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State Auditor & Inspector



Financial Statements

For the Year Ended June 30, 2011

PIONEER LIBRARY SYSTEM

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June 30, 2011

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INDEPENDENT AUDITORS' REPORT

September 20, 2011

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, 2011, 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, 2011, 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 20, 2011, 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, 2011

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, 2011. 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 2010-2011, the Library's general fund reported an ending balance of \$6,743,816 versus \$5,812,194 for the fiscal year 2009-2010. Of the 2010-11 year end-total, \$753,281 is reserved for outstanding encumbrances and \$2,417,806 is designated for service upgrades and improvements of library services at current and future libraries within the system. Although the remaining balance of \$3,572,729 is unrestricted, over the years, the Library administration, with the Board of Trustee's approval, has prudently used or committed the money from this fund to alleviate summer/fall cash flow problems and other emergencies that might arise.

The Pioneer Library Systems operating revenue increased by 5.1% this year. This increase allowed the library system to fund numerous projects throughout the system. A new telephone system was purchased and installed at the Norman Public Library for a cost of \$60,265.00. System signage was installed at several of the branches for a cost of \$10,492.55. A market segmentation study was completed by CIVICTechnologies for the Pioneer Library System's service area. Phase three of the pay compensation study which is being conducted by Singer and Associates began in the fall. A security camera system was installed at the SOKC library which will open in the fall of 2011 for a cost of \$20,782.95. The library automation system was updated and movie boxes were purchased for two of the libraries within the system. The library system leased additional office space for some of the system administrative staff.

The Pioneer Library System Foundation began operation in July of 2010 and 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 FY11 included a \$65,000.00 grant from the Oklahoma Department of Libraries to install a computer lab at the Shawnee Library. The Norman Arts Council awarded the Library System a grant of \$10,825.00 to help fund the various cultural festivals at the Norman Public Library. In addition, they provided \$6,825.00 in funding for the 2011 Big Read. The Oklahoma Arts Council provided \$7,000.00 in funding for the System's Summer Reading Program.

The general fund balance increased by \$931,622 or 16.1% from fiscal year 2010. The increase in the general fund balance was due to the fact the Library System received more Ad Valorem tax revenue and more fine revenue than was budgeted. In addition, there was less money spent out of current year funds for the Southwest Oklahoma City library than was budgeted. \$2,417,806 has been designated for service upgrades and improvements of library services at present and future libraries within the system including the Southwest Oklahoma City Library which will open in the fall of 2011.

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 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

For fiscal year 2009-10 governmental fund balances changed as follows:

	General Fund Funds	Other Governmental Funds	Total Governmental Funds
Revenues	\$13,070,311	\$ 575,224	\$13,645,535
Expenditures	\$11,546,143	\$ 492,376	\$12,038,519
Net Increase	\$ 1,524,168	\$ 82,848	\$ 1,607,016

General Fund:

The Library System is primarily (or 96%) funded by Ad Valorem (property) tax. For the 2010-11 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 2010-11, the Counties' assessed property value had an increase of 4.4% versus 8% for 2009-10. Actual tax collections increased by 5% versus 9% for the prior year. The smaller increase was due to the slowed growth of the economy. Fine and other charges for services revenue for 2010-11 increased by \$45,992 from 2009-10. This increase was due to an increase in collection effort by the continued use of a library collection service and the increased size of the collection with the opening of the new Blanchard Library. State Aid increased by \$1,266 over the prior year. Interest income decreased by \$5,267 over the prior year. This decrease is attributed to the downturn in the economy.

The expense category Personnel Services increased from 2010 to 2011 due to a large increase in hospitalization expense, the 3% graduated COLA that was given to the staff, the addition of staff for the Southwest Oklahoma City branch, an increase in contract labor due to phase three of the pay compensation study and the installation and training on new accounting software modules and the market segmentation study that was completed by CIVICTechnologies. The expense category of Materials was increased to cover the cost of the opening day collection for the Southwest Oklahoma City library.

