



Financial Statements

For the Year Ended June 30, 2016

PIONEER LIBRARY SYSTEM

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June 30, 2016

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INDEPENDENT AUDITORS' REPORT

September 27, 2016

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund and the fiduciary fund type of Pioneer Library System, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Pioneer Library System Foundation were not audited in accordance with Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, as well as the fiduciary fund type of the Library, as of June 30, 2016, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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To the Board of Trustees of
Pioneer Library System
September 27, 2016

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5–12, the budgetary comparison information on page 34, and the net pension liability and contribution information on pages 35–36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2016, on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pioneer Library System's internal control over financial reporting and compliance.

GRAY, BLODGETT & COMPANY, PLLC

Gray, Blodgett & Company, PLLC



**Pioneer Library System
Management's Discussion and Analysis for the
Fiscal year Ended June 30, 2016**

This discussion and analysis of the financial performance of Pioneer Library System provides an overall review of the Library's financial condition and results of operations for the fiscal year ended June 30, 2016. Readers should read this information in conjunction with the Library's financial statements.

Pioneer Library System implemented Governmental Accounting Standards Board (GASB) statement 72 as of June 30, 2016. In addition, Governmental Accounting Standards Board (GASB) statements 76 and 79 became effective as of June 30, 2016, however, these pronouncements do not affect the Library's financial statements.

Financial Highlights

For fiscal year 2015-2016, the Library's general fund reported an ending balance of \$6,541,385 versus \$5,463,737 for the fiscal year 2014-2015. Of the 2015-16 year end-total, \$333,907 is committed for outstanding encumbrances, and \$1,138,996 is assigned for service upgrades and improvements of library services at current and future libraries within the system. Although the remaining balance of \$5,068,482 is unassigned, the Library administration, with the Board of Trustee's approval, may use some of these funds, if necessary, to complete upcoming library projects in several of its locations including in the City of Norman which plans to open two new libraries by 2020. The remainder of the money in these funds will be prudently used or committed to alleviate summer/fall cash flow problems and other emergencies that might arise.

The Library's operating revenue increased by 5.2% this year. This increase allowed the Library System to set aside funds for future projects including the opening of two new libraries in Norman by 2020, to complete the purchase of the MakerMobile, a vehicle designed for STEAM (Science, Technology, Engineering, Arts and Math) programming, and to pay for the creation, maintenance and upgrading of Pioneer Connect, the Library's mobile application. The Library set aside \$230,000 out of the prior year's funds for the design and purchase of the MakerMobile vehicle. That project was completed this year at a total cost of \$267,778. The MakerMobile will travel throughout Pioneer's three county service area to visit community events and area schools as well as the Pioneer Libraries. The Library paid \$125,325 this year for the completion of its own mobile phone application. The total cost of the project was \$246,795. This application provides easy smart phone access to Pioneer's on-line and downloadable services.

The Pioneer Library System Foundation completed its sixth year of operation as of June 30, 2016. The Foundation was organized for the purpose of supporting, promoting and improving the programs, collections, facilities and services of the Pioneer Library System. The Foundation provided financial support for many of the Library's programs including the 2016 Big Read and the Library's System-Wide summer reading programming. The Foundation has been included as a component unit of the Library System and the Foundation has issued its own financial statements, available from the Library Foundation administrative office.

Grant highlights for FY16 included the following: Substantially all of the grants were moved to the Pioneer Library System Foundation during this fiscal year.

The general fund balance increased by \$1,077,648 from fiscal year 2015 due to the increase in collection of revenue and the decrease in spending in expense categories including reprographics, development, and system outreach.

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 position represents information on all of the Library's assets, liabilities, deferred inflows, and deferred outflows, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The statement of activities presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 13 and 14 of this report.

Fund Financial Statements

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

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

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

Other Governmental Funds include Gift/Grant Funds.

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

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

Notes to the Financial Statements

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

Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, such as comparative statement between budget and actual expenditures, and certain historical data concerning the Defined Benefit Pension plan.

Financial Analysis of Library System's Funds

As financial information is accumulated on a continuous and consistent basis, financial statements and expenditure reports for governmental funds are presented to the Pioneer Library System Board of Trustees.

For fiscal year 2015-2016 governmental fund balances changed as follows:

	General Fund Funds	Other Governmental Funds	Total Governmental Funds
Revenues	\$ 16,287,517	\$ 118,742	\$ 16,406,259
Expenditures	\$ 15,209,869	\$ 132,729	\$ 15,342,598
Net Increase	\$ 1,077,648	\$ (13,987)	\$ 1,063,661

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

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

General Fund:

The Library System is primarily (or 96%) funded by Ad Valorem (property) tax. For the 2015-16 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 2015-16, the Counties' assessed property value had an increase of 5.0% versus 4.5% for 2014-15. Actual tax collections increased by 5.0% versus 4.3% for the prior year. The increase of 5.0% was due to the collection of more tax revenue. Fine and other charges for services revenue for 2015-16 decreased by \$8,265 from 2014-15. This decrease was caused by a decrease in fine revenue. State Aid decreased by \$9,710 over the prior year. This decrease was caused by the state giving us less money. Interest income increased by \$2,740 over the prior year. This increase is attributed to more funds the Library System held in reserve because no reserve funds were needed to fund any projects this year.

The Expense category Personnel Services increased from 2015 to 2016 due to an increase in hospitalization expense, the 3.0% salary performance adjustment and the 2.0% salary market adjustment that was given to the staff who qualified for the adjustment, and an increase in retirement expenses due to the increased contribution required to fund the Defined Benefit plan caused by the change in mortality tables used by the actuary. The Expense category of Materials was increased because all the databases were paid out of the materials account this year. The Technology and Automation category was lower in 2016 than 2015 due to the fact that the purchases of some databases that were paid out of this account in the prior year were paid out of the materials account this year.

The System Services and General and Administrative expense categories were different in 2016 than in 2015 because of the following:

- The increase in attorney fees is due to the defined contribution and defined benefit plan restatements and the request to the IRS to suspend the requirement to file Form 990.
- The increase in professional services is due to the increase in cost of the strategic planning consulting agreement and the compensation survey conducted by Singer and Associates.
- The Continuing Education expenses increased because of the purchase of a training site and a Learning Management System.
- Insurance decreased due to a change in insurance providers.
- Telephone expenses increased this year due to a renewal of phone maintenance agreements at two sites.
- Travel expenses decreased this year because the board retreat expenses were moved to another budget.
- Vehicle costs increased this year because of the purchase of the maker mobile.
- Interest expense decreased to zero because no money was borrowed this year.
- Audit expense increased because the foundation audit costs were paid out of this expense category this year.
- Reprographics decreased because several copier leases expired during the past year included the wide-format printer.
- Data processing expense increased because the payroll software was upgraded including the additional of an on-line applicant tracking system.
- Public Information expense increased because of the additional community advertising and the outsourcing of wide-format printing.
- Programming expense increased because the cost materials for programs.
- System signage expense increased because of the cost of wrapping all of the PLS vehicles.
- Outreach expense category decreased this year when compared to last year.
- System facilities increased because the Library System paid a subsidy to the new café operator and new maintenance costs were incurred on the café and staff room equipment.

