

Winnefox Library System
Oshkosh, Wisconsin
MANAGEMENT COMMUNICATIONS

December 31, 2017

Winnefox Library System Oshkosh, Wisconsin

DECEMBER 31, 2017

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COMMUNICATION TO THE BOARD OF TRUSTEES

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APPENDIX

Management Representation Letter

To the Board of Trustees
Winnefox Library System
Oshkosh, Wisconsin

We have audited the financial statements of the governmental activities and the major fund of the Winnefox Library System (the "System") for the year ended December 31, 2017. The System's financial statements, including our report thereon dated July 19, 2018, are presented in a separate audit report document. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITIES UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS, GOVERNMENT AUDITING STANDARDS AND WISCONSIN PUBLIC SCHOOL DISTRICT MANUAL

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the major state programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the *Wisconsin Public School District Audit Manual*.

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with the *Wisconsin Public School District Audit Manual*, we examined, on a test basis, evidence about the System's compliance with the types of compliance requirements described in the *Wisconsin Public School District Audit Manual* applicable to its major state program for the purpose of expressing an opinion on the System's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the System's compliance with those requirements.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters.

SIGNIFICANT AUDIT FINDINGS

Consideration of Internal Control

FINANCIAL STATEMENTS

In planning and performing our audit of the financial statements of the governmental activities and the major fund of the System as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the System's internal control over financial reporting (internal control) as a basis for designing 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. Our report on internal control over financial reporting and on compliance and other matters is presented on pages 30 - 31 of the annual report.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exist 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 System's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in internal control to be a material weakness:

Finding 2017-001 Segregation of Duties

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. We consider the following deficiency in the System's internal control to be a significant deficiency:

Finding 2017-002 Year End Financial Reporting

These findings are described in detail in the schedule of findings and questioned costs on pages 38 - 39 of the annual report.

The System's written response to the significant deficiency and material weakness identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

STATE AWARDS

In planning and performing our audit of compliance for the major state program, we considered the System's internal control over compliance (internal control) as a basis for designing audit procedures for the purpose of expressing our opinion on compliance requirements that could have a direct and material effect on each of the System's major state program for the year ended December 31, 2017, 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. Our report on internal control over compliance is presented on pages 32 - 33 of the annual report.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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, noncompliance 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 noncompliance of the System's major state award program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the following deficiencies in the System's internal control to be significant deficiencies:

Finding 2017-003	Segregation of Duties - State Grant Management
Finding 2017-004	Financial Reporting for State Financial Assistance

These findings are described in detail in the summary of audit results on pages 40 - 41 of the annual report.

The System's written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus. To the best of our knowledge, all significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates included in the financial statements were:

- ▶ Management's estimate of the depreciable life of the capital assets is based upon analysis of the expected useful life of the capital assets. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the depreciable life in determining that it is reasonable in relation to the financial statements taken as a whole.
- ▶ Management's estimate of the compensated absences is based upon analysis of the employees' sick leave and vacation balances. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- ▶ Management's estimate of the net pension liability (asset) and related deferred outflows/inflows of resources is based on information received from the Wisconsin Retirement System. We evaluated the key factors and assumptions used to develop the net pension liability (asset) and related deferred outflows/inflows of resources in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Copies of the audit adjustments are available from management. The following material misstatement detected as a result of the audit procedures was corrected by management:

- ▶ Recorded an adjustment to accounts payable totaling \$175,208.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 19, 2018. The management representation letter follows this communication.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the System's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the System's auditors. However, these discussions occurred in the normal course of our professional relationship and, to the best of our knowledge, our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and the schedules relating to pensions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the System, management and others within the System, and is not intended to be, and should not be, used by anyone other than these specified parties.

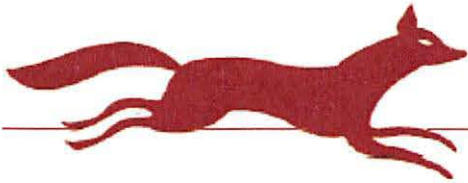
Sincerely,



Certified Public Accountants

Sheboygan, Wisconsin
July 19, 2018

APPENDIX



Jeff Gilderson-Duwe, Director
Mark Arend, Assistant Director

WINNEFOX LIBRARY SYSTEM

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July 19, 2018

Schenck SC
712 Riverfront Drive, Suite 301
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This representation letter is provided in connection with your audit of the financial statements of the Winnefox Library System, (the "System"), which comprise the respective financial position of the governmental activities and the major fund as of December 31, 2017, and the respective changes in the financial position for the year then ended, and the related notes to the financial statements for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of July 19, 2018, the following representations made to you during your audit.

FINANCIAL STATEMENTS

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 10, 2018, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U. S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. In regards to accounting estimates:
 - ▶ The measurement processes used by management in determining accounting estimates is appropriate and consistent.
 - ▶ The assumptions appropriately reflect management's intent and ability to carry out specific courses of action.
 - ▶ The disclosures related to accounting estimates are complete and appropriate.
 - ▶ No subsequent event has occurred that would require adjustment to the accounting estimates or disclosures included in the financial statements.
7. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
8. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.
9. We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the System's accounts.
10. We are not aware of any pending or threatened litigation, claims or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
11. Guarantees, whether written or oral, under which the System is contingently liable, if any, have been properly recorded or disclosed.

INFORMATION PROVIDED

12. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the System from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of meetings of the Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedules of expenditures of federal awards and state financial assistance.
14. We made an assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed the results of our assessment as follows:
 - a. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - i. Management,
 - ii. Employees who have significant roles in internal control, or
 - iii. Others where the fraud could have a material effect on the financial statements.