The System Services and General and Administrative expense categories were different in 2011 than in 2010 because of the following:

- The increase in development expenses was due to the fact that the foundation began operation in July of 2010.
- The increase in literacy expense was necessary to cover the costs of the Prime Time family literacy program.
- The increase in system signage supported phase one of an ongoing project to install new interior signage throughout the system.
- The decrease in equipment is due to the fact that the Blanchard library opened last year and the City of Oklahoma City is funding many of the equipment purchases for the Southwest Oklahoma City library.
- The Outreach expense category decreased because not as many items were purchased for outreach this year.

- The Public Information expenses increased to pay for the costs associated with a new library card signup campaign and to pay for increased advertising and promotion for the system
- The Reprographics expenses increased because the PIO department created more in house materials this year than last year.
- The audit expenses increased because the auditor increased their contract price.
- Supplies increased because additional supplies were purchased and the cost of supplies increased.
- System facilities increased because the library rented some additional office space for administrative and development staff.

Other Governmental Funds:

Gifts/Grants Funds – In FY11, Pioneer Library System received \$322,148 in gifts and grants.

Outright gifts to PLS totaled \$104,724, over one third of which was provided by Friends groups throughout the library system (\$37,764). This past year, Pioneer Library System received \$217,424 in grants. In addition to the grants mentioned in the financial highlights section there were several other grants received this year. A \$79,115 award was granted by the Oklahoma Department of Libraries for Pottawatomie County's ongoing TANF program. With a combined gift of \$17,611, 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 \$2,405. The Oklahoma Department of Libraries awarded a professional youth services speaker grant for \$5,000 to the library system. The Oklahoma Arts Council continued their support for PLS summer reading programs with a gift of \$3,200. The National Endowment for the Humanities awarded a \$2,500 grant for the Louisa May Alcott programs. The Robert and Ruby Priddy Charitable Trust awarded a grant for the AMO LEER/I Love to Read Project. All of the grantors and donors have not only provided financial support, but 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

	<u>2010-11</u>	<u>2009-10</u>
Assets		
Current and Other Assets	7,682,125	6,916,097
Capital Assets	<u>5,985,690</u>	<u>5,056,697</u>
Total Assets	13,667,814	11,972,794
Liabilities		
Accounts Payable and Accrued Expenses	81,495	95,200
Other Liabilities	<u>279,582</u>	<u>273,747</u>
Total Liabilities	361,077	368,947
Net Assets		
Invested in Capital Assets	5,985,690	5,056,697
Unreserved/Unrestricted Net Assets	6,986,265	6,240,549
Restricted Net Assets	<u>334,782</u>	<u>306,601</u>
Total Assets	13,306,737	11,603,847
Change in Net Assets:		
Beginning Net Assets	11,603,848	9,050,401
Revenues		

Property Taxes	12,921,337	12,374,641
Charges for Services	391,578	345,586
Operating Grants	322,148	480,776
Capital Grants	28,925	38,417
State Aid	186,033	184,767
Investment Earnings	50,801	146,319
Loss on Disposal	(2,095)	(7,284)
Total Revenues	13,898,727	13,563,222
Expenses		
Public Library Services	8,407,166	7,916,435
Administrative Services	1,937,689	1,667,285
Depreciation – unallocated	1,850,983	1,426,056
Total Expenses	12,195,838	11,009,776
Increase in Net Assets	1,702,889	2,553,446
Ending Net Assets	13,306,737	11,603,847

General Fund Budgetary Highlights

The General Fund budget for fiscal year 2010-11 was \$13,289,324. This was a 4.4% increase over the previous year. The highlights of the budget include:

- A 3% cost of living increased averaged over the pay grades was awarded to all staff.
- Salary adjustments were made for 84 employees whose positions were designated for change under Phase Two of the Singer Group Pay Compensation study. In addition, in January \$625,000 was moved from the designated fund balance to establish a personnel budget for the Southwest Oklahoma City library.
- The Materials budget was reduced by \$345,000 and this amount was moved to the designated fund balance and was designated for future use for materials purchases in Cleveland and McClain Counties. In January \$1,440,000 was moved from the designated fund balance to establish a materials budget for the Southwest Oklahoma City library.
- Health insurance cost increased 32.38%.
- The Continuing Education budget was increased by \$3,000 to provide system-wide program coverage and training for new staff.
- Retirement was increased to \$548,000 to cover contributions to both retirement plans.
- Employee assistance programs were increased to cover the costs for a full year contract and to fund the healthy workplace task force.
- Contract Labor was increased by \$23,000 to cover a market segmentation study by CIVICTechnologies, phase three of the pay compensation study, purchase order implementation and digitization of board records.
- Equipment was increased \$15,000 to cover several projects including a new phone system for the Norman Library and a video surveillance system for the Southwest OKC Library.
- Travel was increased \$3,000 to cover board retreat costs and mileage increases.
- Vehicles was increased \$10,000 to cover the replacement cost of the technology van and the Pottawatomie County vehicle.
- In January \$235,000 was moved from the designated fund balance to establish a technology budget for the Southwest Oklahoma City library.
- Audit expenses were increased \$2,600 to cover the new contract price.
- Interest expense was decreased by \$5,500.00. The growing reserve and the implementation of the Income Investment policy by the board are responsible for this change.
- Reprographics was increased by \$3,500 to cover the increased amount of in-house generated public information items.
- Data processing was increased \$10,000 to cover the payroll processing costs and to study the implementation of on-line timesheets and other potential changes.
- Fine Collection was increased to cover actual use.

- The System Services budget was increased to cover the costs of standardizing branch signage, to cover the Library card signup promotion and other marketing and other marketing and publicity, and to cover family literacy projects.
- The Designated fund balance was increased to cover salary, materials, technology, equipment and other expenditures for the Southwest Oklahoma City Library and to cover future materials costs in Cleveland and McClain County.
- 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, 2011 was \$5,985,690 and on June 30, 2010 was \$5,056,697. Of the total depreciable capital assets, net of accumulated depreciation, on June 30, 2011, 14% are furniture, equipment and vehicles; the remaining 86% are books and materials. Of the total depreciable capital assets, net of accumulated depreciation, on June 30, 2010 17% are furniture, equipment, and vehicles; the remaining 83% 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 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 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.

Cleveland County in particular is one of the fastest growing areas in the state. Low mortgage rates, new industry, and expansion of the commercial sector have been very favorable to growth in Cleveland County. 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 4.18% growth in property value for 2011; the Pottawatomie County Assessor has certified a 2.44% growth and the McClain County Assessor has certified a 2.21% growth.

For fiscal year 2011-12, the Library Board approved a general fund budget of \$14,175,156 versus \$13,289,324 for 2010-11.

- A 2.5% cost of living increased averaged over the pay grades will be awarded to all staff.
- Health insurance costs increased 34% this year.
- Contract labor was increased \$20,000 to cover branch re-design projects in Purcell and Tecumseh, Pay Compensation Phase Three, services contracts for system video surveillance, and other anticipated outsourced projects.

- The materials budget remained the same. However, the Southwest Oklahoma City materials budget was decreased because a majority of the opening day collections for this library was purchased from the previous year's budget.
- Continuing Education was increased \$15,000 to cover system-wide program coverage and innovative, interactive training for new staff, especially those twenty-two to be added to the Southwest Oklahoma City library.
- Supplies was increased by \$13,000 and is responsive to the addition of two new locations, both the Southwest Oklahoma City library and the Gray Street annex.
- Employee assistance programs were increased to cover the costs of a full year contract and to fund the healthy workplace taskforce.
- Vehicles was decreased \$25,000 because only one vehicle needs to be replaced this year.
- The audit was 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 in anticipation of additional in-house generation of public information items and for the addition of services and the Southwest Oklahoma City library and possibly the Gray Street annex.
- The Fine Collection item was decreased to reflect actual costs.
- Revaluation was increased by \$5,000 to reflect actual and estimated costs.
- The Technology budget remained the same. However, the Southwest Oklahoma City technology budget was decreased by \$135,000 because most of the technology for the opening of the library was purchased from the previous year's budget.
- System signage was increased by \$5,000 to cover the cost of completing the standardizing of branch signage.
- Public Information was increased \$5,000 for use of Business Services promotion and marketing.
- Programming was increased \$3,000 and is earmarked for Business Services.
- Literacy was decreased \$4,000 now that the Prime Time program has ended.
- System Facilities was increased to reflect the cost of leasing and operatin both the McGee and Gray Street offices.
- The Designated fund balance reserved for encumbrances is a new line items which reflects outstanding purchase orders as of June 30, 2011.
- Designated fund balance reflects several items: Cleveland County, \$495,000; McClain County, \$173,996; Pottawatomie County, \$50,000; and Southwest Oklahoma City, \$1,290,281.