Other Governmental Funds:

Gifts/Grants Funds – In FY16, Pioneer Library System received \$97,562 in gifts and grants.

Outright gifts to PLS totaled \$76,607, over 75% of which was provided by Friends groups throughout the library system (\$59,838). This past year, Pioneer Library System received \$20,955 in grants. The majority of these grants were from the Oklahoma Department of Libraries and were moved to the Pioneer Library System Foundation along with most of the gifts during this fiscal year. The Oklahoma Department of Libraries also provided continuing education grants to the library system for \$846. The City of Purcell donated \$10,500 to fund programs at the Purcell Library. Hastings Entertainment donated \$1,149 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 provider of all system retirement plans is MassMutual.

The Library System as a Whole

	2015-2016	2014-2015
Assets		
Current and Other Assets	\$ 7,626,001	\$ 6,577,374
Capital Assets	\$ 9,448,991	\$ 9,813,682
Total Assets	\$17,074,992	\$16,391,056
Deferred Outflows of Resources		
Outflows Related to Net Pension Liability	\$ 1,105,232	\$ 512,340
Total Deferred Outflows of Resources	\$ 1,105,232	\$ 512,340
Liabilities		
Accounts Payable and Accrued Expenses	\$ 145,748	\$ 189,987
Other Liabilities	\$ 361,201	\$ 331,996
Net Pension Liability	\$ 1,176,257	\$ 460,351
Total Liabilities	\$ 1,683,206	\$ 982,334
Deferred Inflows of Resources		
Inflows Related to Net Pension Liability	\$ 592,375	\$ 772,936
Total Deferred Inflows of Resources	\$ 592,375	\$ 772,936
Net Position		
Net Investment in Capital Assets	\$ 9,448,991	\$ 9,813,682
Restricted Net Assets	\$ 577,667	\$ 591,654
Unrestricted Net Assets	\$ 5,877,985	\$ 4,742,790
Total Net Position	\$15,904,643	\$15,148,126
Change in Net Position		
Beginning Net Position	\$15,148,126	\$14,984,528
Restatement	\$ -	\$ (356,795)
Beginning Net Position as Restated	\$15,148,126	\$14,627,733
Revenues		
Property Taxes	\$15,672,760	\$14,881,775
Charges for Services	\$ 462,801	\$ 439,193
Operating Grants	\$ 97,562	\$ 305,345
Capital Grants	\$ 18,388	\$ 10,461
State Aid	\$ 141,391	\$ 151,101
Investment Earnings	\$ 13,357	\$ 17,119
Loss on Disposal	\$ (21,058)	\$ (3,443)
Total Revenues	\$16,385,201	\$15,801,551
Expenses		
Public Library Services	\$11,014,238	\$10,305,513
Administrative Services	\$ 2,294,025	\$ 2,526,467
Depreciation-Unallocated	\$ 2,320,421	\$ 2,449,178
Total Expenses	\$15,628,684	\$15,281,158
Increase in Net Position	\$ 756,517	\$ 520,393
Ending Net Position	\$15,904,643	\$15,148,126

General Fund Budgetary Highlights

The General Fund budget for fiscal year 2015-16 was \$15,981,949. This was a 5.8% increase over the previous year. The highlights of the budget include:

- A 3.0% performance adjustment for all staff who qualified and were still employed on August 31, 2015.
- The Recruitment line item was decreased by \$1,000 to reflect actual costs.
- The Retirement line item was increased \$47,092 to cover the increased contribution to the DB plan.
- The Health Insurance budget was increased to cover an expected increase in costs for medical and dental insurance.
- The Group Term Life Insurance budget was increased by \$1,825 to reflect increased costs due to increase in salaries.
- The Disability Insurance budget was increased by \$495 to reflect additional costs due increase in salaries.
- The Workers Compensation budget was decreased by \$6,103 to reflect actual costs.
- The Unemployment Insurance budget was decreased \$1,000 to reflect actual costs.
- The Contract Labor budget was decreased \$3,000 to reflect actual expenses.
- The Materials budget shows an increase due to the consolidation of all databases into the materials budget.
- The Professional Services budget was increased \$5,000 to reflect the increase in cost of the strategic planning consulting agreement.
- The Continuing Education budget was increased \$18,000 to cover the purchase of Lynda.com, a training site, a Learning Management System, and to reflect the moving of board retreat expenses to this budget.
- The Equipment budget was decreased by \$166,150 to reflect actual usage.
- The Postage budget was increased by \$5,000 which reflects the actual increase in usage.
- The Supplies budget was increased to cover the cost of promotional items that were previously paid from the PIO budget.
- The Telephone line item was decreased by \$13,000 to reflect actual usage.
- The Travel line item was decreased by \$3,000 to reflect the move of the board retreat expenses to another budget.
- The Vehicle budget was decreased by \$10,000 to reflect the fact that a car will be purchased instead of a delivery truck.
- The Interest Expense budget was decreased \$1,500 to reflect actual cost from the prior year.
- The Data Processing budget was increased \$10,000 to cover actual expenses and the addition of an on-line applicant tracking system.
- The Fine Collection budget was decreased by \$1,000 to reflect actual costs.
- The Technology line item was increased by \$226,361 which reflects additional equipment purchases and costs associated with maintaining the equipment purchased.
- The Technology – West Side Norman Branch line item was decreased to zero because all equipment for the new branch had been purchased and paid for.
- The Virtual Library budget was decrease by \$137,725 which reflects the move of e-material expenses to the materials budget.
- The Construction Project Norman Center Court budget was decreased to zero because the project is complete.
- The Development budget was decreased by \$15,697 to reflect the removal of encumbered items that were added to last year's budget.
- The System Signage budget was increased by \$10,000 to reflect actual costs and to cover the cost of wrapping all of the PLS vehicles.
- The Public Information budget was increased by \$62,231 to reflect the increased amount of community advertising and to cover the cost of outsourcing the wide-format printing.
- The System Facilities budget was increased by \$30,000 to cover the additional costs of paying a subsidy to the new café operator and to cover the maintenance contracts on café and staff room equipment.
- The System Outreach budget was decreased \$35,000 to reflect actual costs.
- The Assigned Fund Balance reflects several items: Cleveland County, \$695,000; McClain County, \$173,996; Pottawatomie County, \$50,000; Library Projects, \$220,000; Maker Space Vehicle, \$230,000.