- b. We have no knowledge of any allegations of fraud or suspected fraud affecting the System's financial statements communicated by employees, former employees, regulators, or others.
- 15. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 16. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- 17. We have disclosed to you the identity of the System's related parties and all the related party relationships and transactions of which we are aware.

GOVERNMENT - SPECIFIC

- 18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 19. We have a process to track the status of audit findings and recommendations.
- 20. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 22. The System has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred inflows/outflows of resources, or equity.
- 23. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.
- 24. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 25. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 26. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 27. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

28. As part of your audit, you assisted with preparation of the financial statements and related notes, the schedule of federal awards, and the schedule of state financial assistance. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes, the schedule of expenditures of federal awards, and the schedule of state financial assistance.
29. In regard to the capital asset depreciation services performed by you, we have -
 - a. Assumed all management responsibilities.
 - b. Designated an individual (within senior management) with suitable skill, knowledge, or experience to oversee the services.
 - c. Evaluated the adequacy and results of the services performed.
 - d. Accepted responsibility for the results of the services.
30. The System has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
31. The System has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
32. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
33. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
34. The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.
35. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
36. Components of net position (net investment in capital assets, restricted, and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
37. Provisions for uncollectible receivables have been properly identified and recorded.
38. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
39. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
40. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
41. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
42. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
43. Joint ventures, jointly governed organizations, and other related organizations have been properly disclosed in the financial statements.

44. We have appropriately disclosed the System's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
45. We are following GASB Statement No. 54, paragraph 18, to determine the fund balance classifications for financial reporting purposes.
46. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
47. We agree with the findings of specialists in evaluating the pension benefits and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialist.
48. The methods and significant assumptions used to determine fair values of financial instruments are as follows: Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
49. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been reduced to their estimated net realizable value.
50. Capital assets, including intangible assets, have been evaluated for impairment as a result of significant and unexpected decline in service utility.
51. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
52. We do not plan to make frequent amendments to our pension benefit plan.
53. We have not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, as discussed in Note 4.D. The System is therefore unable to disclose the impact that adopting this GASB Statement will have on its financial position and the results of its operations when the Statement is adopted.
54. With respect to federal and state award programs:
 - a. We are responsible for understanding and complying with and have complied with the requirements of the *Wisconsin Public School District Audit Manual* issued by the Wisconsin Department of Public Instruction, including requirements relating to preparation of the schedule of federal awards and the schedule of state financial assistance.
 - b. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) and the schedule of state financial assistance (SEFASFA) in accordance with the requirements of the *Wisconsin Public School District Audit Manual* and we believe the SEFASFA, including their form and content, is fairly presented in accordance with the Guidelines. The methods of measurement or presentation of the SEFASFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFASFA.

- c. We have identified and disclosed to you all of our government programs and related activities subject to the *Wisconsin Public School District Audit Manual* compliance audit and have included in the SEFASFA expenditures made during the audit period for all awards provided by federal and state agencies in the form of awards, cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- d. We are responsible for understanding and complying with, and have complied with, the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards related to each of our federal and state programs and have identified and disclosed to you the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards that are considered to have a direct and material effect on each major federal and state program.
- e. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provide reasonable assurance that we are managing our federal and state awards in compliance with federal and state statutes, regulations, and the terms and conditions of federal and state awards that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended.
- f. We have made available to you all federal and state awards (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relevant to federal and state programs and related activities.
- g. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- h. We have complied with the direct and material compliance requirements, (except for noncompliance disclosed by you), including, when applicable, those set forth in the *Wisconsin Public School District Audit Manual*, relating to federal and state awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the requirements of federal and state awards.
- i. We have disclosed any communications from federal and state awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- j. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.
- k. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- l. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- m. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

- n. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
 - o. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditors' report.
 - p. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
 - q. The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
 - r. We have charged costs to federal and state awards in accordance with applicable cost principles.
 - s. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the *Wisconsin Public School District Audit Manual* and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
 - t. We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
 - u. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the *Wisconsin Public School District Audit Manual*.
55. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclose in the aforementioned financial statements or in the schedule of findings and questioned costs.

Signed: _____

Mark Arend, Assistant Director

Signed: _____

Julie Schmude, Bookkeeper

Winnefox Library System
Oshkosh, Wisconsin

ANNUAL FINANCIAL REPORT

December 31, 2017

Winnefox Library System Oshkosh, Wisconsin

DECEMBER 31, 2017

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Independent auditors' report

To the Board of Trustees
Winnefox Library System
Oshkosh, Wisconsin

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the major fund of the Winnefox Library System, Oshkosh, Wisconsin (the "System") as of and for the year ended December 31, 2017, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors consider internal control relevant to the System'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 System'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 and each major fund of the System as of December 31, 2017, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 9 and the schedules relating to pensions on page 29 be presented to supplement the basic financial statements. Such information, although not 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The financial schedule of expenditures of federal awards and state assistance is presented for purposes of additional analysis, as required by the Wisconsin Department of Public Instruction and is also not a required part of the basic financial statements.

The schedule of expenditures of federal and state awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

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Certified Public Accountants

Sheboygan, Wisconsin
July 19, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

WINNEFOX LIBRARY SYSTEM

Oshkosh, Wisconsin

Management's Discussion and Analysis (Unaudited) December 31, 2017

This Management's Discussion and Analysis provides an overview of financial activities for the fiscal year ended December 31, 2017 and a comparison with 2016 financial statements. Please read it along with the System's financial statements which follow.