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, 2011

	<u>Primary</u> <u>Government</u> <u>Governmental</u> <u>Activities</u>	<u>Component</u> <u>Unit</u> <u>Library</u> <u>Foundation</u>
Assets		
Cash and Cash Equivalents	\$ 6,903,526	\$ 41,754
Ad Valorem Tax Receivable, net of Allowance for Uncollectible Taxes	349,329	-
Pledges Receivable	-	1,325
Accrued Interest Receivable	3,277	5
Other Current Assets	337,820	-
Note Receivable	88,172	-
Depreciable Capital Assets, Net	<u>5,985,690</u>	<u>-</u>
Total Assets	<u>\$ 13,667,814</u>	<u>\$ 43,084</u>
Liabilities		
Accounts Payable and Accrued Expenses	\$ 81,495	\$ -
Compensated Absences Payable	<u>279,582</u>	<u>-</u>
Total Liabilities	<u>\$ 361,077</u>	<u>\$ -</u>
Net Assets		
Invested in Capital Assets	\$ 5,985,690	\$ -
Unrestricted Net Assets	6,986,265	25,418
Restricted Net Assets	<u>334,782</u>	<u>17,666</u>
Total Net Assets	<u><u>\$ 13,306,737</u></u>	<u><u>\$ 43,084</u></u>

PIONEER LIBRARY SYSTEM
Statement of Activities
For the Year Ended June 30, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	(Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit Library Foundation
Governmental Activities:						
Public Library Services	\$ 8,407,166	\$ 391,578	\$ 322,148	\$ 28,925	\$ (7,664,515)	
Administrative Services	1,937,689	-	-	-	(1,937,689)	
Depreciation - unallocated	1,850,983	-	-	-	(1,850,983)	
Total Primary Government	<u>\$ 12,195,838</u>	<u>\$ 391,578</u>	<u>\$ 322,148</u>	<u>\$ 28,925</u>	<u>\$ (11,453,187)</u>	
Component Unit						
Library Foundation	<u>\$ 39,346</u>	<u>\$</u>	<u>\$ 81,741</u>			<u>\$ 42,395</u>
General Revenues:						
Property taxes, levied for general purposes					\$ 12,921,337	-
State Aid					186,033	-
Book Sales					-	659
Investment earnings					50,801	30
Loss on Disposals					(2,095)	-
Total General Revenues					<u>\$ 13,156,076</u>	<u>\$ 689</u>
Change in net assets					\$ 1,702,889	\$ 43,084
Net assets - beginning					11,603,848	-
Net assets - ending					<u>\$ 13,306,737</u>	<u>\$ 43,084</u>

PIONEER LIBRARY SYSTEM

Balance Sheet Governmental Funds June 30, 2011

ASSETS	General Fund	Gifts and Grants Fund	Total Governmental Funds
Cash	\$ 6,764,142	\$ 139,384	\$ 6,903,526
Receivable from General Fund	--	67,877	67,877
Ad Valorem Tax Receivable	349,329	--	349,329
Accrued Interest Receivable	3,277	--	3,277
Grants Receivable	--	33,199	33,199
Note Receivable	--	88,172	88,172
Foundation Receivable	--	6,150	6,150
Prepaid Expenses	298,471	--	298,471
Total Assets	\$ 7,415,219	\$ 334,782	\$ 7,750,001
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued Salaries and Employee Benefits	\$ 81,495	\$ --	\$ 81,495
Compensated Absences Payable	279,582	--	279,582
Payable to Special Revenue	67,877	--	67,877
Deferred Revenue	242,449	--	242,449
Total Liabilities	\$ 671,403	\$ --	\$ 671,403
Fund Balances			
Reserved for Encumbrances	\$ 753,281	\$ --	\$ 753,281
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	1,698,810	--	1,698,810
Undesignated reported in :			
General Fund	3,572,729	--	3,572,729
Special Revenue Funds	--	334,782	334,782
Fund Balances, End of Year	\$ 6,743,816	\$ 334,782	\$ 7,078,598
Total Liabilities and Fund Balances	\$ 7,415,219	\$ 334,782	

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 \$14,391,984 and the accumulated depreciation is \$8,406,294.

