



Financial Statements

For the Year Ended June 30, 2018

PIONEER LIBRARY SYSTEM

Index

June 30, 2018

	Page
Independent Auditors' Report	3
Required Supplementary Information:	5
Management's Discussion and Analysis (Unaudited)	
Basic Financial Statements	
<i>Government-wide Financial Statements</i>	
Statement of Net Position	13
Statement of Activities	14
<i>Fund Financial Statements</i>	
Balance Sheet - Governmental Funds	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Statement of Fiduciary Net Position - Fiduciary Fund	17
Statement of Changes in Fiduciary Net Position - Fiduciary Fund	18
Notes to Financial Statements	19
Required Supplementary Information:	
Budgetary Comparison Schedule - General Fund (Unaudited)	33
Schedule of Changes in Net Pension Liability (Unaudited)	34
Schedule of Pension Contributions (Unaudited)	35
Compliance and Internal Control	
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 <i>Government Auditing Standards</i>	36



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## INDEPENDENT AUDITORS' REPORT

September 26, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the System'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 the aggregate discretely presented component unit, the 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, 2018, 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.



To the Board of Trustees of  
Pioneer Library System  
September 26, 2018

***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 33, and the net pension liability and contribution information on pages 34-35 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 26, 2018, on our consideration of the 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 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 (Unaudited)  
for the fiscal year ended June 30, 2018**

This discussion and analysis of the financial performance of Pioneer Library System (the System) provides an overall review of the System's financial condition and results of operations for the fiscal year ended June 30, 2018. Readers should read this information in conjunction with the System's financial statements.

Governmental Accounting Standards Board (GASB) statements 75, 85, and 86 became effective as of June 30, 2018 however; these pronouncements do not affect the System's financial statements.

### **Financial Highlights**

For fiscal year 2017-2018, the System's general fund reported an ending balance of \$9,020,048 versus \$7,759,885 for the fiscal year 2016-2017. Of the 2017-18 year end-total, \$116,187 is committed for outstanding encumbrances, and \$1,188,996 is assigned for service upgrades and improvements of library services at current and future libraries within the system. Although the remaining balance of \$7,714,865 is unassigned, the System administration, with the Board of Trustee's approval, will use some of these funds to complete upcoming library projects in the City of Norman which plans to open a new central library in the summer of 2019. 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 System's operating revenue increased by 4.6% this year. This increase allowed the System to pay the opening day collection costs of \$426,557 and the technology equipment costs of \$316,710 for the new Norman Public Library East out of operating funds instead of reserve funds. This will allow the System to set aside funds for future projects including the opening of a new Norman Public Library Central in the summer of 2019. The System purchased a new materials sorter at a cost of \$134,400 for the Moore Public Library and seven new firewalls at a cost of \$78,888. The first item provides customers access to materials as it reduces the time it takes to check-in, sort and reshelve the materials as well as reducing the repetitive tasks that staff currently perform decreasing the chance of workers compensation issues. The firewalls allow for increased internet speed at the branches which provides customers faster access to the online resources.

The Pioneer Library System Foundation completed its eighth year of operation as of June 30, 2018. The Foundation was organized for the purpose of supporting, promoting and improving the programs, collections, and services of the Pioneer Library System. The Foundation awarded \$500 grants to each of the eleven branches this fiscal year to support local programs. In addition, the Foundation provided financial support for many of the System's programs including the 2018 Big Read and the system-wide summer programming. The Foundation has been included as a component unit of the Pioneer Library System and the Foundation has issued its own financial statements, available from the Pioneer Library System Foundation administrative office.

The general fund balance increased by \$1,260,163 from fiscal year 2017 due to the increase in collection of revenue and the decrease in spending in expense categories including salaries, retirement, health insurance, attorney fees, property insurance, strategy and innovation, and system facilities.



## **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 System's finances, in a manner similar to a private-sector business.

The statement of net position represents information on all of the System'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 System is improving or deteriorating.

The statement of activities presents information showing how the System'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 Gifts/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 plan.

See Accompanying Notes to Financial Statements

## 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 2017-2018 governmental fund balances changed as follows:

	General Fund Funds	Other Governmental Funds	Total Governmental Funds
Revenues	\$ 18,006,115	\$ 121,641	\$ 18,127,756
Expenditures	\$ 16,745,952	\$ 73,023	\$ 16,818,975
Net Increase	\$ 1,260,163	\$ 48,618	\$ 1,308,781

For fiscal year 2016-2017 governmental fund balances changed as follows:

	General Fund Funds	Other Governmental Funds	Total Governmental Funds
Revenues	\$ 17,205,612	\$ 123,407	\$ 17,329,019
Expenditures	\$ 15,987,112	\$ 110,652	\$ 16,097,764
Net Decrease	\$ 1,218,500	\$ 12,755	\$ 1,231,255

### General Fund:

The Library System is primarily (or 96%) funded by Ad Valorem (property) tax. For the 2017-18 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 2017-2018, the Counties' assessed property value had an increase of 4.33% versus 6.2% for 2016-17. Actual tax collections increased by 4.0% versus 6.0% for the prior year. The increase of 4.0% was due to the collection of more tax revenue. Fine and other charges for services revenue for 2017-18 decreased by \$24,331 from 2016-17. This decrease was caused by a decrease in fine revenue. State Aid increased by \$11,037 over the prior year. This increase was caused by additional funds being allocated from the Oklahoma Department of Libraries. Interest income increased by \$131,277 over the prior year. This increase is attributed to more funds being held in reserve, an increase in interest rates paid by the System's bank, and the bank correcting an error in the rate that was paid to the System.