FINANCIAL HIGHLIGHTS

Total assets and deferred outflows of resources for the Winnefox Library System at the end of 2017 were \$2,644,707 and total liabilities and deferred inflows of resources were \$1,316,116. Thus, the System's net position at the end of 2017 is \$1,328,591, an increase of \$10,911 (or 0.83%) from its net position at the end of 2016. The System's net position consists of funds invested in capital assets and unrestricted funds.

Our view overall recognizes an increase in net position that is modest and displays the work of staff to raise revenue and contain costs, especially while the System continues to operate in a funding environment characterized by stagnant revenues and rising costs.

USING THIS ANNUAL REPORT

Financial statements of the System include the three operational areas of the system. These areas are combined into one accounting entity with a combined set of accounts and financial statements.

Winnefox (WLS). Winnefox accounts for all primary operating activities of the System.
Winnefox Automated Library Services (WALS) – WALS accounts for the operating activities of the WALS service that provides technology services to the System and its member libraries.
Winnefox Cooperative Technical Services (WCTS) – WCTS fund accounts for the operating activities of the WCTS service that orders and physically processes library materials for member libraries in Green Lake, Marquette and Waushara counties.

This annual report consists of financial statements for the System as a whole.

The System's basic services are detailed in governmental funds which generally focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Fund financial statements present a short-term view of the System's governmental activities (they include only current assets expected to be collected in the very near future and liabilities expected to be paid in the very near future).

THE SYSTEM AS A WHOLE

One important question asked about the System’s finances is “Is the System better or worse off because of the year’s activities?” The information in the government-wide financial statements helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting. Both Deferred outflows and inflows relate directly to changes in pension benefits. Deferred outflow of resources is the consumption of net position by the system that is applicable to a future reporting period. Deferred inflow of resources is an acquisition of net position by the system that is applicable to a future reporting period. Depreciation on capital assets has been included in this report for completeness.

The change in net position (the difference between total assets, deferred outflows of resources, liabilities and deferred inflows of resources) over time is one indicator of whether the System’s financial health is improving or deteriorating. However, consideration should be given to other non-financial factors in assessing the System’s health, such as changes in member library participation, changes in the State’s funding of costs, changes in the economy, changes in the System’s county appropriations, etc. A comparison of the Condensed Statement of Net Position from 2016-2017 follows.

CONDENSED STATEMENT OF NET POSITION

	<u>2017</u>	<u>2016</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current and Other Assets	\$ 2,279,680	\$ 2,210,352
Capital Assets	46,712	58,622
Deferred Outflows of Resources	<u>318,315</u>	<u>467,601</u>
Total Assets	2,644,707	2,736,575
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Other Liabilities	\$ 263,359	\$ 457,447
Long-term Liabilities	162,405	83,779
Unearned Revenue	74,278	36,441
Deferred Inflows of Resources	<u>816,074</u>	<u>841,228</u>
Total Liabilities and Deferred Inflows of Resources	1,316,116	1,418,895
NET POSITION		
Net investment in capital assets	\$ 46,712	\$ 58,622
Restricted	0	467,601
Unrestricted	<u>1,281,879</u>	<u>791,457</u>
Total Net Position	\$ <u>1,328,591</u>	\$ <u>1,317,680</u>

Changes in net position from operating results give a short-term view of how the System’s finances have changed as a result of the year’s revenues and expenses. The schedule below demonstrates the Changes in Net Position from Operating Results comparing 2016 with 2017. The change in ending net position reflects a 0.83% increase in net position.

CHANGES IN NET POSITION

	<u>2017</u>	<u>2016</u>
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 896,162	\$ 734,781
Operating Grants and Contributions	175,539	170,513
General Revenues		
Public Library System Aid	889,868	920,702
Interest	23,616	11,657
Miscellaneous	<u>42,415</u>	<u>41,104</u>
Total Revenues	<u>2,027,600</u>	<u>1,878,757</u>
<u>Expenses</u>		
Library Services	<u>2,016,689</u>	<u>1,927,827</u>
Changes in Net Position	10,911	(49,070)
Net Position, Beginning	1,317,680	1,366,750
Net Position, Ending	<u>\$ 1,328,591</u>	<u>1,317,680</u>

Governmental Activities

Revenues for the System's governmental activities increased 7.92% for the year ended December 31, 2017. The schedule below demonstrates the major sources of revenue for the system in 2017. The following report shows shifts in revenue sources in State and Federal Aid, due to the decrease in LSTA (Library Services and Technology Act) Grants. A revenue shift is also seen in member library services.

REVENUE SOURCE COMPARISON				
	2017	% OF TOTAL	2016	% OF TOTAL
Member Services	\$ 798,398	39.38%	\$ 602,613	32.08%
State & Federal Aid	889,868	43.89%	920,702	49.01%
Sales to Member Libraries	6,672	0.33%	19,573	1.04%
County Revenue	266,631	13.15%	283,108	15.07%
Other	<u>66,031</u>	3.26%	<u>52,761</u>	2.81%
Total	\$ 2,027,600		\$ 1,878,757	

The schedule below shows revenue comparison between 2017 and 2016. Overall revenue increased due to the change in member service revenues, but the System experienced a decline in revenue from state and federal aids due to LSTA grants, county revenue, and sales to member libraries.