5,985,690

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

242,449

Total Net Assets - Governmental Activities

\$ 13,306,737

PIONEER LIBRARY SYSTEM
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Gifts and Grants Fund	Total Governmental Funds
Revenues:			
Property Taxes	\$ 13,107,244	\$ --	\$ 13,107,244
Collections on Book Fines and Copy Services	364,576	--	364,576
Gifts and Grants	--	322,148	322,148
State Revenue	186,033	--	186,033
Other Contracts	27,000	--	27,000
Interest	46,604	4,198	50,802
Total Revenues	<u>\$ 13,731,457</u>	<u>\$ 326,346</u>	<u>\$ 14,057,803</u>
Expenditures			
Personal Services	\$ 7,808,551	\$ --	\$ 7,808,551
Materials	2,875,744	298,165	3,173,909
General and Administrative	929,468	--	929,468
Technology and Automation	920,860	--	920,860
System Services	265,212	--	265,212
Total Expenditures	<u>\$ 12,799,835</u>	<u>\$ 298,165</u>	<u>\$ 13,098,000</u>
Net Change in Fund Balance	\$ 931,622	\$ 28,181	\$ 959,803
Beginning Fund Balance	5,812,194	306,601	6,118,795
Ending Fund Balances	<u>\$ 6,743,816</u>	<u>\$ 334,782</u>	<u>\$ 7,078,598</u>
Total net changes in fund balances - governmental funds			\$ 959,803

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	\$ (1,850,983)	
Capital Outlay	2,782,071	931,088

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.

(185,907)

Disposals of capital assets are not considered to be expenditures in the governmental funds. They are however, recoded as a loss in the statement of activities.

(2,095)

Change in net assets of governmental activities

\$ 1,702,889

PIONEER LIBRARY SYSTEM
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2011

	Pension Fund
	<hr/>
ASSETS	
Current Assets	
Cash	\$ 115,314
Receivables	3,449
Investments	2,947,700
Payable	<hr/> --
Total Assets	<hr/> \$ 3,066,463 <hr/>

NET ASSETS	
Net Assets	
Held in Trust for Pension	
Benefits and Other Purposes	<hr/> \$ 3,066,463 <hr/>

PIONEER LIBRARY SYSTEM
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2011

	<u>Pension Fund</u>
Additions	
Contributions	
Employer	\$ 155,750
Interest and Dividend Income	76,314
Net Decrease in the Fair Value of Investments	335,032
Realized Gain	<u>88,750</u>
Total Additions	<u>\$ 655,846</u>
Deductions	
Benefits Paid	\$ 139,561
Trustee and Management Fees	<u>15,242</u>
Total Deductions	<u>\$ 154,803</u>
Net Increase	\$ 501,043
Net Assets, Beginning of Year	<u>2,565,420</u>
Net Assets, End of Year	<u>\$ 3,066,463</u>

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2011

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 included 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, 2011

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, 2011

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 advalorem 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, 2011

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 2008, 2009, and 2010 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, 2011

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.

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, 2011, none of the Library's bank balance of \$6,901,274 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, 2011 was \$12,334,220.

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.

	<u>Market Value</u>	<u>Credit Exposure as a Percentage of Total Investments</u>
Pension Fund		
Pooled Equity Funds	\$ 1,721,876	56.21%
Pooled Fixed Income Funds	1,116,424	36.45%
Alternative Investments	224,713	7.34%
	<hr/>	<hr/>
Total Pension Fund Investments	<u>\$ 3,063,013</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

PIONEER LIBRARY SYSTEM

Notes to Financial Statements

June 30, 2011

retirement plans investment and administrative committee and to the board. Any changes in the investment management firm must be reported as they occur. Overall investment guidelines provide for diversification and allow investment in domestic and international common stocks, fixed income securities, cash equivalents, index funds, collective trust funds and mutual funds. The Plan addresses custodial credit risk with policy providing for the engagement of a custodian who accepts possession of securities for safekeeping; collects and disburses income; collects principal of sold, matured, or called items; and provides periodic accounting to the board. The pension trust fund holds \$2,676,870 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 \$88,172.19 to report it at its fair market value at June 30, 2011.