Capital Asset and Long-Term Debt

The Library System's investment in capital assets, net of accumulated depreciation, as of June 30, 2016 was \$9,448,991 and on June 30, 2015 was \$9,813,682. Of the total depreciable capital assets, net of accumulated depreciation, on June 30, 2016, 14% are furniture, equipment and vehicles; 48% are building and property; and the remaining 38% are books and materials. Of the total depreciable capital assets, net of accumulated depreciation, on June 30, 2015 12% are furniture, equipment, and vehicles; 48 % are building and property; and the remaining 40% are books and materials.

The Library System has no long-term liabilities. The Board limits borrowing to short-term, usually in the fall in anticipation of ad valorem receipts beginning in December. The note is usually paid off in mid-January. In 2015-2016, the Library borrowed no money and incurred no interest expense.

Economic Environment and Next Year's Budget

The Library System's primary revenue is Ad Valorem (property) tax. The annual growth in the Cleveland, McClain and Pottawatomie County's property value is the most important factor for the Library System's revenue outlook. For the most recent fiscal year the System collected 6.11, 6.11 and 6.06 mills of the assessed property value from the respective counties. The voters in all three counties approved a two mill increase in May of 2008. The millage increase was much needed, especially since there had been no increase in millage since the voters approved the 4 mill increase in 1990 for Cleveland County and in 1992 for the other two counties. The fractional part of the millage is due to the abolishment of the personal property tax in two of the counties. The system is now at the millage cap allowed by state law.

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

In general, the Library System still expects a continued growth in the tax revenue for the next year. The Cleveland County Assessor has certified a 6.6% growth in property value for 2016; the Pottawatomie County Assessor has certified a 4.2% growth and the McClain County Assessor has certified a 6.0% growth.

For fiscal year 2016-17, the Library Board approved a general fund budget of \$16,920,477 versus \$15,981,949 for 2015-16.

- A 3.0% performance adjustment for staff who received a successful or outstanding rating on their annual performance evaluation and aren't in their training period.
- Retirement was increased by \$81,344 to cover the increase in the DB plan contribution caused by the change in mortality tables used by the actuary in his benefit calculations.
- Health insurance was increased to cover anticipated increases in the renewal rates for medical and dental insurance which take effect on May 1, 2016.
- Workers Compensation was increased \$5,000 to reflect actual costs.
- The Materials budget was increased by \$90,000 to purchase additional e-book's in order to support the strategic plan of the library and to market to digitarians. In addition, materials processing costs and the prices of databases has increased.
- Professional Services was decreased to reflect the move of the costs of the strategic planning consulting agreement contract to another line item and to reflect actual usage.
- Attorney Fess was increased \$15,000 to reflect the costs of licensing the PLS smart phone application.
- Equipment was decreased \$58,850 to reflect actual usage.
- Equipment repair was decreased \$2,000 to reflect actual usage.
- Postage was decreased by \$5,000 which reflects actual usage and the postage rate decrease.

- Telephone was increased by \$15,000 to cover the cost of the annual telephone maintenance contracts.
- Vehicles was decreased by \$32,000 to reflect the fact no new vehicle will be purchased this year.
- Interest Expense was decreased to zero because no money will be borrowed this year.
- Revaluation was increased to \$3,000 to reflect actual costs.
- The Technology budget was increased by \$106,819 which reflects additional equipment purchases and costs associated with maintaining the equipment purchased.
- Continuing Education was decreased by \$12,631 to reflect the one-time installation charges for the Learning Management System which was purchased last year.
- System Signage was decreased to zero and the expenses were moved to the Marketing and Communication line item of the budget.
- Strategy and Innovation replaces the Virtual Library budget and was increased \$36,000 to reflect the moving of the strategic planning consulting agreement contract costs to this line item.
- Marketing and Communication replaces the Public Information budget and was increased \$25,000 which reflects the move of the System Signage expenses to this budget.
- System Facilities was decreased \$30,000 to reflect actual costs.
- Assigned Fund Balance reflects several items: Cleveland County, \$695,000; McClain County, \$173,996; and Pottawatomie County, \$50,000; Library Projects, \$220,000. This line item was decreased by \$230,000 because the maker mobile was included in this amount last year.
- Committed Fund Balance increased to reflect additional outstanding purchase orders at year end compared to last year.

Contacting the Library System's Financial Management

This financial report is designed to provide a general overview of the Pioneer Library System, comply with finance-related laws and regulations, and demonstrate the Library System's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the Library System's Business Office at 300 Norman Center Court, Norman, OK 73072.

PIONEER LIBRARY SYSTEM
Statement of Net Position
June 30, 2016

	Primary Government Governmental Activities	Component Unit Library Foundation
Assets		
Cash and Cash Equivalents	\$ 6,613,447	\$ 332,732
Beneficial Interest in Assets Held by CFO	387,229	-
Ad Valorem Tax Receivable	119,048	-
Accrued Interest Receivable	-	88
Other Current Assets	505,977	41,019
Other Receivable	300	-
Non-Depreciable Capital Assets	161,179	-
Depreciable Capital Assets, Net	9,287,812	-
Total Assets	\$ 17,074,992	\$ 373,839
Deferred Outflows of Resources		
Outflows related to net pension liability	\$ 1,105,232	\$ -
Liabilities		
Accounts Payable and Accrued Expenses	\$ 145,748	\$ 5,439
Compensated Absences Payable	361,201	-
Net Pension Liability	1,176,257	-
Total Liabilities	\$ 1,683,206	\$ 5,439
Deferred Inflows of Resources		
Inflows related to net pension liability	\$ 592,375	\$ -
Net Position		
Net Investment in Capital Assets	\$ 9,448,991	\$ -
Restricted Net Assets	577,667	284,339
Unrestricted Net Assets	5,877,985	84,061
Total Net Position	\$ 15,904,643	\$ 368,400

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense)	Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets	Revenue and Changes in Net Assets
					Primary Governmental Activities	Component Unit Library Foundation
Governmental Activities:						
Public Library Services	\$ 11,014,238	\$ 462,801	\$ 97,562	\$ 18,388	\$ (10,435,487)	
Administrative Services	2,294,025	-	-	-	(2,294,025)	
Depreciation - unallocated	2,320,421	-	-	-	(2,320,421)	
Total Primary Government	<u>\$ 15,628,684</u>	<u>\$ 462,801</u>	<u>\$ 97,562</u>	<u>\$ 18,388</u>	<u>\$ (15,049,933)</u>	
Component Unit						
Library Foundation	<u>\$ 329,718</u>	<u>\$ -</u>	<u>\$ 239,526</u>	<u>\$ -</u>		<u>\$ (90,192)</u>
General Revenues:						
Property taxes, levied for general purposes					\$ 15,672,760	\$ -
State Aid					141,391	-
Miscellaneous Income					-	40
Investment earnings					13,357	926
Loss on Disposals					(21,058)	-
Total General Revenues					<u>\$ 15,806,450</u>	<u>\$ 966</u>
Change in net assets					\$ 756,517	\$ (89,226)
Net position - beginning					15,148,126	457,626
Net position - ending					<u>\$ 15,904,643</u>	<u>\$ 368,400</u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM

Balance Sheet
Governmental Funds
June 30, 2016

ASSETS	General Fund	Gifts and Grants Fund	Total Governmental Funds
Cash	\$ 6,512,567	\$ 100,880	\$ 6,613,447
Investments	-	387,229	387,229
Receivable from General Fund	-	91,218	91,218
Ad Valorem Tax Receivable	119,048	-	119,048
Other Receivable	300	-	300
Deposit	9,200	-	9,200
Prepaid Expenses	496,777	-	496,777
Total Assets	\$ 7,137,892	\$ 579,327	\$ 7,717,219
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 68,403	\$ 1,660	\$ 70,063
Accrued Salaries and Employee Benefits	75,685	-	75,685
Compensated Absences Payable	361,201	-	361,201
Payable to Special Revenue	91,218	-	91,218
Total Liabilities	\$ 596,507	\$ 1,660	\$ 598,167
Fund Balances			
Assigned	\$ 1,138,996	\$ 577,667	\$ 1,716,663
Committed	333,907	-	333,907
Unassigned	5,068,482	-	5,068,482
Fund Balances, End of Year	\$ 6,541,385	\$ 577,667	\$ 7,119,052
Total Liabilities and Fund Balances	\$ 7,137,892	\$ 579,327	

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 \$26,497,617, including \$161,179 of non-depreciable assets, and the accumulated depreciation is \$17,048,626.

9,448,991

Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities.

Net Pension Liability

(1,176,257)

Deferred outflows of resources related to net pension liability

1,105,232

Deferred inflows of resources related to net pension liability

(592,375)

Total Net Position - Governmental Activities

\$ 15,904,643

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, 2016

	General Fund	Gifts and Grants Fund	Governmental Funds
Revenues:			
Property Taxes	\$ 15,672,760	\$ -	\$ 15,672,760
Collections on Book Fines and Copy Services	301,799	-	301,799
Gifts and Grants	-	97,562	97,562
State Revenue	141,391	-	141,391
Other Contracts	156,448	-	156,448
Other Income	-	4,554	4,554
In-Kind Donations	-	18,388	18,388
Interest	15,119	(1,762)	13,357
Total Revenues	<u>\$ 16,287,517</u>	<u>\$ 118,742</u>	<u>\$ 16,406,259</u>
Expenditures			
Personal Services	\$ 10,076,515	\$ -	\$ 10,076,515
Materials	2,242,953	132,729	2,375,682
General and Administrative	1,501,843	-	1,501,843
Technology and Automation	1,117,924	-	1,117,924
System Services	270,634	-	270,634
Total Expenditures	<u>\$ 15,209,869</u>	<u>\$ 132,729</u>	<u>\$ 15,342,598</u>
Net Change in Fund Balance	\$ 1,077,648	\$ (13,987)	\$ 1,063,661
Beginning Fund Balance	5,463,737	591,654	6,055,391
Ending Fund Balances	<u>\$ 6,541,385</u>	<u>\$ 577,667</u>	<u>\$ 7,119,052</u>
Total net changes in fund balances - governmental funds			\$ 1,063,661

The change in nets assets reported in the statement of activities is different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation during the period.

Depreciation Expense	\$ (2,320,421)	
Capital Outlay	<u>1,976,788</u>	(343,633)

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.

(21,058)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Change in pension expense per actuary calculation

57,547

Change in net position of governmental activities

\$ 756,517

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2016

	<u>Pension Fund</u>
ASSETS	
Current Assets	
Cash	\$ 80,883
Investments	<u>3,255,833</u>
Total Assets	<u>\$ 3,336,716</u>
NET POSITION	
Restricted Net Assets	
Held in Trust for Pension	
Benefits and Other Purposes	<u>\$ 3,336,716</u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Year Ended June 30, 2016

	<u>Pension Fund</u>
Additions	
Contributions	
Employer	\$ 186,354
Net Increase/(Decrease) in the Fair Value of Investments	<u>70,098</u>
Total Additions	<u>256,452</u>
Deductions	
Benefits Paid	\$ 480,347
Trustee and Management Fees	<u>35,734</u>
Total Deductions	<u>516,081</u>
Net Increase	(259,629)
Net Position, Beginning of Year	<u>3,596,345</u>
Net Position, End of Year	<u>\$ 3,336,716</u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 1 – Summary of Significant Accounting Policies

The Reporting Entity –

Pioneer Library System (The Library) is a corporate body for public purposes created under Title 65 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes.

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

The Library's financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The Library's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Library's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Financial Statement Presentation –

In evaluating how to define the Library, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Library and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Library and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Library is able to exercise oversight responsibilities. Based upon the application of these criteria, the Pioneer Library System Foundation meets the criteria, which requires a component unit to be presented discretely and including in the Library's reporting entity.

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

Basic Financial Statements – Government-Wide Statements –

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

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

In the government-wide Statement of Net Position, the Library's governmental activities are reported using the accrual basis of accounting. The Library's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Revenues are recognized when earned and expenses are recognized when incurred.

The government-wide Statement of Activities reports both the gross and net cost of each of the Library's programs and functions. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The pension trust fund recognizes employer and participant contributions in the period in which contributions are due and the Library has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. See Note 9.

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

The government-wide focus is more on the sustainability of the Library as an entity and the change in the Library's net position resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

Fund financial statements report detailed information about the Library. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Nonmajor funds are aggregated and presented in a single column.

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis revenues are recorded when susceptible to accrual; i.e. both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

The Library reports the following major governmental funds:

General Fund – is the primary operating fund of the Library. It is used to account for all financial resources except those required to be accounted for in another fund.

Gifts and Grants Fund – is used to account for all gifts and grants made to the Library, which are to be used for specific purposes.

The Library reports the following fiduciary funds:

Pension Trust Funds – The Pension Trust Funds are used to account for the receipt, investment and distribution of retirement contributions to the Pioneer Library System Pension Plan and Trust (the Plan). See also Note 9.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balance:

Fund Balance – In the government-wide financial statements, equity is classified as net assets and displayed in three components:

1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted net assets are available for use, generally it is the Library's policy to use restricted resources first.

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

- a) Non-spendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.
- b) Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by contributors, grantors, or amounts constrained due to constitutional provisions or enabling legislation.
- c) Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the Library through formal action of the highest level of decision making authority. The Board of Trustees is the highest level of decision making authority that can commit fund balance. Once committed, the limitation imposed remains in place until a similar action is taken to remove or revise the limitation.
- d) Assigned – Includes fund balance amounts that are constrained by the Library's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be stipulated by the Board of Trustees. With the exception of the General Fund, this is the residual fund balance of the classification for all governmental funds with positive balances.
- e) Unassigned – Includes the residual balance of the General Fund that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes with the General Fund.

