly established 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

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2012

items; and provides periodic accounting to the board. The pension trust fund holds \$3,006,205 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 \$92,580.80 to report it at its fair market value at June 30, 2012.

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, 2012, no balance was owed. No interest expense was paid or incurred during the year ended June 30, 2012.

Note 6 – Long-term 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	\$ 279,582	419,996	395,937	\$ 303,641	\$ 303,641

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

Note 7 – Operating 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 expire in March 2013. The other leases are renewed on an annual basis. Lease expense under these leases for 2012 was \$164,748.52 Future minimum annual lease expense for these lease are as follows:

2013	\$ 25,630
2014	6,600
2015	6,300
2016	5,640
2017	1,665
Thereafter	0
	<u>\$ 45,945</u>

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2012

Note 8 – Capital Assets

Capital assets of the Library at June 30, 2012 are as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Depreciable Capital Assets:				
Library Books	\$ 11,297,293	\$ 1,967,168	\$ 672,412	\$ 12,592,049
Building	-	1,683,714.00	-	1,683,714.00
Furniture and Fixtures	991,124.00	44,981.00	-	1,036,105.00
Computer Equipment	1,965,307.00	488,756.00	63,910.00	2,390,153.00
Vehicles	<u>138,260.00</u>	<u>43,192.00</u>	<u>18,026.00</u>	<u>163,426.00</u>
Total Capital Assets	<u>14,391,984.00</u>	<u>4,227,811.00</u>	<u>754,348.00</u>	<u>17,865,447.00</u>
Less Accumulated				
Depreciation for:				
Library Books	6,159,174.00	1,813,962.00	672,409.00	7,300,727.00
Building	-	-	-	-
Furniture and Fixtures	604,815.00	86,595.00	-	691,410.00
Computer Equipment	1,563,022.00	246,526.00	63,291.00	1,746,257.00
Vehicles	<u>79,283</u>	<u>21,442</u>	<u>12,017</u>	<u>88,708</u>
Total Accumulated				
Depreciation	<u>8,406,294.00</u>	<u>2,168,525.00</u>	<u>747,717.00</u>	<u>9,827,102.00</u>
Total Depreciable Capital				
Assets, Net	<u>\$ 5,985,690</u>	<u>\$ 2,059,286</u>	<u>\$ 6,631</u>	<u>\$ 8,038,345</u>

Note 9 – Defined Benefit Retirement Plan

Plan Description - The Pioneer Library System Pension Plan and Trust (The Plan) is a single-employer public employees retirement system (PERS) plan that covers all full-time employees of the Library. This plan was frozen as of December 31, 2008. 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 1/10th 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, 2012 to the defined benefit plan were \$161,500.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2012

Net Pension Obligation and Annual Pension Cost – The required contribution was determined as part of the January 1, 2012 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 2012 and the period is closed. The actuarial assumptions included

- (a) 6% investment rate of return,
- (b) projected salary increases of 5% and
- (c) post-retirement increases of 5%.

Note 10 – Retirement Plan

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

Net Pension Obligation, Beginning of Year	\$ 1,281,993
Earning from Investments	85,978
Unrealized Depreciation	(125,566)
Contribution	161,500
Distributions	(167,619)
Fees and Commissions	(15,959)
Change in Valuation	288,702
Net Pension Obligation, End of Year	<u>\$ 1,509,029</u>
Present Value of Future Benefits	\$ 4,572,086
Valuation of Assets	3,063,057
Net Pension Obligation	<u>\$ 1,509,029</u>
Components of Annual Pension Cost:	
Normal Cost	\$ 187,365
Interest at 6%	10,305
Annual Contribution Necessary to Avoid a Funding Deficiency	<u>\$ 197,670</u>

Three year trend information is as follows:

Three-Year Trend Information

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>	Actual Contrib
6/30/2010	\$ 163,645	109.5%	\$1,546,991	\$179,130
6/30/2011	\$ 150,252	103.7%	\$1,281,993	\$155,750
6/30/2012	\$ 197,670	81.7%	\$1,509,029	\$161,500

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2012

Note 10 – 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 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]
6/30/2010	\$2,565,420	\$4,112,411	\$1,546,991	62.4%	\$ -	N/A
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

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

Note 11 – 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 2012 to the plan were \$356,781.86.