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, 2011, no balance was owed. No interest expense was paid or incurred during the year ended June 30, 2011.

Note 6 – Long-term Liabilities

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

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Amounts Due <u>Within One Year</u>
Compensated Absences	273,734	389,170	383,322	279,582	279,582

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

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2011

Note 7 – Capital Assets

Capital assets of the Library at June 30, 2011 are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Depreciable Capital Assets:				
Library Books	9,707,417	2,423,762	833,886	11,297,293
Furniture and Fixtures	826,003	202,809	37,688	991,124
Computer Equipment	1,916,204	130,414	81,311	1,965,307
Vehicles	129,885	25,086	16,711	138,260
Total Capital Assets	<u>12,579,509</u>	<u>2,782,071</u>	<u>969,596</u>	<u>14,391,984</u>
Less Accumulated				
Depreciation for:				
Library Books	5,497,791	1,495,269	833,886	6,159,174
Furniture and Fixtures	568,594	71,814	35,593	604,815
Computer Equipment	1,396,673	247,660	81,311	1,563,022
Vehicles	59,754	36,240	16,711	79,283
Total Accumulated				
Depreciation	<u>7,522,812</u>	<u>1,850,983</u>	<u>967,501</u>	<u>8,406,294</u>
Total Depreciable Capital				
Assets, Net	<u>5,056,697</u>	<u>931,088</u>	<u>2,095</u>	<u>5,985,690</u>

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2011

Note 8 – 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 2011 was \$133,265.23. Future minimum annual lease expense for these leases are as follows:

2011	\$ 6,220
2012	\$ 18,664
2013	\$ 18,664
2014	\$ 18,664
2015	<u>\$ 18,664</u>
Thereafter	<u>\$ 12,440</u>
	\$ 93,316

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 average salary based on their highest five consecutive years within 10 years of retirement. If an employee has less than 10 years of vesting service, the amount of the benefit is reduced by 1/10th for each vesting year of service fewer than ten. Actuarial valuations are performed annually on January 1.

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, 2011 to the defined benefit plan were \$155,750.

Net Pension Obligation and Annual Pension Cost - The required contribution was determined as part of the January 1, 2011 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 2011 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%.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2011

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	\$ 1,546,991
Earning from Investments	76,314
Unrealized Depreciation	335,032
Realized Gain	88,750
Contribution	155,750
Distributions	(139,561)
Fees and Commissions	(15,242)
Change in Valuation	(766,041)
Net Pension Obligation, End of Year	<u>\$ 1,281,993</u>

Present Value of Future Benefits	\$ 4,348,456
Valuation of Assets	<u>3,066,463</u>
Net Pension Obligation	<u>\$ 1,281,993</u>

Components of Annual Pension Cost:

Normal Cost	\$ 141,747
Interest at 6%	<u>8,505</u>
Annual Contribution Necessary to Avoid a Funding Deficiency	<u>\$ 150,252</u>

Three year trend information is as follows:

<u>Three- Year Trend Information</u>				
Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>	Actual Contrib
6/30/2009	\$ 205,063	107.7%	\$1,867,623	\$220,820
6/30/2010	\$ 163,645	109.5%	\$1,546,991	\$179,130
6/30/2011	\$ 150,252	103.7%	\$1,281,993	\$155,750

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2011

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]
6/30/2009	\$2,093,150	\$3,960,773	\$1,867,623	52.8%	\$3,537,158	52.8%
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

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 2011 to the plan were \$360,583.

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, 2011 was \$294,946. and the value as of June 30, 2010 was \$263,570.

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, 2011

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, 2011, the City of Noble has not signed the Inter-local agreement taking ownership of the building.