REVENUE COMPARISON TO PREVIOUS YEAR				
	2017	2016	% DIFFERENCE	
State and federal aids	\$ 889,868	\$ 920,702	-3.35%	
County revenue	266,631	283,108	-5.82%	
Services to member libraries	798,398	602,613	32.49%	
sales to libraries	6,672	19,573	-65.91%	
interest	23,616	11,657	102.59%	
Other	<u>42,415</u>	<u>41,104</u>	3.19%	
Total	\$ 2,027,600	\$ 1,878,757	7.92%	

The schedule below is a snapshot of 2017 and 2016 System expenditures as a percentage of total expenditures. This report shows a program report breakdown as opposed to a budget line item approach. Budget percentages remain relatively consistent with the exception of Contractual Services, Delivery Services and WALs Operations. Please note that WALs operations include a second payment within 2017 to Sirsi/Dynix. Delivery reflects the purchase of a delivery van in 2016, and contractual services change is the result of redesigning the chart of accounts and moving some expenditures from contractual services to more appropriate categories.

EXPENDITURES AS PERCENT OF BUDGET

	2017	% OF TOTAL	2016	% OF TOTAL
Salaries and related fringe benefits	\$ 1,139,728	58.74%	\$ 1,135,062	60.41%
Administration	50,073	2.58%	29,822	1.59%
Capital expenditures	16,730	0.86%	40,017	2.13%
Collection development	23,161	1.19%	23,123	1.23%
Consulting	812	0.04%	1,589	0.08%
Continuing education	14,508	0.75%	13,836	0.74%
Contractual services	316,315	16.30%	349,173	18.58%
Delivery services	28,480	1.47%	50,987	2.71%
Grant expenses	4,858	0.25%	1,503	0.08%
Interlibrary loan	0	0.00%	3,147	0.17%
Online fine payment	43,138	2.22%	42,231	2.25%
Public information	7,357	0.38%	4,954	0.26%
Reference services	199	0.01%	199	0.01%
Services to youth	100	0.01%	908	0.05%
Technology	753	0.04%	795	0.04%
WALS operations	294,040	15.15%	181,730	9.67%
Total	\$ 1,940,252		\$ 1,879,076	

Total governmental fund expenditures for the system increased by 3.26% from 2016. The largest increases occurred in administration, public information and WALs operations. The restructured accounts explain the changes in administration. Increased printing supplies and the above noted Sirsi/Dynix payment explain the other increases. Capital expenditures, consulting, contractual services, delivery services, and interlibrary loan witnessed decreased expenditures. Delivery services was the result of the van purchased in 2016, contractual services is the result of the chart of accounts changes and the other decreased accounts are due to less spending in those areas.

EXPENDITURE COMPARISON TO PREVIOUS YEAR

	2017	2016	% DIFFERENCE
Salaries and related fringe benefits	\$ 1,139,728	\$ 1,135,062	0.41%
Administration	50,073	29,822	67.91%
Capital expenditures	16,730	40,017	-58.19%
Collection development	23,161	23,123	0.16%
Consulting	812	1,589	-48.90%
Continuing education	14,508	13,836	4.86%
Contractual services	316,315	349,173	-9.41%
Delivery services	28,480	50,987	-44.14%
Grant expenses	4,858	1,503	0.00%
Interlibrary loan	0	3,147	-100.00%
Online fine payment	43,138	42,231	2.15%
Public information	7,357	4,954	48.51%
Reference services	199	199	0.00%
Services to youth	100	908	0.00%
Technology	753	795	-5.28%
WALS operations	294,040	181,730	61.80%
Total	\$ 1,940,252	\$ 1,879,076	3.26%

Fund Budgetary Highlights

The System had no revisions to the operating budget during 2017.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By December 31, 2017, the System had invested \$243,652 in capital assets, including computers and other equipment, furnishings, and delivery vans. The accumulated depreciation on these items was \$196,940.

Long Term Debt

The System has no long-term debt obligations, other than compensated absences due to current employees.

FACTORS BEARING ON THE SYSTEM'S FUTURE

Nearly half of the System's revenues come from State and Federal aid. The 10% decrease in Wisconsin State aid from 2011 to 2012 and the subsequent determination of the Wisconsin Governor and State Legislature to hold public library system aid flat from 2013 to 2017 puts continuing financial and operational pressure on the System. In the face of rising costs, new revenues must be found (such as charging member libraries fees for services) or costs reduced. Cost reductions are sought through becoming more efficient at providing current services or through eliminating some services. The System has long sought to protect the viability of its shared automation services – mission critical hardware, software and support for member libraries – by relying more on member library contributions than state aid. This approach should allow the System to protect its most important automation services if state aid is further reduced or even eliminated. However, continuing pressure on Wisconsin municipal budgets calls into question how much further the System may rely on fees from local member libraries to sustain the full range of services it has offered in the past.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Assistant Director, or Administrative Coordinator, Winnefox Library System, 106 Washington Avenue, Oshkosh, WI 54901. General information about the System and its programs or services can be found on the System's website at <http://www.winnefox.org>.