The Expense category Personnel Services decreased from 2017 to 2018 due to the decrease in salary expenses caused by the consolidation of staff expenses and partial year position vacancies, a decrease in hospitalization expense caused by the enrollment in a new health insurance plan, and a decrease in retirement expenses due to the decreased contribution to the defined benefit plan caused by the plan being funded at a higher percentage and a change in actuarial assumptions which decreased the required minimum contribution. The Expense category of Materials increased as materials were purchased for the opening day collection of the new Norman Public Library East library. The Technology and Automation category increased as technology equipment was purchased for the new Norman Public Library East.

The System Services and General and Administrative expense categories were different in 2018 than in 2017 because of the following:

- Professional Services expenses increased because a consulting firm was hired to audit the technology department and a consultant was hired to work with the new Executive Team.
- The Continuing Education expenses increased because several staff attended the PLA conference.
- The increase in equipment is due to the fact that several equipment items were purchased for the new Norman Public Library East.
- Attorney Fees decreased due to the fact that no retirement plans conversion work happened this past year.
- Postage costs decreased because of a continued focus to send items electronically when possible.
- Marketing and Communications costs increased to expand digital marketing and due to the fact that some expenses were reallocated to this line item from another line item.
- Programming expense increased due to the fact that more programs were held.
- Outreach expense increased to reflect an increased effort to reach the System's customers who live in rural areas.
- System facilities maintenance decreased because the System hired janitorial staff and no longer contracts out janitorial services at its administrative offices at 300 Norman Center Court.

#### Other Governmental Funds:

Gifts/Grants Funds – In fiscal year 2017-2018, Pioneer Library System received \$81,414 in gifts and grants. Outright gifts to PLS totaled \$64,125, over 75% of which was provided by Friends groups throughout the library system (\$49,405). This past year, Pioneer Library System received \$3,500 in grants. The City of Purcell donated \$10,500 to fund programs at the Purcell Public Library. All of the grantors and donors have not only provided financial support but have also been active partners providing excellent library services to the community.

#### Fiduciary Funds:

The investments of the System Pension Plan increased due to the increase in the stock market. The Pioneer Library System Board of Trustees froze the defined benefit pension plan as of December 31, 2008 and instituted a defined contribution retirement plan. The provider of all system retirement plans is MassMutual.



## The Library System as a Whole

	2017-2018	2016-2017
Assets		
Current and Other Assets	\$10,616,703	\$ 8,923,516
Capital Assets	\$ 9,328,483	\$ 8,909,371
Total Assets	\$19,945,186	\$17,832,887
Deferred Outflows of Resources		
Outflows Related to Net Pension Liability	\$ 749,668	\$ 842,472
Total Deferred Outflows of Resources	\$ 749,668	\$ 842,472
Liabilities		
Accounts Payable and Accrued Expenses	\$ 568,394	\$ 196,004
Other Liabilities	\$ 389,221	\$ 377,205
Net Pension Liability	\$ 315,353	\$ 677,264
Total Liabilities	\$ 1,272,968	\$ 1,250,473
Deferred Inflows of Resources		
Inflows Related to Net Pension Liability	\$ 551,428	\$ 499,379
Total Deferred Inflows of Resources	\$ 551,428	\$ 499,379
Net Position		
Net Investment in Capital Assets	\$ 9,328,483	\$ 8,909,371
Restricted Net Assets	\$ 639,040	\$ 590,422
Unrestricted Net Assets	\$ 8,902,935	\$ 7,425,714
Total Net Position	\$18,870,458	\$16,925,507
Change in Net Position		
Beginning Net Position	\$16,925,507	\$15,904,643
Revenues		
Property Taxes	\$17,279,474	\$16,601,057
Charges for Services	\$ 434,421	\$ 454,649
Operating Grants	\$ 81,414	\$ 43,310
Capital Grants	\$ 16,028	\$ 39,816
State Aid	\$ 143,468	\$ 132,431
Investment Earnings	\$ 148,752	\$ 17,475
Net Change In Beneficial Assets Held by Others	\$ 24,199	\$ 40,281
Loss on Disposal	\$ (6,861)	\$ (28,860)
Total Revenues	\$18,120,895	\$17,300,159
Expenses		
Public Library Services	\$11,872,210	\$11,959,239
Administrative Services	\$ 2,162,434	\$ 2,190,589
Depreciation-Unallocated	\$ 2,141,300	\$ 2,129,467
Total Expenses	\$16,175,944	\$16,279,295
Increase in Net Position	\$ 1,944,951	\$ 1,020,864
Ending Net Position	\$18,870,458	\$16,925,507

## **General Fund Budgetary Highlights**

The General Fund budget for fiscal year 2017-2018 was \$18,058,050. This was a 6.72% increase over the previous year. The highlights of the budget include:

- A 3.0% salary adjustment for all staff who qualified and were still employed on August 31, 2017.
- The Health Insurance budget was increased \$29,195 to cover an expected increase in costs for medical and dental insurance.
- The Workers Compensation budget was increased by \$6,930 to reflect actual costs.
- The Materials budget increased \$100,000 to purchase additional e-book's in order to support the System's strategic plan and to market to digital users.
- The Materials Norman East line item was added to reflect the materials purchased for the opening day collection for the new Norman Public Library East.
- The Professional Services budget was decreased \$50,000 to reflect actual costs.
- The Attorney Fee budget was decreased \$15,000 to reflect anticipated usage due to the retirement plans conversion issue being resolved.
- The Equipment budget was decreased by \$15,000 to reflect actual costs.
- The Insurance budget was decreased \$11,000 to reflect a decrease in rates caused by a switch in carriers.
- The Supplies budget was decreased by \$10,000 to reflect actual costs.
- The Telephone budget was decreased by \$23,000 to reflect actual costs.
- The Mileage budget was decreased \$10,000 to reflect actual costs.
- The Vehicle budget was increased \$57,000 to reflect the fact that two vehicles will be purchased this year.
- The Technology Norman East line item was added to the budget to reflect the cost of the technology items purchased for the new Norman Public Library East.
- The Continuing Education budget was increased \$21,348 to reflect the costs associated with the PLA conference and the development of a system customer service philosophy.
- The Programming budget was decreased \$30,000 to reflect actual costs.
- The System Facilities budget was decreased by \$45,000 to reflect the termination of the janitorial contract at the administrative offices at 300 Norman Center Court.
- The Assigned Fund Balance reflects several items: Cleveland County, \$274,560; McClain County, \$173,996; Pottawatomie County, to \$50,000; Library Projects, \$220,000. The amount for Cleveland County was decreased by \$420,440 to cover the opening day collection materials costs for the new Norman Public Library East.

## **Capital Asset and Long-Term Debt**

The Library System's investment in capital assets, net of accumulated depreciation, as of June 30, 2018 was \$9,328,483 and on June 30, 2017 was \$8,909,371. Of the total depreciable capital assets, net of accumulated depreciation, on June 30, 2018, 17% are furniture, equipment and vehicles; 45% 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, 2017 12% are furniture, equipment, and vehicles; 50 % are building and property; and the remaining 38% 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 2017-2018, the Library System 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 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 Pottawatomie County and at a slower rate in McClain County and Cleveland 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 4.0% growth, the Pottawatomie County Assessor has certified a 5.0% growth and the McClain County Assessor has certified a 8.0% growth.

For fiscal year 2018-2019, the Library Board approved a general fund budget of \$19,455,102 versus \$18,058,050 for 2017-18.

- Fines income was decreased by \$53,000 to reflect the waiving of fines on youth materials and to reflect a continued decrease in actual amounts collected.
- Reprographics income was increased \$48,000 to reflect the actual collected amounts caused by the replacement of public printers with copiers at several branches and the opening of the Norman Public Library East location.
- Public Printers income was decreased \$40,000 to reflect the actual collected amounts caused by the removal of public printers at several branches.
- Interest Income was increased \$47,000 to reflect actual amounts received.
- A 3.0% salary adjustment for staff who received a successful or outstanding rating on their annual performance evaluation and are not in their training period.
- Health Insurance line item was decreased \$219,025 to reflect the decrease in insurance rates caused by the change in health insurance plans that occurred during the previous fiscal year.
- Materials Norman East line item was removed to reflect the fact that the Norman Public Library East materials were all purchased out of the FY 2017-2018 budget.
- Materials Norman Central line item was added to reflect the fact that the materials for the opening day collection for the new Norman Public Library Central will be purchased out of the FY 2018-2019 budget.
- Professional Services line item was increased to \$175,000 to reflect the movement of Phase Two expenses and the Orange Boy contract expenses to this budget category.
- Postage line item was decreased \$20,000 to reflect actual costs.
- Equipment line item was increased \$30,000 to reflect the cost to replace AV equipment at several of the branches.
- Vehicles line item was decreased \$25,000 to reflect the fact that only one vehicle will be purchased out of the current year budget.
- Reprographics line item was increased \$50,000 to reflect the cost of the leasing of additional copiers to replace public printers at several of the branches and to provide copiers for the new Norman Public Library East.
- Technology line item was increased \$43,000 to reflect the purchase of additional 24 hour library machines this year.
- Technology Norman East line item was removed to reflect that fact that all Norman Public Library East technology items were purchased out of the FY 2017-2018 budget.
- Technology Norman Central line item was added to reflect the technology items to be purchased for the new Norman Public Library Central.
- Strategy and Innovation line item was removed and these expenses were relocated to another budget.
- Marketing and Communication line item was decreased \$35,700 to reflect the movement of the Orange Boy expenses to the Professional Services budget category.
- Assigned Fund Balance reflects several items: Cleveland County, \$124,560; McClain County, \$173,996; and Pottawatomie County, \$50,000; Library Projects, \$220,000. The amount assigned to Cleveland County was decreased \$620,440 to cover the opening day collection materials cost for the new Norman Public Library Central which will open in the summer of 2019.
- Committed Fund Balance decreased to reflect the change in outstanding purchase orders at June 30<sup>th</sup> when compared to last year.



- Unassigned Fund Balance decreased \$670,334 to cover the technology costs for the purchase of items for the new Norman Public Library Central which will open in the summer of 2019.
- Total Fund Balance for 2018-2019 is anticipated to be \$7,670,835.

### **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, 2018

	Primary Government Governmental Activities	Component Unit Library Foundation
<b>Assets</b>		
Cash and Cash Equivalents	\$ 9,383,862	\$ 198,160
Beneficial Interest in asset held by others	414,150	37,646
Ad Valorem Tax Receivable	136,128	-
Accrued Interest Receivable	-	293
Other Current Assets	657,966	44,951
Other Receivable	24,597	-
Non-Depreciable Capital Assets	161,179	-
Depreciable Capital Assets, Net	<u>9,167,304</u>	<u>-</u>
Total Assets	<u>\$ 19,945,186</u>	<u>\$ 281,050</u>

**Deferred Outflows of Resources**

Outflows related to net pension liability	<u>\$ 749,668</u>	<u>\$ -</u>
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**Liabilities**