Note 12 – Endowment Fund

The library is the beneficiary of investment income on three endowment funds that are under the control of the Communities Foundation of Oklahoma. The value of the funds as of June 30, 2012 was \$299.652.

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.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2012

Note 14 – 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, 2012, the City of Noble has not signed the Inter-local agreement taking ownership of the building.

Note 15 – Subsequent Events

The Pioneer Library System purchased the old Borders building in Norman in December 2011 with plans to remodel the building and house all of the administrative staff of the Pioneer Library System and a west side Norman branch library in the building. In July of 2012 the Pioneer Library System Board of Trustees approved a preliminary budget and the conceptual design package for the remodeling project. The projected completion date of the remodeling project is June of 2013.

In July 2012 The Pioneer Library System, the City of Norman, and the Norman Public Schools entered into an agreement to provide a 24-hour library service machine located at 125 Vicksburg Avenue in Norman Oklahoma. The machine should be installed and operational by December of 2012.

Subsequent events have been evaluated through the issuance date of this report and no significant events were noted, except those mentioned above.

PIONEER LIBRARY SYSTEM
Budgetary Comparison Schedule – General Fund (Unaudited)
For the Year Ended June 30, 2012

	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	\$ 12,739,633	\$ 13,217,349	\$ 13,501,964	\$ (13,500)	\$ 13,515,464	\$ 298,115
State Revenue	166,291	149,662	154,385	-	154,385	4,723
Interest	-	-	21,525	(1,587)	23,112	23,112
Other	383,400	399,616	410,276	146	410,130	10,514
Use of Designated Fund Balance	<u>955,684</u>	<u>2,058,868</u>	<u>-</u>	<u>-</u>	<u>1,296,121</u>	<u>(762,747)</u>
Amounts Available for Appropriation	<u>14,245,008</u>	<u>15,825,495</u>	<u>14,088,150</u>	<u>(14,941)</u>	<u>15,399,212</u>	<u>(426,283)</u>
Charges to Appropriations (outflows)						
Personnel Services	8,344,683	9,168,115	8,668,944	(67,047)	8,601,897	566,218
Personnel Services SOKC	625,000	-	-	-	-	-
Materials	2,180,000	2,435,000	2,482,045	41,788	2,523,833	(88,833)
Materials-SOKC	600,000	-	-	-	-	-
General and Administrative	896,325	907,825	975,030	(100,916)	874,114	33,711
Technology	825,000	925,000	1,117,795	(7,028)	1,110,767	(185,767)
Technology-SOKC	150,000	-	-	-	-	-
Virtual Library	200,000	200,000	166,412	(8,674)	157,738	42,262
System Services	<u>424,000</u>	<u>2,189,555</u>	<u>1,973,810</u>	<u>157,053</u>	<u>2,130,863</u>	<u>58,692</u>
Total Charges to Appropriations	14,245,008	15,825,495	15,384,036	15,176	15,399,212	426,283
Change in Net Assets	-	-	(1,295,886)	(30,117)	-	-
Beginning Fund Balance	<u>5,133,260</u>	<u>5,133,260</u>	<u>6,743,816</u>	<u>1,610,556</u>	<u>5,133,260</u>	<u>-</u>
Ending Fund Balance	<u>\$ 5,133,260</u>	<u>\$ 5,133,260</u>	<u>\$ 5,447,930</u>	<u>\$ 1,580,439</u>	<u>\$ 5,133,260</u>	<u>\$ -</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

\$ (14,941)

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

(15,176)

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.

1,610,556
\$ 1,580,439

PIONEER LIBRARY SYSTEM
Budgetary Comparison Schedule – General Fund (Unaudited)
For the Year Ended June 30, 2012

Notes to required Supplementary 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).



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

September 19, 2012

To the Board of Directors
Pioneer Library System

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pioneer Library System as of and for the year ended June 30, 2012, which collectively comprise the Library's basic financial statements and have issued our report thereon dated September 19, 2012. We conducted our audits 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.

Internal Control over Financial Reporting

In planning and performing our audits, we considered Pioneer Library System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pioneer Library System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pioneer Library System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

This report is intended for the information of the Board of Directors, management, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

GRAY, BLODGETT & COMPANY, PLLC

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