Winnefox Library System

Oshkosh, Wisconsin

STATEMENT OF NET POSITION DECEMBER 31, 2017

	Governmental Activities
ASSETS	
Cash and investments	\$ 2,242,269
Accounts receivable	28,429
Inventory	8,398
Prepaid items	584
Capital assets, depreciable	<u>46,712</u>
Total assets	<u>2,326,392</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related amounts	<u>318,315</u>
LIABILITIES	
Accounts payable	38,400
Accrued and other current liabilities	28,072
Due to other governments	196,887
Unearned revenues	74,278
Long-term obligations	
Due within one year	35,691
Due in more than one year	85,526
Net pension liability	<u>41,188</u>
Total liabilities	<u>500,042</u>
DEFERRED INFLOWS OF RESOURCES	
State aid for subsequent year	686,542
Pension related amounts	<u>129,532</u>
Total deferred inflows of resources	<u>816,074</u>
NET POSITION	
Net investment in capital assets	46,712
Unrestricted	<u>1,281,879</u>
Total net position	<u>\$ 1,328,591</u>

The notes to the basic financial statements are an integral part of this statement.

BASIC FINANCIAL STATEMENTS

Winnefox Library System Oshkosh, Wisconsin

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Library services	<u>\$ 2,016,689</u>	<u>\$ 896,162</u>	<u>\$ 175,539</u>	<u>\$ (944,988)</u>
General revenues				
Public library system aid				889,868
Interest income				23,616
Other income				<u>42,415</u>
Total general revenues				<u>955,899</u>
Change in net position				10,911
Net position - January 1				<u>1,317,680</u>
Net position - December 31				<u>\$ 1,328,591</u>

The notes to the basic financial statements are an integral part of this statement.

Winnefox Library System Oshkosh, Wisconsin

BALANCE SHEET GOVERNMENTAL FUNDS DECEMBER 31, 2017

ASSETS

Cash and investments	\$ 2,242,269
Accounts receivable	28,429
Prepaid items	584
Inventory	<u>8,398</u>
Total assets	<u>\$ 2,279,680</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE

Liabilities	
Accounts payable	\$ 38,400
Accrued and other current liabilities	28,072
Due to other governments	196,887
Unearned revenues	<u>74,278</u>
Total liabilities	<u>337,637</u>
Deferred inflows of resources	
State aid received for subsequent year	<u>686,542</u>
Fund balance	
Nonspendable	8,982
Unassigned	<u>1,246,519</u>
Total fund balance	<u>1,255,501</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 2,279,680</u>

The notes to the basic financial statements are an integral part of this statement.

Winnefox Library System Oshkosh, Wisconsin

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance as shown on previous page	\$ 1,255,501
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	46,712
Some deferred outflows and inflows of resources reflect changes in long-term liabilities and are not reported in the funds.	
Deferred outflows related to pensions	318,315
Deferred inflows related to pensions	(129,532)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	(121,217)
Net pension liability	<u>(41,188)</u>
Net position of governmental activities as reported on the statement of net position (see page 10)	<u>\$ 1,328,591</u>

The notes to the basic financial statements are an integral part of this statement.

Winnefox Library System Oshkosh, Wisconsin

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

REVENUES

State and federal aids	\$ 889,868
Intergovernmental, primarily counties	266,631
Services to member libraries	798,398
Sales to libraries	6,672
Interest income	23,616
Other income	42,415
	<hr/>
Total revenues	<u>2,027,600</u>

EXPENDITURES

Salaries and related fringe benefits	1,139,728
Administration	50,073
Capital expenditures	16,730
Collection development	23,161
Consulting	812
Continuing education	14,508
Contractual services	316,315
Delivery services	28,480
Grant expenses	4,858
Online fine payment	43,138
Public information	7,357
Reference services	199
Services to youth	100
Technology	753
WALS operations	294,040
	<hr/>
Total expenditures	<u>1,940,252</u>

Net change in fund balance	87,348
Fund balance - January 1	<hr/> <u>1,168,153</u>
Fund balance - December 31	<u><u>\$ 1,255,501</u></u>

The notes to the basic financial statements are an integral part of this statement.

Winnefox Library System Oshkosh, Wisconsin

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2017

RECONCILIATION TO THE STATEMENT OF ACTIVITIES

Net change in fund balances as shown on previous page	\$ 87,348
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital assets reported as capital outlay in governmental fund statements	7,563
Depreciation expense reported in the statement of activities	(19,473)
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 the governmental funds:	
Compensated absences	(5,353)
Net pension liability	42,830
Deferred outflows of resources related to pensions	(149,286)
Deferred inflows of resources related to pensions	<u>47,282</u>
Change in net position of governmental activities as reported in the statement of activities (see page 11)	<u>\$ 10,911</u>

The notes to the basic financial statements are an integral part of this statement.

Winnefox Library System

Oshkosh, Wisconsin

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budget</u>		<u>Variance</u>
	<u>Original & Final</u>	<u>Actual</u>	<u>Final Budget - Positive (Negative)</u>
REVENUES			
State and federal aids	\$ 905,115	\$ 889,868	\$ (15,247)
Intergovernmental, primarily counties	289,384	266,631	(22,753)
Services to member libraries	789,380	798,398	9,018
Sales to libraries	5,000	6,672	1,672
Interest income	5,300	23,616	18,316
Other income	60,158	42,415	(17,743)
	<u>2,054,337</u>	<u>2,027,600</u>	<u>(26,737)</u>
Total revenues			
EXPENDITURES			
Current			
Salaries and related fringe benefits	1,151,445	1,139,728	11,717
Administration	30,744	50,073	(19,329)
Capital expenditures	56,500	16,730	39,770
Collection development	154,239	23,161	131,078
Consulting	-	812	(812)
Continuing education	16,880	14,508	2,372
Contractual services	356,004	316,315	39,689
Delivery services	30,092	28,480	1,612
Grant expenses	5,800	4,858	942
Online fine payment	35,000	43,138	(8,138)
Public information	14,486	7,357	7,129
Reference services	-	199	(199)
Services to youth	-	100	(100)
Technology	1,050	753	297
WALS operations	317,258	294,040	23,218
	<u>2,169,498</u>	<u>1,940,252</u>	<u>229,246</u>
Total expenditures			
Net change in fund balance	(115,161)	87,348	202,509
Fund balance - January 1	<u>1,168,153</u>	<u>1,168,153</u>	<u>-</u>
Fund balance - December 31	<u>\$ 1,052,992</u>	<u>\$ 1,255,501</u>	<u>\$ 202,509</u>

The notes to the basic financial statements are an integral part of this statement.