Accounts Payable and Accrued Expenses	\$ 568,394	\$ 28,109
Compensated Absences Payable	389,221	-
Net Pension Liability	<u>315,353</u>	<u>-</u>
Total Liabilities	<u>\$ 1,272,968</u>	<u>\$ 28,109</u>

**Deferred Inflows of Resources**

Inflows related to net pension liability	<u>\$ 551,428</u>	<u>\$ -</u>
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**Net Position**

Net Investment in Capital Assets	\$ 9,328,483	\$ -
Restricted - Non Spendable Net Assets	-	29,093
Restricted - Literacy and Other Programs	639,040	87,212
Unrestricted - Board Designated Endowment	-	6,844
Unrestricted - Undesignated	<u>8,902,935</u>	<u>129,792</u>
Total Net Position	<u>\$ 18,870,458</u>	<u>\$ 252,941</u>

PIONEER LIBRARY SYSTEM  
Statement of Activities  
For the Year Ended June 30, 2018

Functions/Programs	Program Revenues				Net (Expense)	(Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets	Revenue and Changes in Net Assets
					Primary Governmental Activities	Component Unit Library Foundation
Governmental Activities:						
Public Library Services	\$ 11,872,210	\$ 434,421	\$ 81,414	\$ 16,028	\$ (11,340,347)	
Administrative Services	2,162,434	-	-	-	(2,162,434)	
Depreciation - unallocated	2,141,300	-	-	-	(2,141,300)	
Total Primary Government	<u>\$ 16,175,944</u>	<u>\$ 434,421</u>	<u>\$ 81,414</u>	<u>\$ 16,028</u>	<u>\$ (15,644,081)</u>	
Component Unit						
Library Foundation	<u>\$ 342,236</u>	<u>\$ -</u>	<u>\$ 212,380</u>	<u>\$ -</u>		<u>\$ (129,856)</u>
General Revenues:						
Property taxes, levied for general purposes					\$ 17,279,474	\$ -
State Aid					143,468	-
Net Change in Beneficial Assets held by others					24,199	2,670
Miscellaneous Income					-	3,570
Investment earnings					148,752	3,847
Loss on Disposals					(6,861)	-
Total General Revenues					<u>\$ 17,589,032</u>	<u>\$ 10,087</u>
Change in net assets					\$ 1,944,951	\$ (119,769)
Net position - beginning					16,925,507	372,710
Net position - ending					<u>\$ 18,870,458</u>	<u>\$ 252,941</u>



# PIONEER LIBRARY SYSTEM

## Balance Sheet

### Governmental Funds

June 30, 2018

ASSETS	General Fund	Gifts and Grants Fund	Total Governmental Funds
Cash	\$ 9,295,322	\$ 88,540	\$ 9,383,862
Investments	-	414,150	414,150
Receivable from General Fund	-	115,135	115,135
Ad Valorem Tax Receivable	136,128	-	136,128
Other Receivable	3,381	21,215	24,596
Deposit	9,200	-	9,200
Prepaid Expenses	648,766	-	648,766
<b>Total Assets</b>	<b>\$ 10,092,797</b>	<b>\$ 639,040</b>	<b>\$ 10,731,837</b>

### LIABILITIES AND FUND BALANCES

#### Liabilities

Accounts Payable	\$ 483,479	\$ -	\$ 483,479
Accrued Salaries and Employee Benefits	84,914	-	84,914
Compensated Absences Payable	389,221	-	389,221
Payable to Special Revenue	115,135	-	115,135

<b>Total Liabilities</b>	<b>\$ 1,072,749</b>	<b>\$ -</b>	<b>\$ 1,072,749</b>
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#### Fund Balances

Assigned for Service Upgrades and Improvements	\$ 1,188,996	\$ 626,003	\$ 1,814,999
Committed for Outstanding Encumbrances	116,187	13,037	129,224
Unassigned	7,714,865	-	7,714,865

<b>Fund Balances, End of Year</b>	<b>\$ 9,020,048</b>	<b>\$ 639,040</b>	<b>\$ 9,659,088</b>
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<b>Total Liabilities and Fund Balances</b>	<b>\$ 10,092,797</b>	<b>\$ 639,040</b>	
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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 \$28,776,425, including \$161,179 of non-depreciable assets, and the accumulated depreciation is \$19,447,942. 9,328,483

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	(315,353)
Deferred outflows of resources related to net pension liability	749,668
Deferred inflows of resources related to net pension liability	(551,428)

<b>Total Net Position - Governmental Activities</b>	<b>\$ 18,870,458</b>
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PIONEER LIBRARY SYSTEM  
Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Governmental Funds  
For the Year Ended June 30, 2018

	General Fund	Gifts and Grants Fund	Total Governmental Funds
Revenues:			
Property Taxes	\$ 17,279,474	\$ -	\$ 17,279,474
Collections on Book Fines and Copy Services	281,167	-	281,167
Gifts and Grants	-	81,414	81,414
State Revenue	143,468	-	143,468
Other Contracts	153,254	-	153,254
In-Kind Donations	-	16,028	16,028
Interest	148,752	24,199	172,951
Total Revenues	<u>\$ 18,006,115</u>	<u>\$ 121,641</u>	<u>\$ 18,127,756</u>
Expenditures			
Personal Services	\$ 10,766,847	\$ -	\$ 10,766,847
Materials	2,820,906	73,023	2,893,929
General and Administrative	1,036,668	-	1,036,668
Technology and Automation	1,629,929	-	1,629,929
System Services	491,602	-	491,602
Total Expenditures	<u>\$ 16,745,952</u>	<u>\$ 73,023</u>	<u>\$ 16,818,975</u>
Net Change in Fund Balance	\$ 1,260,163	\$ 48,618	\$ 1,308,781
Beginning Fund Balance	<u>7,759,885</u>	<u>590,422</u>	<u>8,350,307</u>
Ending Fund Balances	<u>\$ 9,020,048</u>	<u>\$ 639,040</u>	<u>\$ 9,659,088</u>
Total net changes in fund balances - governmental funds			\$ 1,308,781