Note 15 – Subsequent Events

Oklahoma City broke ground on a new library in May of 2010. The building should be complete in the fall of 2011 and at that time it will become part of the Pioneer Library System since it will be located in Cleveland County.

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, 2011

	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)
Designated Fund Balance, July 1	\$ 2,456,000	868,996				
Undesignated Fund Balance July 1	\$ 1,832,022	3,356,194				
Budgetary Fund Balance, July 1	\$ 4,288,022	\$ 4,225,190	\$ 5,812,194	2 \$	\$ 5,812,194	\$ 1,587,004
Resources (inflows)						
Property Taxes	12,518,330	12,739,633	13,107,244	24,000	13,083,244	343,611
State Revenue	166,291	166,291	186,033	18,476	167,557	1,266
Interest	--	--	46,604	(3,476)	50,080	50,080
Other	353,600	383,400	391,576	(2)	391,578	8,178
Use of Designated Fund Balance	--	1,587,004	--	--	751,190	(835,814)
Amounts Available for Appropriations	\$ 17,326,243	\$ 19,101,518	\$ 19,543,651	\$ 38,998	\$ 20,255,843	\$ 1,154,325
Charges to Appropriations (outflows)						
Personnel Services	\$ 7,237,660	\$ 8,106,503	\$ 7,752,675	\$ (27,201)	\$ 7,725,474	\$ 381,029
Personnel Services SOKC	--	625,000	55,876	--	55,876	569,124
Materials	2,525,000	2,180,000	2,206,414	193,940	2,400,354	(220,354)
Materials-SOKC	--	1,440,000	669,330	--	669,330	770,670
General and Administrative	876,861	890,825	929,468	(203,218)	726,250	164,575
Technology	825,000	825,000	733,436	32,058	765,494	59,506
Technology-SOKC	--	235,000	25,984	--	25,984	209,016
Virtual Library	200,000	200,000	161,440	--	161,440	38,560
System Services	367,700	374,000	265,212	37,593	302,805	71,195
Total Charges to Appropriations	\$ 12,032,221	\$ 14,876,328	\$ 12,799,835	1 \$ 33,172	\$ 12,833,007	\$ 2,043,321
Designated Fund Balance-Current	\$ 1,006,000	\$ --	--	468,996	468,996	(468,996)
Budgetary Fund Balance, June 30	\$ 4,288,022	\$ 4,225,190	\$ 6,743,816	\$ 5,826	\$ 6,953,840	\$ 2,728,650

Budget to Actual Reconciliation:

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

38,998

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

1 (33,172)

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.

2
5,826

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 20, 2011

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 years ended June 30, 2011, which collectively comprise the Library's basic financial statements and have issued our report thereon dated September 20, 2011. 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item #2011-1 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness in internal control over financial reporting or a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance.

Pioneer Library System's response to the significant deficiency identified in our audit is described in the accompanying schedule of findings. We did not audit Pioneer Library System's responses, and, accordingly, we express no opinion on it.



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To the Board of Directors
Pioneer Library System
September 20, 2011
Page Two

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

Gray, Blodgett & Company, PLLC

PIONEER LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

#2011-01

Statement of Condition: Adjusting journal entries were necessary due to formula errors found within excel spreadsheets that are used by management to reconcile the books. The accounts affected were grants receivables and depreciation expense.

Criteria: Spreadsheets are relied upon to reconcile specific accounts.

Effect: The Library's financial statements could have been materially misstated from the errors in these excel spreadsheets.

Cause: Personnel did not realize that specific cells within the excel spreadsheet were not included in the formulas.

Recommendation: Management should verify formulas in excel spreadsheets and calculations should be reviewed.

Questioned costs: None

PIONEER LIBRARY SYSTEM
CORRECTIVE ACTION PLAN
JUNE 30, 2011

Name: Pioneer Library System

Auditing Firm: Gray, Blodgett & Company, PLLC

Audit Period: For the year ended June 30, 2011

Comments on Findings and Recommendations

Pioneer Library System agrees with the findings and recommendations as set out in the Auditors' report as of September 20, 2011.

Actions taken or planned

#2011-01

Management will verify and review formulas.