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

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and Fixtures	7 years
Computer Equipment	4 years
Vehicles	5 years
Books and Materials	5 years
Buildings	40 years

Compensated Absences – The Library accrues accumulated unpaid annual leave when earned by the employee. Generally, annual leave must be taken during the calendar year earned. Eligible employees who end their employment with the Library are reimbursed for each day of accumulated annual leave.

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

Budgets generally assume the expenditure of all available resources. Therefore, when the legal budget is prepared, it is assumed these funds will not have a carryover balance to a subsequent year. Program revenue received but not spent is restricted and deferred to the subsequent fiscal year. Amounts reported as program revenue includes (1) charges to customers, (2) operating grants and contributions, and (3) capital grants and contributions.

Cash and Cash Equivalents – The Library considers all cash on hand, demand deposits, money market checking and certificates of deposit with an initial maturity of three months or less, held at an individual bank which are subject to early withdrawal penalties no matter what the maturity period, to be cash. All short-term cash surpluses are maintained in a cash pool, the earnings from which are allocated to each fund based on month-end deposit balances.

Fair Market Value Measurement – Fair value is defined as “the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at a measurement date.” Accounting standards set a framework for measuring fair value using a three tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 – Values are unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2 – Inputs other than quoted prices for identical assets or liabilities that are observable in the market place. For example, Level 2 inputs include quoted for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted process are observable for the asset or liability (such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates), and market-corroborated inputs.

Level 3 – Inputs that are unobservable (supported by little or no market value activity) and are significant to the fair value measurement. Unobservable inputs reflect the Organization’s best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

Financial assets and liabilities carried at fair value on a recurring basis include beneficial interests in assets held by others.

Receivables – All taxes receivable are expected to be collected in one year.

Property Tax Revenues – Property taxes attach an enforceable lien on property as of January 1. Taxes are levied annually on November 1 and are due one-half by December 31 and one-half by March 31. The County Assessor's office bills and collects the property taxes and remits to the Library its portion. Property taxes not paid prior to April are considered delinquent. Such delinquent tax payments have not historically been material. Delinquent tax payments are received throughout the year and are recognized as revenue in the year received, except for those received within 60 days of year end, which are recognized as revenues as of June 30, 2016 in both the government-wide and fund financial statements.

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

Interfund Balances - During the course of normal operations, the Library has transactions between funds including expenditures and transfers of resources to provide services, purchase assets and service debt. Transactions that are normal and recurring between funds are recorded as operating transfers.

Contributed Facilities and Services - The Library operates several branches located in government-owned buildings and receives certain services without charge. The estimated fair rental value of the premises and service is not reported in the accompanying statement of revenues, expenditures, and changes in fund balance.

Grants - The Library records income from grants in the period received or to the extent of expenses paid prior to reimbursement by a grant.

Income Taxes - The Library was established under the provisions of the Oklahoma Constitution and as such is exempt from income taxes under the Internal Revenue Code as a unit of government. The Library is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Library has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions. No provision for federal or state income taxes has been recorded. There was no interest or penalties to the Internal Revenue Service included in these financial statements.

Tax years before 2012 are no longer subject to examination by the Internal Revenue Service and the State of Oklahoma.

Prepaid Expenses - The Library records prepaid insurance, subscriptions and maintenance agreements for that portion of payments which have not been used at year-end for government-wide financial statement purposes. Prepaid expense is included in other current assets in the statement of net assets.

Restricted Resources - The Library records gifts and grants as restricted when the donor specifies a restriction on the timing or use of the gift or grant. Expenses are allocated first to the restricted resource. If additional expense is incurred, the expense is allocated to unrestricted funds when the restriction has been depleted.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Outflows and Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

See Note 9 for discussion of the Library's deferred outflows of resources and deferred inflows of resources.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements – During the year, the Library implemented GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to enhance the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. See note 2 and note 9. GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles*, and GASB Statement No. 79, *Certain External Investment Pools and Participants*, also became effective this year but don't affect the Libraries financial statements.

Note 2 – Cash and Investments

The Library's investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. A certificate of deposit in the amount of \$9,200 is pledged on a letter of credit for a security deposit.

Custodial Credit Risk - Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. At June 30, 2016, none of the Library's bank balance of \$6,805,152 was exposed to custodial credit risk because it was not insured or collateralized. The balance is partially collateralized with securities held by First Fidelity Bank in the Library's name. The market value of these securities as of June 30, 2016 was \$9,024,180 plus \$250,000 of FDIC insurance gives coverage of \$9,274,180.

Beneficial interest in assets held by others – In previous years the Library transferred funds to the Communities Foundation of Oklahoma (CFO) and the Norman Communities Foundation (managed by the Communities Foundation of Oklahoma) for investment. The recorded portion of all of these funds consists of transfers to CFO from the Library and the earnings thereon.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 2 – Cash and Investments (continued)

The following methods and assumptions were used to estimate the fair value of the beneficial interest in assets held by others reported at fair market value in the accompanying financial statements.

The organization believes that fair value of the future cash flows to be received from its beneficial interest in assets held by other the CFO which primarily include a diversified portfolio of marketable securities. The organization classifies its beneficial interest in the assets held by the CFO as level 2.

As of June 30 2016, assets measured at fair value on a recurring basis are classified within the fair value hierarchy as follows:

	Total	Level 1	Level 2	Level 3
Beneficial interest in assets held by CFO	\$ 387,229	\$ -	\$ 387,229	\$ -
Total Recurring Fair Value Measurements	\$ 387,229	\$ -	\$ 387,229	\$ -

Grant awards shall be available for distribution on a yearly basis, subject to final approval by the Board of Directors of CFO, and based on a specified percentage of the fair market value of assets on a rolling average of the previous eight quarters. The Community Foundation maintains variance power over these assets. Variance power assures donors that if the charitable purpose of their contribution becomes impractical or impossible, the distributions will be directed to similar purposes in the community. The Library's board may, by an affirmative vote of two third of the board, for an unusual circumstance, recommend and request distribution of all or part of the assets held by CFO. However, the CFO has the ultimate authority over and control of all property held by CFO. Distributions in the amount of \$17,736 for the year ended June 30, 2016, was received by the Library from these combined funds.

The Community Foundation maintains legal ownership of the funds. However, accounting principles generally accepted in the United States of America require the Organization to reflect its beneficial interest in these assets in its financial statements. At June 30, 2016, assets transferred to the Community Foundation by the Organization had a fair value of \$387,229 based on the approximate present value of future cash flows from CFO.

Direct donations to the Community Foundation from individuals are restricted for endowment purposes and are not recorded as assets of the Library. Only the earnings on these funds can be distributed to the Library.