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	\$ (2,141,300)	
Capital Outlay	<u>2,567,273</u>	425,973

Disposals of capital assets are not considered to be expenditures in the governmental funds. They are however, recorded as a loss in the statement of activities. (6,861)

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 217,058

Change in net position of governmental activities \$ 1,944,951

PIONEER LIBRARY SYSTEM  
Statement of Fiduciary Net Position  
Fiduciary Fund  
June 30, 2018

	Pension Fund
	<hr/>
<b>ASSETS</b>	
Current Assets	
Investments	\$ 3,579,790
	<hr/>
<b>Total Assets</b>	<b>\$ 3,579,790</b>
	<hr/>
<b>NET POSITION</b>	
Restricted Net Assets	
Held in Trust for Pension	
Benefits and Other Purposes	\$ 3,579,790
	<hr/>

See Accompanying Notes to Financial Statements



PIONEER LIBRARY SYSTEM  
Statement of Changes in Fiduciary Net Position  
Fiduciary Fund  
For the Year Ended June 30, 2018

	<u>Pension Fund</u>
Additions	
Contributions	
Employer	\$ 327,205
Net Increase/(Decrease) in the Fair Value of Investments	<u>258,355</u>
Total Additions	<u>\$ 585,560</u>
Deductions	
Benefits Paid	430,939
Trustee and Management Fees	<u>32,312</u>
Total Deductions	<u>\$ 463,251</u>
Net Increase	\$ 122,309
Net Position, Beginning of Year	<u>3,457,481</u>
Net Position, End of Year	<u>\$ 3,579,790</u>

See Accompanying Notes to Financial Statements

PIONEER LIBRARY SYSTEM  
Notes to Financial Statements  
June 30, 2018

Note 1 – Summary of Significant Accounting Policies

The Reporting Entity –

Pioneer Library System (the System) 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 System is governed by trustees composed of 15 voting members. The System operations are conducted by a librarian appointed by the trustees. Trustees include voting members who are appointees of the various cities and counties in which the System has locations.

The System's financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). The System'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 System'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 System, 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 System and/or its citizens, or whether the activity is conducted within the geographic boundaries of the System 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 System 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 System's reporting entity.

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

Basic Financial Statements – Government-Wide Statements –

The System's basic financial statements include both government-wide (reporting the Library System as a whole) and fund financial statements (reporting the System's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The System 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, 2018

Note 1 – Summary of Significant Account Policies (continued)

In the government-wide Statement of Net Position, the System's governmental activities are reported using the economic resources measurement focus and the accrual basis of accounting. The System'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 System'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 System 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 System as an entity and the change in the System's net position resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

Fund financial statements report detailed information about the System. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Non-major 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 System reports the following major governmental funds:

General Fund – is the primary operating fund of the System. 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 System, which are to be used for specific purposes.

The System 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, 2018

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 System'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 System 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 System's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be stipulated by the Board of Trustees. With the exception of the General Fund, this is the residual fund balance of the classification for all governmental funds with positive balances.
- e) Unassigned – Includes the residual balance of the General Fund that has not been assigned to other funds and that has not be restricted, committed, or assigned to specific purposes with the General Fund.

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.

PIONEER LIBRARY SYSTEM  
Notes to Financial Statements  
June 30, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets – Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

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

Compensated Absences – The System 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 System are reimbursed for each day of accumulated annual leave.

Budgets and Budgetary Accounting – The System is required by state law to prepare an annual budget. The budget is filed with the various County Excise Boards.

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 System 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 prices 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 prices 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.



PIONEER LIBRARY SYSTEM  
Notes to Financial Statements  
June 30, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

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 System's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

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 System 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, 2018 in both the government-wide and fund financial statements.

State Revenues – The System 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 System 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 System 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 System records income from grants in the period received or to the extent of expenses paid prior to reimbursement by a grant.

Income Taxes - The System 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 System is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The System 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 2014 are no longer subject to examination by the Internal Revenue Service and the State of Oklahoma.

Prepaid Expenses - The System 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.

PIONEER LIBRARY SYSTEM  
Notes to Financial Statements  
June 30, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Restricted Resources - The System 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.

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 System'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, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, GASB Statement No. 85, *Omnibus*, and GASB Statement No. 86, *Certain Debt Extinguishment Issues*, all became effective but do not affect the Libraries financial statements.

Note 2 – Cash and Investments

The System'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 System's deposits may not be returned to it. At June 30, 2018, none of the System's bank balance of \$9,914,138 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 System's name. The market value of these securities as of June 30, 2018 was \$13,582,502 plus \$250,000 of FDIC insurance gives coverage of \$13,832,502.



PIONEER LIBRARY SYSTEM  
Notes to Financial Statements  
June 30, 2018

Note 2 – Cash and Investments (continued)

Beneficial interest in assets held by others – In previous years the System 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 System and the earnings thereon.

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 3.

As of June 30 2018, 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	\$ 414,150	\$ -	\$ -	\$ 414,150
Total Recurring Fair Value Measurements	\$ 414,150	\$ -	\$ -	\$ 414,150

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 System's board may, by an affirmative vote of two thirds 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 \$19,324 for the year ended June 30, 2018, was received by the System 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, 2018, assets transferred to the Community Foundation by the Organization had a fair value of \$414,150 based on the approximate present value of future cash flows from CFO.