Winnefox Library System Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Winnefox Library System, Oshkosh, Wisconsin (the "System"), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the System are described below:

A. REPORTING ENTITY

The System was established in 1977. The System, a federation of the public libraries in Green Lake, Marquette, Waushara, Winnebago, and Fond du Lac Counties, is legally deemed a joint agency of the counties. The System is governed by twenty-three member Board of Trustees representing the five counties.

In accordance with GAAP, the basic financial statements are required to include the System (the primary government) and any separate component units that have a significant operational or financial relationship with the System. The System has not identified any component units that are required to be included in the basic financial statements in accordance with standards established in GASB Statement No. 61.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the System. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services. The System has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The fund statements provide information about the System's funds, each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, deferred outflows/inflows of resources, liabilities, fund balances, revenues and expenditures. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The System reports the following major governmental fund:

General Fund

This is the System's primary operating fund. It accounts for all financial resources of the System.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the System gives or receives value, without directly receiving or giving equal value in exchange, include public library systems aid, County aid, grants, entitlements and donations. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Federal and County aids for reimbursable programs are recognized as revenue in the year related program expenditures are incurred.

Winnefox Library System

Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the System considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION OR FUND BALANCE

1. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

2. Accounts Receivable

Accounts receivable are recorded at gross amounts with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material to the basic financial statements.

3. Capital Assets

Capital assets, which include software and equipment, are reported in the government-wide financial statements. Capital assets are defined by the System as assets with an initial, individual cost of \$5,000 or higher and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the System are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Automotive	5
Computer equipment	5
Office equipment	5 - 10
Software	10

4. Compensated Absences

Vacation. The System's policy allows employees to earn varying amounts of vacation pay based on length of service and other factors which accumulates and vests for the employees when earned and must be used within the following year. Upon retirement or termination of employment, the employee is entitled to payment of earned vacation.

Sick Leave. The System's policy allows employees to accumulate varying amounts of sick leave. Accumulated sick leave is paid at 50% upon retirement.

Winnefox Library System

Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

All vacation and sick leave is accrued when incurred in the government-wide financial statements. A liability for this amount is reported in the governmental funds in the fund financial statements only if they have matured, for example, as a result of employee resignations and retirements. The compensated absences liability is calculated based on the pay or salary rates in effect at year-end.

5. **Deferred Outflows/Inflows of Resources**

Deferred outflows of resources are a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources are an acquisition of net position by the government that is applicable to a future reporting period. The recognition of those outflows and inflows as expenses or expenditures and revenues are deferred until the future periods to which the outflows and inflows are applicable.

6. **Pensions**

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

7. **Fund Equity**

Governmental Fund Financial Statements

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- ▶ **Nonspendable fund balance.** Amounts that are not in spendable form (such as inventory, prepaid items, or long-term receivables) or are legally or contractually required to remain intact.
- ▶ **Restricted fund balance.** Amounts that are constrained for specific purposes by external parties (such as grantor or bondholders), through constitutional provisions, or by enabling legislation.
- ▶ **Committed fund balance.** Amounts that are constrained for specific purposes by action of the Board of Trustees. These constraints can only be removed or changed by the Board of Trustees using the same action that was used to create them.
- ▶ **Assigned fund balance.** Amounts that are constrained for specific purposes by action of System management. The Board of Trustees has not authorized a designated person to assign fund balance. Residual amounts in any governmental fund, other than the General Fund, are also reported as assigned.
- ▶ **Unassigned fund balance.** Amounts that are available for any purpose. Positive unassigned amounts are only reported in the General Fund.

The System has not adopted a fund balance spend-down policy regarding the order in which fund balance will be utilized. When a policy does not specify the spend-down policy, GASB Statement No. 54 indicates that restricted funds would be spent first, followed by committed funds, and then assigned funds. Unassigned funds would be spent last.

Winnefox Library System Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Government-Wide Statements

Equity is classified as net position and displayed in three components:

- ▶ **Net investment in capital assets.** Amount of capital assets, net of accumulated depreciation, and capital related deferred outflows of resources less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and any capital related deferred inflows of resources.
- ▶ **Restricted net position.** Amount of net position that is subject to restrictions that are imposed by 1) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- ▶ **Unrestricted net position.** Net position that is neither classified as restricted nor as net investment in capital assets.

E. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2: STEWARDSHIP AND COMPLIANCE

A. BUDGETS AND BUDGETARY ACCOUNTING

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for the general and special revenue funds. The legally adopted budget and budgetary expenditure control is exercised at the function level. All annual appropriations lapse at year-end, except those intended to accumulate funds for future projects. Reported budget amounts are as originally approved and as amended by Board of Trustee resolution, if applicable.

The System did not have any material violation of legal or contractual provision for the fiscal year ended December 31, 2017.