Distributions in the amount of \$1,326 for the year ended June 30, 2016, were received by the Library. The fair value of the funds originally donated by third parties at June 30, 2016 was \$30,490. The Organization has no remainder interest in the corpus of these funds.

Investment Interest Rate Risk - The investments of the Pension Plan (see also Note 9) are invested in various mutual funds with MassMutual, and may be used only for the payment of benefits to the members of the Plan. The composition of the pension trust fund at fair value is shown in the following table.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 2 – Cash and Investments (continued)

	Market Value	Credit Exposure as a Percentage of Total Investments
Pension Fund		
Pooled Equity Funds	\$ 1,824,124	56.03%
Pooled Fixed Income Funds	1,083,289	33.27%
Alternative Investments	348,420	10.70%
Total Pension Fund Investments	<u>\$ 3,255,833</u>	<u>100.00%</u>

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

Babson Premium High Yield Bond Fund	\$ 254,145
Northern Trust MM MSCI EAFE Intl Index Equity Fund	327,926
Northern Trust MM RSI 200 SmCp Index Equity Fund	168,632
Northern Trust MM S&P 500 Index Equity Fund	989,970
Northern Trust MM S&P Mid Cap Index Equity Fund	337,597
Babson Premium Core Bond Fund	413,841
Western Sel Stratbond Bond Fund	415,302
Real Estate Voya	171,692
Utilities MFS	176,728

The organization believes that the fair value of these investments with underlying mutual funds is best measured by the observable unit value calculated based on the net asset value of the underlying investment.

The fair values of the Company's pension investments by asset category as of June 30, 2016 were as follows:

	Total	Level 1	Level 2	Level 3
Common Stock:				
Pooled Equity Funds	\$ 1,824,124	\$ -	\$ 1,824,124	\$ -
Corporate Debt Instruments				
Pooled Fixed Income Funds	1,083,289	-	1,083,289	-
Other, Net	348,420	-	348,420	-
Total Recurring Fair Value Measurements	<u>\$ 3,255,833</u>	<u>\$ -</u>	<u>\$ 3,255,833</u>	<u>\$ -</u>

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 2 – Cash and Investments (continued)

Pension Fund Policy

The Pioneer Library System Pension Plan and Trust provides for investment managers who have full discretion of assets allocated to them subject to the overall investment guidelines set out in the policy.

Manager performance is reviewed by a consultant who provides reports to the retirement plans investment and administrative committee and to the board. Any changes in the investment management firm must be reported as they occur. Overall investment guidelines provide for diversification and allow investment in domestic and international common stocks, fixed income securities, cash equivalents, index funds, collective trust funds and mutual funds. The Plan addresses custodial credit risk with policy providing for the engagement of a custodian who accepts possession of securities for safekeeping; collects and disburses income; collects principal of sold, matured, or called items; and provides periodic accounting to the board. The pension trust fund holds \$3,255,833 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 – Collections

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

Note 4 – Short-Term Borrowing

On an annual basis, the Library utilizes short-term unsecured promissory notes in anticipation of the collection of ad valorem taxes. In accordance with Title 65 Section 4-105 of the Oklahoma Statutes, the term of the loan may not exceed one year. As of June 30, 2016, no balance was owed. No interest expense was paid or incurred during the year ended June 30, 2016.

Note 5 – Other Current Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated Absences	\$ 331,996	\$ 517,172	\$ 487,967	\$ 361,201	\$ 361,201

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

Note 6 – Commitments

Lease Commitments – The Library leases a building, telephone equipment, a postage machine and copiers for its branch facilities and for administration under operating leases. The leases are renewed on an annual basis. Lease expense under these leases for 2016 was \$79,602.

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 6 – Commitments (continued)

Encumbrances – As discussed in Note 1 above, budgetary information, and budgetary basis of accounting, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At June 30, 2016 the amount of encumbrances expected to be honored upon performance by the vendor in the next year were:

General Fund	\$ 333,907
Gifts and Grants Fund	-
Total	<u>\$ 333,907</u>

Other Commitments – In the year ended June 30, 2005, the Library received a distribution from an estate that was to be used for the Noble Public Library. Construction commenced on an addition to the Noble library building in 2006. During 2007 construction was completed. Costs incurred during the year ended June 30, 2007 were approximately \$639,000, for a total of \$1,096,000. These costs have been expensed since the building will be owned by the City of Noble. The City of Noble signed the Inter-local agreement and took ownership of the building in May of 2016.

Note 7 – Capital Assets

Capital assets of the Library at June 30, 2016 are as follows:

	Beginning <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balances</u>
Non-depreciable Capital Assets:				
Land	\$ 161,179	\$ -	\$ -	\$ 161,179
Depreciable Capital Assets:				
Library Books	15,338,222	1,306,783	219,542	16,425,463
Building	4,710,917	3,919	-	4,714,836
Furniture and Fixtures	1,309,703	40,856	-	1,350,559
Computer Equipment	3,171,179	362,639	179,586	3,354,232
Vehicles	<u>228,757</u>	<u>262,591</u>	<u>-</u>	<u>491,348</u>
Total Capital Assets	<u>24,919,957</u>	<u>1,976,788</u>	<u>399,128</u>	<u>26,497,617</u>
Less Accumulated				
Depreciation for:				
Library Books	11,359,889	1,722,696	219,542	12,863,043
Building	205,087	117,902	-	322,989
Furniture and Fixtures	979,265	98,090	-	1,077,355
Computer Equipment	2,394,794	349,498	158,528	2,585,764
Vehicles	<u>167,240</u>	<u>32,235</u>	<u>-</u>	<u>199,475</u>
Total Accumulated				
Depreciation	<u>15,106,275</u>	<u>2,320,421</u>	<u>378,070</u>	<u>17,048,626</u>
Total Depreciable Capital				
Assets, Net	<u>\$ 9,813,682</u>	<u>\$ (343,633)</u>	<u>\$ 21,058</u>	<u>\$ 9,448,991</u>

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 8 – Fund Balance

The following table shows the fund balance classifications as shown on the governmental funds balance sheet as of June 30, 2016:

Fund Balance	General Fund	Gifts and Grants Fund	Total Governmental Funds
Assigned:			
Cleveland County Libraries	\$ 695,000	\$ -	\$ 695,000
McClain County Libraries	173,996	-	173,996
Pottawatomie County Libraries	50,000	-	50,000
Library Projects	220,000	-	220,000
Special Revenue Funds	-	577,667	577,667
Committed:			
Reserved for Encumbrances	333,907	-	333,907
Unassigned:	5,068,482	-	5,068,482
Total Fund Balance	<u>\$ 6,541,385</u>	<u>\$ 577,667</u>	<u>\$ 7,119,052</u>

Note 9 – Defined Benefit Retirement Plan

Plan Description - The Pioneer Library System Pension Plan and Trust (The Plan) is a single-employer public employees' retirement system (PERS) plan that covers all full-time employees of the Library. This plan was frozen as of December 31, 2008 and closed to new entrants. Retirement benefits are based on length of service and salary. Normal retirement for the plan is 65 years of age. Death and deferred vested benefits are also available under the plan. All benefits vest after 10 years of credited service. Pioneer employees who retire after age sixty-five with more than four years of credited service are entitled to an annual retirement benefit, payable monthly, in an amount equal to one percent of their 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.