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

Distributions in the amount of \$1,521 for the year ended June 30, 2018, were received by the System. The fair value of the funds originally donated by third parties at June 30, 2018 was \$32,463. The Organization has no remainder interest in the corpus of these funds.

PIONEER LIBRARY SYSTEM  
Notes to Financial Statements  
June 30, 2018

Note 2 – Cash and Investments (continued)

Investment Interest Rate Risk - The investments of the Pension Plan (see also Note 9) are invested in various mutual funds with the 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:

	Market Value	Credit Exposure as a Percentage of Total Investments
Pension Fund		
Pooled Equity Funds	\$ 1,991,882	55.64%
Pooled Fixed Income Funds	1,215,306	33.95%
Alternative Investments	372,602	10.41%
Total Pension Fund Investments	<u>\$ 3,579,790</u>	<u>100.00%</u>

The following investments represent 5% or more of the net assets of the Plan at June 30, 2018:

Babson Premium High Yield Bond Fund	\$ 280,902
Northern Trust MM MSCI EAFE Intl Index Equity Fund	341,387
Northern Trust MM RSI 2000 SmCp Index Equity Fund	189,748
Northern Trust MM S&P 500 Index II Equity Fund	1,092,535
Northern Trust MM S&P Mid Cap Index Equity Fund	368,211
Babson Premium Core Bond Fund	469,973
Western Sel Stratbond Bond Fund	464,431
Real Estate Voya	190,260
Utilities MFS	182,341

The fair values of the Company's pension investments by asset category as of June 30, 2018 were as follows:

	Total	Level 1	Level 2	Level 3
Common Stock:				
Pooled Equity Funds	\$ 1,991,882	\$ -	\$ 1,991,882	\$ -
Corporate Debt Instruments				
Pooled Fixed Income Funds	\$ 1,215,306	\$ -	\$ 1,215,306	\$ -
Other, Net	\$ 372,602	\$ -	\$ 372,601	\$ -
Total Recurring Fair Value Measurements	<u>\$ 3,579,790</u>	<u>\$ -</u>	<u>\$ 3,579,790</u>	<u>\$ -</u>



PIONEER LIBRARY SYSTEM  
Notes to Financial Statements  
June 30, 2018

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 \$3,579,790 in investments. This amount is held by the investment counterparty, not in the name of the pension fund or the System.

Pension Trust investing is restricted by Oklahoma Statutes to the Prudent Investor Rule.

Note 3 – Collections

The System 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 System 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, 2018, no balance was owed. No interest expense was paid or incurred during the year ended June 30, 2018.

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	\$ 377,205	537,508	525,492	\$ 389,221	\$ 389,221

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

Note 6 – Commitments

Lease Commitments – The System 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 2018 was \$54,305.

PIONEER LIBRARY SYSTEM  
Notes to Financial Statements  
June 30, 2018

Note 6 – Commitments (continued)

Encumbrances – As discussed in Note 1 above, budgetary information, budgetary basis of accounting, and 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, 2018 the amount of encumbrances expected to be honored upon performance by the vendor in the next year were:

General Fund	\$ 116,187
Gifts and Grants Fund	<u>13,037</u>
Total	<u><u>\$ 129,224</u></u>

Note 7 – Capital Assets

Capital assets of the System at June 30, 2018 are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Non-depreciable Capital Assets:				
Land	\$ 161,179	\$ -	\$ -	\$ 161,179
Depreciable Capital Assets:				
Library Books	17,364,429	1,506,331	615,747	18,255,013
Building	4,714,836	-	-	4,714,836
Furniture and Fixtures	1,365,134	9,385	2,400	1,372,119
Computer Equipment	2,953,109	1,051,557	186,327	3,818,339
Vehicles	<u>471,650</u>	<u>-</u>	<u>16,711</u>	<u>454,939</u>
Total Capital Assets	<u>27,030,337</u>	<u>2,567,273</u>	<u>821,185</u>	<u>28,776,425</u>
Less Accumulated				
Depreciation for:				
Library Books	13,983,230	1,402,092	615,747	14,769,575
Building	440,891	117,902	-	558,793
Furniture and Fixtures	1,169,980	73,052	2,400	1,240,632
Computer Equipment	2,280,063	482,670	179,466	2,583,267
Vehicles	<u>246,802</u>	<u>65,584</u>	<u>16,711</u>	<u>295,675</u>
Total Accumulated				
Depreciation	<u>18,120,966</u>	<u>2,141,300</u>	<u>814,324</u>	<u>19,447,942</u>
Total Depreciable Capital				
Assets, Net	<u>\$ 8,909,371</u>	<u>\$ 425,973</u>	<u>\$ 6,861</u>	<u>\$ 9,328,483</u>



PIONEER LIBRARY SYSTEM  
Notes to Financial Statements  
June 30, 2018

Note 8 – Fund Balance

The following table shows the fund balance classifications as shown on the governmental funds balance sheet as of June 30, 2018:

	General Fund	Gifts and Grants Fund	Total Governmental Funds
Fund Balance			
Assigned:			
Cleveland County Libraries	\$ 745,000	\$ -	\$ 745,000
McClain County Libraries	173,996	-	173,996
Pottawatomie County Libraries	50,000	-	50,000
Library Projects	220,000	-	220,000
Special Revenue Funds	-	626,003	626,003
Committed:			
Reserved for Encumbrances	116,187	13,037	129,224
Unassigned	7,714,865	-	7,714,865
Total Fund Balance	<u>\$ 9,020,048</u>	<u>\$ 639,040</u>	<u>\$ 9,659,088</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 System. 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 1/10<sup>th</sup> for each vesting year of service fewer than ten. Actuarial valuations are performed annually on January 1.

Plan membership as at June 30, 2018 consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	27
Inactive plan members entitled to but not yet receiving benefits	34
Active plan members	<u>66</u>
Total plan members	<u>127</u>

Funding Policy - Employees of the System are not required to contribute to the plan. The System 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, 2018 to the defined benefit plan were \$327,205.

PIONEER LIBRARY SYSTEM  
Notes to Financial Statements  
June 30, 2018

Note 9 – Defined Benefit Retirement Plan (continued)

Net Pension Liability – The System’s net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability in the December 31, 2017 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, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2017 through December 31, 2017. In addition, the mortality rates were based on the RP-2014 Mortality Table using Scale MP-2017 instead of the RP-2014 Mortality Table using scale MP-2016 which was the table used for the previous year’s calculation. This change in assumption caused a decrease 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 System will be made at contractually required rates, as 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 System’s net pension liability for the year ended June 30, 2018 were as follows:

	Increase (Decrease)		
	Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, June 30, 2017	\$4,124,417	\$3,447,153	\$ 677,264
Changes for the year:			
Interest	235,645	-	235,645
Difference between expected and actual experience	124,628	-	124,628
Net investment income	-	458,600	(458,600)
Administrative Expense	-	(32,981)	32,981
Change of assumptions	(26,958)	-	(26,958)
Contributions - employer	-	269,607	(269,607)
Benefit payments including refunds of employee contributions	(394,007)	(394,007)	-
Net Changes	(60,692)	301,219	(361,911)
Balance, June 30, 2018	<u>\$4,063,725</u>	<u>\$3,748,372</u>	<u>\$ 315,353</u>

PIONEER LIBRARY SYSTEM  
Notes to Financial Statements  
June 30, 2018

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	\$ 4,510,241	\$ 4,063,725	\$ 3,690,201
Fiduciary Net Position	3,748,372	3,748,372	3,748,372
Net Pension Liability	<u>\$ 761,869</u>	<u>\$ 315,353</u>	<u>\$ (58,171)</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, 2018; the System recognized a pension expense of \$217,058. At June 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Balances at June 30, 2018</u>	
<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 272,513	\$ (36,001)
Changes of assumptions	249,748	(244,558)
Net difference between projected and actual earnings on investments	-	(143,462)
Contribution to pension plan after measurement date	100,000	-
Total	<u>\$ 622,261</u>	<u>\$ (424,021)</u>

Deferred outflows of resources related to pensions resulting from System contributions of \$100,000 subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year</u>	
2019	\$ 54,493
2020	28,572
2021	(31,173)
2022	25,145
2023	16,551
Thereafter	4,652



PIONEER LIBRARY SYSTEM  
Notes to Financial Statements  
June 30, 2018

Note 10 – Defined Contribution Retirement Plan

Plan Description - On January 1, 2009 the System 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 System are not required to contribute to the plan. The System 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 2018. 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, 2018 totaled \$450,714.

Note 11 – Risk Management

The System 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 System 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 System 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 \$122,254, included in Other Contracts on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds. Under this lease agreement the City agreed to pay \$50,000 a year for ten years as reimbursement for costs incurred to remodel the space for a total of \$500,000. If the lease is not mutually renewed the remainder of \$500,000 is to be remitted to the System.

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.

PIONEER LIBRARY SYSTEM  
Budgetary Comparison Schedule – General Fund (Unaudited)  
For the Year Ended June 30, 2018

	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)
<b>Resources (inflows)</b>						
Property Taxes	\$ 16,374,155	\$ 17,023,099	\$ 17,279,474	\$ 16,266	\$ 17,263,208	\$ 240,109
State Revenue	132,431	132,431	143,468	-	143,468	11,037
Interest	18,000	18,000	148,752	-	148,752	130,752
Other	441,636	437,836	434,421	-	434,421	(3,415)
Use of Designated Fund Balance	972,840	446,684	-	-	-	(446,684)
<b>Amounts Available for Appropriation</b>	<u>17,939,062</u>	<u>18,058,050</u>	<u>18,006,115</u>	<u>16,266</u>	<u>17,989,849</u>	<u>(68,201)</u>
<b>Charges to Appropriations (outflows)</b>						
Personnel Services	11,510,784	11,610,393	10,766,847	(16,248)	10,750,599	859,794
Materials	2,720,440	2,770,440	2,820,906	(38,933)	2,781,973	(11,533)
General and Administrative	965,750	936,400	1,036,668	(28,244)	1,008,424	(72,024)
Technology	1,909,219	1,909,400	1,629,929	(134,786)	1,495,143	414,257
System Services	832,869	781,417	491,602	(35,314)	456,288	325,129
<b>Total Charges to Appropriations</b>	<u>17,939,062</u>	<u>18,008,050</u>	<u>16,745,952</u>	<u>(253,525)</u>	<u>16,492,427</u>	<u>1,515,623</u>
<b>Change in Net Assets</b>	-	50,000	1,260,163	269,791	1,493,112	1,493,112
<b>Beginning Fund Balance</b>	<u>5,568,545</u>	<u>7,313,201</u>	<u>7,759,885</u>	<u>(446,684)</u>	<u>7,313,201</u>	<u>-</u>
<b>Ending Fund Balance</b>	<u>\$ 5,568,545</u>	<u>\$ 7,363,201</u>	<u>\$ 9,020,048</u>	<u>\$ (176,893)</u>	<u>\$ 8,806,313</u>	<u>\$ 1,493,112</u>

Budget to Actual Reconciliation:

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

\$ 16,266

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

253,525

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.