Plan membership at June 30, 2016 consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	22
Inactive plan members entitled to but not yet receiving benefits	49
Active plan members	<u>76</u>
Total plan members	<u>147</u>

Funding Policy - Employees of the library are not required to contribute to the plan. The library is required to make annual contributions based on an actuarially computed percentage of covered wages in amounts sufficient to cover normal cost of benefits and amortize the prior service liabilities. The Pioneer Library System Board of Trustees has the authority to establish and or amend the funding policy of the plan. Contributions for the year ending June 30, 2016 to the defined benefit plan were \$186,354.

Net Pension Liability – The Library's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 9 – Defined Benefit Retirement Plan (Continued)

of that date. The total pension liability in the December 31, 2015 actuarial valuation was determined using an interest rate and investment rate of return of 6%. This long-term expected rate of return was obtained from the trustee of the plan assets.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2015. In addition, the mortality rates were based on the Total Data Set RP-2014 Mortality Table instead of the 2013 IRS Mortality Optional Combined Table for Small Plans which was the table used for the previous year's calculation. This change in assumption caused a large increase in the pension liability.

The discount rate used to measure the total pension liability was 6%. The projection of cash flows used to determine the discount rate assumed that contributions from the Library will be made at contractually required rates, actuarially determined. Based on this assumption, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability – Changes in the Library's net pension liability for the year ended June 30, 2016 were as follows:

	Increase (Decrease)		
	Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, December 31, 2015	\$4,107,729	\$ 3,647,378	\$ 460,351
Changes for the year:			
Interest	239,135	-	239,135
Difference between expected and actual and experience	107,515	-	107,515
Net investment income	-	(63,755)	63,755
Administrative expense	-	(31,409)	31,409
Change of assumptions	357,460	-	357,460
Contributions - employer	-	83,368	(83,368)
Benefit payments including refunds of employee contributions	(244,284)	(244,284)	-
Net Changes	459,826	(256,080)	715,906
Balance, December 31, 2016	<u>\$4,567,555</u>	<u>\$ 3,391,298</u>	<u>\$ 1,176,257</u>

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 9 – Defined Benefit Retirement Plan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability calculated using the discount rate of 6%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5%) or 1 percentage point higher (7%) than the current rate:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
Pension Liability	\$ 5,095,304	\$ 4,567,555	\$ 4,128,666
Fiduciary Net Position	<u>3,391,298</u>	<u>3,391,298</u>	<u>3,391,298</u>
Net Pension Liability	<u>\$ 1,704,006</u>	<u>\$ 1,176,257</u>	<u>\$ 737,368</u>

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

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources – For the year ended June 30, 2016; the Library recognized a pension expense of \$129,841. At June 30, 2016, the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Balances at June 30, 2016</u>	
<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 279,965	\$ (70,853)
Changes of assumptions	409,484	(380,365)
Net difference between projected and actual earnings on investments	129,956	
Contribution to pension plan after measurement date	<u>144,670</u>	
Total	<u>964,075</u>	<u>(451,218)</u>

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 9 – Defined Benefit Retirement Plan (Continued)

\$144,670 reported as deferred outflows of resources related to pensions resulting from Library contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year</u>	
2016	\$ 175,514
2017	57,421
2018	110,686
2019	84,765
2020	25,022
Thereafter	59,449

Note 10 – Defined Contribution Retirement Plan

Plan Description - On January 1, 2009 the library implemented this plan. Normal retirement age for this plan is 65 years of age. Death and deferred vested benefits are also available under this plan. All benefits vest after 5 years of credited service. Employees who retire after age sixty-five will receive their vested benefits in one of the following manners out of the amount accumulated in their accounts: (i) by lump sum payments, or (ii) in equal monthly, quarterly, semi-annual or annual installment payments; provided an installment election must be for a period less than their life expectancy or the life expectancy of their beneficiaries.

Funding Policy - Employees of the library are not required to contribute to the plan. The library makes an annual contribution based on a percentage of an employee's salary. For employees that are members of the Defined Benefit retirement plan that was frozen in 2008, the percentage of salary was based on an actuarial calculation that was done in 2008. These percentages were reviewed and recalculated during the current year which resulted in several of the percentages being changed. These new percentages were used when calculating the contributions to participants' accounts for 2016. The Pioneer Library System Board of Trustees has the authority to establish and or amend the funding policy of the plan. Contributions paid to the plan for the year ended June 30, 2016 totaled \$426,311.

Note 11 – Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Library carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Note 12 – Related Party Leases

The Library leases space to the City of Norman (City) under an operating lease with annual mutual renewal, for a term of twenty years. Rent revenue under this lease equaled \$130,472, included in Other Contracts on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds. Under this lease agreement the City agreed to pay \$50,000 a year for ten years as reimbursement for costs incurred

PIONEER LIBRARY SYSTEM
Notes to Financial Statements
June 30, 2016

Note 12 – Related Party Leases (continued)

to remodel the space for a total of \$500,000. If the lease is not mutually renewed the remainder of \$500,000 is to be remitted to the Library.

The cost of the leased space is included in the Building category in Note 7 – Capital Assets, and the amount of accumulated depreciation thereon. The amount of cost attributable to only the leased space is not determinable and therefore not disclosed here.

Note 13 – Subsequent Events

In July 2016, The Library filed a request with the Internal Revenue Service (IRS) to be exempt from the requirement to file Form 990, Return of Organization Exempt from Income Tax. The IRS responded to this request through its discretionary authority under Section 6033(a)(3)(B) of the Internal Revenue Code stating that Revenue Procedure 95-48, 1995-47 I.R.B. 13 (Nov 20, 1995) provides that governmental units and affiliates of governmental units that are exempt from federal income tax under section 501(a) are not required to file Form 990.