(446,684)  
\$ (176,893)

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).

**Notes to required Budgetary Information**

**Note Budgeting and Budgetary Control**

Oklahoma Statute requires the System to prepare an annual budget. The budget is filed with the various County Excise Boards. The System 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).

See Accompanying Notes to Financial Statements

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

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

For the Year Ended December 31

	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Total Pension Liability</b>									
Service Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	235,645	252,873	239,135	240,458	252,881	238,612	248,546	237,066	228,147
Changes of benefit terms	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	124,628	10,006	107,515	(29,079)	49,618	247,559	(116,955)	75,052	4,988
Changes of assumptions	(26,958)	-	357,460	-	(618,094)	-	244,140	-	-
Benefit payments, including refunds of member contributions	(394,007)	(706,017)	(244,284)	(259,643)	(252,483)	(201,018)	(158,505)	(83,058)	(85,914)
<b>Net change in total pension liability</b>	<b>\$ (60,692)</b>	<b>\$ (443,138)</b>	<b>\$ 459,826</b>	<b>\$ (48,264)</b>	<b>\$ (568,078)</b>	<b>\$ 285,153</b>	<b>\$ 217,226</b>	<b>\$ 229,060</b>	<b>\$ 147,221</b>
<b>Total Pension Liability--Beginning</b>	<b>4,124,417</b>	<b>4,567,555</b>	<b>4,107,729</b>	<b>4,155,993</b>	<b>4,724,071</b>	<b>4,438,918</b>	<b>4,221,692</b>	<b>3,992,632</b>	<b>3,845,411</b>
<b>Total Pension Liability--Ending (a)</b>	<b>\$ 4,063,725</b>	<b>\$ 4,124,417</b>	<b>\$4,567,555</b>	<b>\$4,107,729</b>	<b>\$4,155,993</b>	<b>\$4,724,071</b>	<b>\$4,438,918</b>	<b>\$4,221,692</b>	<b>\$3,992,632</b>
<b>Plan fiduciary net position</b>									
Contributions--employer	\$ 269,607	\$ 490,156	\$ 83,368	\$ 56,500	\$ 208,000	\$ 208,000	\$ 146,000	\$ 159,000	\$ 199,260
Contributions--member	-	-	-	-	-	-	-	-	-
Net investment income	458,600	305,447	(63,755)	135,323	481,674	310,945	(27,967)	310,533	407,581
Benefit payments, including refunds of member contributions	(394,007)	(706,017)	(244,284)	(259,643)	(252,483)	(201,018)	(158,505)	(83,058)	(85,914)
Administrative expense	(32,981)	(33,731)	(31,409)	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
<b>Net change in plan fiduciary net position</b>	<b>\$ 301,219</b>	<b>\$ 55,855</b>	<b>\$ (256,080)</b>	<b>\$ (67,820)</b>	<b>\$ 437,191</b>	<b>\$ 317,927</b>	<b>\$ (40,472)</b>	<b>\$ 386,475</b>	<b>\$ 520,927</b>
<b>Plan fiduciary net position--beginning</b>	<b>3,447,153</b>	<b>3,391,298</b>	<b>3,647,378</b>	<b>3,715,198</b>	<b>3,278,007</b>	<b>2,960,080</b>	<b>3,000,552</b>	<b>2,614,077</b>	<b>2,093,150</b>
<b>Plan fiduciary net position--ending (b)</b>	<b>\$ 3,748,372</b>	<b>\$ 3,447,153</b>	<b>\$3,391,298</b>	<b>\$3,647,378</b>	<b>\$3,715,198</b>	<b>\$3,278,007</b>	<b>\$2,960,080</b>	<b>\$3,000,552</b>	<b>\$2,614,077</b>
<b>PLS net pension liability (asset)--ending (a) - (b)</b>	<b>\$ 315,353</b>	<b>\$ 677,264</b>	<b>\$1,176,257</b>	<b>\$ 460,351</b>	<b>\$ 440,795</b>	<b>\$1,446,064</b>	<b>\$1,478,838</b>	<b>\$1,221,140</b>	<b>\$1,378,555</b>
Plan fiduciary net position as a percentage of the total pension liability	92.24%	83.58%	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	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	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.

In 2017, amounts reported as changes of assumptions resulted from the update to the mortality projection scale contained in the mortality tables.

See Accompanying Notes to Financial Statements



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

**Pioneer Library System Pension Plan and Trust**  
Schedule of Pension Contributions

For the Year Ended December 31	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 169,607	\$ 240,155	\$ 68,369	\$ 56,500	\$ 176,976	\$ 197,670	\$ 149,985	\$ 163,645	\$ 205,063	\$ 250,574
Contributions in relation to the actuarially determined contribution	269,607	490,156	83,368	56,500	208,000	208,000	146,000	159,000	242,380	216,316
Contribution deficiency (excess)	<u>\$ (100,000)</u>	<u>\$ (250,001)</u>	<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>
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	RP - 2014 Mortality Table projected using scale MP-2017

Other information:

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

See Accompanying Notes to Financial Statements



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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 26, 2018

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

We have audited 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 (the System), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated September 26, 2018. We conducted our audit 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 aggregate discretely presented component unit, the Pioneer Library System Foundation, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Pioneer Library System Foundation.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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.

To the Board of Trustees of  
Pioneer Library System  
September 26, 2018

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

GRAY, BLODGETT & COMPANY, PLLC