PIONEER LIBRARY SYSTEM
Budgetary Comparison Schedule – General Fund (Unaudited)
For the Year Ended June 30, 2016

	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	\$ 14,498,920	\$ 15,364,582	\$ 15,672,760	\$ 18,339	\$ 15,654,421	\$ 289,839
State Revenue	149,662	141,657	141,391	-	141,391	(266)
Interest	-	-	15,119	-	15,119	15,119
Other	484,374	475,710	458,247	(838)	459,085	(16,625)
Amounts Available for Appropriation	15,132,956	15,981,949	16,287,517	17,501	16,270,016	288,067
Charges to Appropriations (outflows)						
Personnel Services	9,992,694	10,642,099	10,076,515	(31,399)	10,045,116	596,983
Materials	2,000,000	2,210,000	2,242,953	(29,091)	2,213,862	(3,862)
General and Administrative	1,303,522	1,208,350	1,501,843	(4,175)	1,497,668	(289,318)
Technology	1,150,000	1,250,000	1,012,698	31,050	1,043,748	206,252
Virtual Library	240,000	113,000	105,226	57,831	163,057	(50,057)
System Services	446,740	558,500	270,634	(13,032)	257,602	300,898
Total Charges to Appropriations	15,132,956	15,981,949	15,209,869	11,184	15,221,053	760,896
Change in Net Assets	-	-	1,077,648	6,317	1,048,963	1,048,963
Beginning Fund Balance	3,628,938	3,760,857	5,463,737	1,702,880	3,760,857	-
Ending Fund Balance	\$ 3,628,938	\$ 3,760,857	\$ 6,541,385	\$ 1,709,197	\$ 4,809,820	\$ 1,048,963

Budget to Actual Reconciliation:

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

\$ 17,501

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

(11,184)

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.

1,702,880

\$ 1,709,197

Notes to required Budgetary Information

Note Budgeting and Budgetary Control

Oklahoma Statute requires the Library to prepare an annual budget. The various excise County Excise Boards formally approve the annual budget for the general fund. The Library adopts its budget at the fund level.

Budgetary Basis of Accounting

Under the budgetary basis of accounting revenues are recognized when they are received rather than earned. Purchases of materials, outside services and capital outlay are recognized as expenditures when the commitment to purchase is made (encumbered).

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

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

For the Year Ended December 31

	2015	2014	2013	2012	2011	2010	2009
Total Pension Liability							
Service Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	239,135	240,458	252,881	238,612	248,546	237,066	228,147
Changes of benefit terms	-	-	-	-	-	-	-
Differences between expected and actual experience	107,515	(29,079)	49,618	247,559	(116,955)	75,052	4,988
Changes of assumptions	357,460	-	(618,094)	-	244,140	-	-
Benefit payments, including refunds of member contributions	(244,284)	(259,643)	(252,483)	(201,018)	(158,505)	(83,058)	(85,914)
Net change in total pension liability	\$ 459,826	\$ (48,264)	\$ (568,078)	\$ 285,153	\$ 217,226	\$ 229,060	\$ 147,221
Total Pension Liability--Beginning	4,107,729	4,155,993	4,724,071	4,438,918	4,221,692	3,992,632	3,845,411
Total Pension Liability--Ending (a)	\$ 4,567,555	\$ 4,107,729	\$ 4,155,993	\$ 4,724,071	\$ 4,438,918	\$ 4,221,692	\$ 3,992,632
Plan fiduciary net position							
Contributions--employer	\$ 83,368	\$ 56,500	\$ 208,000	\$ 208,000	\$ 146,000	\$ 159,000	\$ 199,260
Contributions--member	-	-	-	-	-	-	-
Net investment income	(63,755)	135,323	481,674	310,945	(27,967)	310,533	407,581
Benefit payments, including refunds of member contributions	(244,284)	(259,643)	(252,483)	(201,018)	(158,505)	(83,058)	(85,914)
Administrative expense	(31,409)	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Net change in plan fiduciary net position	\$ (256,080)	\$ (67,820)	\$ 437,191	\$ 317,927	\$ (40,472)	\$ 386,475	\$ 520,927
Plan fiduciary net position--beginning	3,647,378	3,715,198	3,278,007	2,960,080	3,000,552	2,614,077	2,093,150
Plan fiduciary net position--ending (b)	\$ 3,391,298	\$ 3,647,378	\$ 3,715,198	\$ 3,278,007	\$ 2,960,080	\$ 3,000,552	\$ 2,614,077
PLS net pension liability (asset)--ending (a) - (b)	\$ 1,176,257	\$ 460,351	\$ 440,795	\$ 1,446,064	\$ 1,478,838	\$ 1,221,140	\$ 1,378,555
Plan fiduciary net position as a percentage of the total pension liability	74.25%	88.79%	89.39%	69.39%	66.68%	71.07%	65.47%
Covered-employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net pension liability (asset) as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule:

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

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

Changes of assumptions - In 2011, amounts reported as changes of assumptions resulted primarily from the actuary correcting an error based on him using the wrong assumptions for his lump sum calculations.

In 2013, amounts reported as changes of assumptions resulted primarily from changing the interest rate, changing the cost method, and changing the mortality tables.

In 2015, amounts reported as changes of assumptions resulted from the changing of the mortality tables.

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

Pioneer Library System Pension Plan and Trust
Schedule of Contributions

For the Year Ended December 31	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 68,369	\$ 56,500	\$ 176,976	\$ 197,670	\$ 149,985	\$ 163,645	\$ 205,063	\$ 250,574	\$ 223,631	\$ 210,136
Contributions in relation to the actuarially determined contribution	<u>83,368</u>	<u>56,500</u>	<u>208,000</u>	<u>208,000</u>	<u>146,000</u>	<u>159,000</u>	<u>242,380</u>	<u>216,316</u>	<u>203,264</u>	<u>184,400</u>
Contribution deficiency (excess)	<u>\$ (14,999)</u>	<u>\$ -</u>	<u>\$ (31,024)</u>	<u>\$ (10,330)</u>	<u>\$ 3,985</u>	<u>\$ 4,645</u>	<u>\$ (37,317)</u>	<u>\$ 34,258</u>	<u>\$ 20,367</u>	<u>\$ 25,736</u>
Covered-employee Payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to schedule:

Valuation date:	Actuarially determined contribution rates are calculated as of December 31, six months prior to the end of the fiscal year in which contributions are reported.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Active and terminated vested participants are assumed to elect a 10 year Certain and Life Annuity upon retirement.
Amortization method	Level dollar
Remaining amortization period	Unfunded past service liability, 10 year closed period beginning January 1, 2014. Subsequent plan year gains and losses are amortized over five years.
Asset valuation method	Market value of assets
Inflation	N/A
Salary increases	N/A - plan is frozen
Investment rate of return	6.00%
Retirement age	100% at age 65
Mortality	Total Data Set RP - 2014 projected using Scale MP-2015

Other information:

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



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

September 27, 2016

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund and the fiduciary fund type of Pioneer Library System (Library), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated September 27, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



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PRIVATE COMPANIES PRACTICE SECTION

principa|alliance
MEMBER

To the Board of Trustees of
Pioneer Library System
September 27, 2016

Purpose of this Report

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

GRAY, BLODGETT & COMPANY, PLLC

Gray, Blodgett & Company, PLLC