NOTE 3: DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

The System maintains various cash and investment accounts, which are displayed in the financial statements as "Cash and Investments". Invested cash consists of deposits and investments that are restricted by Wisconsin Statutes to the following:

Time deposits; repurchase agreements; securities issued by federal, state and local governmental entities; statutorily authorized commercial paper and corporate securities; and the Wisconsin local government investment pool.

Winnefox Library System Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

The carrying amount of the System's cash and investments totaled \$2,242,269 on December 31, 2017 as summarized below:

Deposits with financial institutions	\$ 142,543
Investments	
Wisconsin local government investment pool	2,099,726
	<u>\$ 2,242,269</u>

Fair Value Measurements

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant observable inputs; Level 3 inputs are significant unobservable inputs. The System currently has no investments that are subject to fair value measurement.

Deposits and investments of the System are subject to various risks. Presented below is a discussion of the System's deposits and investments and the related risks.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System does not have an additional custodial credit policy.

Deposits with financial institutions within the State of Wisconsin are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for the combined amount of all time and savings deposits and \$250,000 for interest-bearing and noninterest-bearing demand deposits per official custodian per insured depository institution. Deposits with financial institutions located outside the State of Wisconsin are insured by the FDIC in the amount of \$250,000 for the combined amount of all deposit accounts per official custodian per depository institution. Also, the State of Wisconsin has a State Guarantee Fund which provides a maximum of \$400,000 per public depository above the amount provided by an agency of the U.S. Government. However, due to the relatively small size of the State Guarantee Fund in relation to the Fund's total coverage, total recovery of insured losses may not be available. This coverage has been considered in determining custodial credit risk.

As of December 31, 2017, none of the System's deposits with financial institutions were in excess of federal and state depository insurance limits.

Investments

The System has investments in the Wisconsin Local Government Investment Pool of \$2,099,726 at year-end. The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2017, the fair value of the System's share of the LGIP's assets was substantially equal to the carrying value.

Winnefox Library System Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investments in securities to the top two ratings assigned by nationally recognized statistical rating organizations. The System does not have an additional credit risk policy. The System's investment in the Wisconsin Local Government Investment Pool is not rated.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investments held by the Wisconsin Local Government Investment Pool mature in 12 months or less.

B. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, depreciable:				
Automotive	\$ 67,283	\$ -	\$ -	\$ 67,283
Computer equipment	94,662	7,563	-	102,225
Office equipment	48,739	-	-	48,739
Software	25,405	-	-	25,405
Subtotals	<u>236,089</u>	<u>7,563</u>	<u>-</u>	<u>243,652</u>
Less accumulated depreciation for:				
Automotive	34,107	9,682	-	43,789
Computer equipment	75,761	7,851	-	83,612
Office equipment	47,383	257	-	47,640
Software	20,216	1,683	-	21,899
Subtotals	<u>177,467</u>	<u>19,473</u>	<u>-</u>	<u>196,940</u>
Governmental activities capital assets, net	<u>\$ 58,622</u>	<u>\$ (11,910)</u>	<u>\$ -</u>	<u>\$ 46,712</u>

Depreciation expense has been allocated to the library services function.

C. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of the System for the year ended December 31, 2017:

	Beginning Balance	Issued	Retired	Ending Balance	Due Within One Year
Compensated absences	<u>\$ 115,864</u>	<u>\$ 86,132</u>	<u>\$ 80,779</u>	<u>\$ 121,217</u>	<u>\$ 35,691</u>

D. LEASES

The System leases office space from the Oshkosh Public Library (the "OPL") under a lease agreement that requires annual payments of \$18,437 plus a percentage of OPL's maintenance and utility charges. Winnefox rental payments for 2017 totaled \$24,190.

Winnefox Library System

Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

E. PENSION PLAN

1. Plan Description

The WRS is a cost-sharing, multiple-employer, defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are 1) final average earnings, 2) years of creditable service, and 3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

2. Post-Retirement Adjustments

The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

Winnefox Library System Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

<u>Year</u>	<u>Core Fund Adjustment</u>	<u>Variable Fund Adjustment</u>
2007	3%	10%
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)

3. Contributions

Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Starting on January 1, 2016, the Executives and Elected Officials category was merged into the General Employee Category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period ending December 31, 2016, the WRS recognized \$44,974 in contributions from the System.

Contribution rates for the reporting period are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (including teachers)	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

4. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the System reported a liability of \$41,188 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The System's proportion of the net pension liability was based on the System's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the System's proportion was 0.00499707%, which was a decrease of 0.00017331% from its proportion measured as of December 31, 2015.

For the year ended December 31, 2017, the System recognized pension expense of \$107,738.

Winnefox Library System Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

At December 31, 2017, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 15,705	\$ 129,532
Net differences between projected and actual earnings on pension plan investments	205,020	-
Changes in assumptions	43,063	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,164	-
Employer contributions subsequent to the measurement date	49,363	-
Total	<u>\$ 318,315</u>	<u>\$ 129,532</u>

\$49,363 reported as deferred outflows related to pension resulting from the System's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Expense</u>
2017	\$ 56,374
2018	56,374
2019	38,365
2020	(11,791)
2021	98
Total	<u>\$ 139,420</u>

5. Actuarial Assumptions

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date:	December 31, 2015
Measurement date of net pension liability:	December 31, 2016
Actuarial cost method:	Entry Age
Asset valuation method:	Fair Value
Long-term expected rate of return:	7.2%
Discount rate:	7.2%
Salary increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table
Post-retirement adjustments*	2.1%

- * *No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Winnefox Library System

Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Actuarial assumptions are based upon an experience study conducted in 2015 using experience from 2012 - 2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

Long-term Expected Return on Plan Assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Core Fund Asset Class</u>	<u>Current Asset Allocation %</u>	<u>Destination Target Asset Allocation %</u>	<u>Long-term Expected Nominal Rate of Return %</u>	<u>Long-term Expected Real Rate of Return %</u>
Global equities	50%	45%	8.3%	5.4%
Fixed income	24.5%	37%	4.2%	1.4%
Inflation sensitive assets	15.5%	20%	4.3%	1.5%
Real estate	8%	7%	6.5%	3.6%
Private equity/debt	8%	7%	9.4%	6.5%
Multi-asset	4%	4%	6.6%	3.7%
Total Core Fund	110%	120%	7.4%	4.5%
<u>Variable Fund Asset Class</u>				
U.S. equities	70%	70%	7.6%	4.7%
International equities	30%	30%	8.5%	5.6%
Total Variable Fund	100%	100%	7.9%	5%

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.75%

Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations

Single Discount Rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.78%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan members contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Winnefox Library System Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

Sensitivity of the System's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the System's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.2 percent, as well as what the System's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	<u>1% Decrease to Discount Rate (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase to Discount Rate (8.20%)</u>
System's proportionate share of the net pension liability (asset)	\$ 541,852	\$ 41,188	\$ (344,346)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

6. Payables to the Pension Plan

At December 31, 2017, the System reported a payable of \$7,546 for the outstanding amount of contributions to the pension plan for the year ended December 31, 2017.

F. FUND EQUITY

Nonspendable Fund Balance

In the fund financial statements, portions of the governmental fund balances are amounts that cannot be spent because they are either 1) not in spendable form or 2) legally or contractually required to be maintained intact. At December 31, 2017, nonspendable fund balance was as follows:

General Fund	
Nonspendable	
Inventory and prepaid items	<u>\$ 8,982</u>

NOTE 4: OTHER INFORMATION

A. 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 government carries commercial insurance. The System completes an annual review of its insurance coverage to ensure adequate coverage.

B. CONCENTRATIONS

The System received approximately 50% of its funding from state aids in 2017, creating an economic dependency between the System and that source.

Winnefox Library System Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2017

C. CONTINGENCIES

The System participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the System's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the System expects such amounts, if any, to be immaterial.

From time to time, the System is party to other various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the System's financial position or results of operations.

D. UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2017, the GASB issued Statement No. 87, *Leases*. The Statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement is effective for reporting periods beginning after December 15, 2019. The System is currently evaluating the impact this standard will have on the financial statements when adopted.

REQUIRED SUPPLEMENTARY INFORMATION

Winnefox Library System

Oshkosh, Wisconsin

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
WISCONSIN RETIREMENT SYSTEM
LAST 10 FISCAL YEARS**

Fiscal Year Ending	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered-Employee Payroll (plan year)	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
12/31/15	0.00513019%	\$ (126,012)	\$ 696,457	18.09%	102.74%
12/31/16	0.00517040%	84,018	773,855	10.86%	98.20%
12/31/17	0.00499707%	41,188	700,164	5.88%	99.12%

**SCHEDULE OF CONTRIBUTIONS
WISCONSIN RETIREMENT SYSTEM
LAST 10 FISCAL YEARS**

Fiscal Year Ending	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll (fiscal year)	Contributions as a Percentage of Covered-Employee Payroll
12/31/15	\$ 52,622	\$ 52,622	\$ -	\$ 773,855	6.80%
12/31/16	44,974	44,974	-	700,164	6.42%
12/31/17	49,363	49,363	-	725,932	6.80%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

There were no changes of benefit terms or assumptions for any participating employer in the WRS.

The amounts reported for each fiscal year were determined as of the calendar year-end that occurred within the prior fiscal year. The System is required to present the last ten fiscal years of data; however accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR BASIC FINANCIAL STATEMENTS

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*

To the Board of Trustees
Winnefox Library System
Oshkosh, Wisconsin

We have audited, 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 governmental activities and the major fund of the Winnefox Library System, Oshkosh, Wisconsin, (the "System") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated July 19, 2018.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying summary of audit results, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency in internal control what we consider to be a significant deficiency.

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 System's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying summary of audit results as item 2017-001 to be a material weakness.

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. We consider the deficiency described in the accompanying summary of audit results as item 2017-002 to be a significant deficiency.

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*.

WINNEFOX LIBRARY SYSTEM'S RESPONSE TO FINDINGS

The System's response to the findings identified in our audit is described in the accompanying schedule of prior year audit findings and corrective action plan. The System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants

Sheboygan, Wisconsin
July 19, 2018

FEDERAL AND STATE AWARDS

Independent auditors' report on compliance for the major state program and on internal control over compliance required by the Wisconsin Department of Public Instruction

To the Board of Trustees
Winnefox Library System
Oshkosh, Wisconsin

REPORT ON COMPLIANCE FOR THE MAJOR STATE PROGRAM WITH REQUIRED PROCEDURES

We have audited Winnefox Library System, Oshkosh, Wisconsin (the "System")'s compliance with the types of compliance requirements described in the *Wisconsin Public School District Audit Manual*, issued by the Wisconsin Department of Public Instruction, that could have a direct and material effect on the System's state program with required procedures for the year ended December 31, 2017. The System's state program that has required procedures is identified in the accompanying summary of auditors' results.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the System's state programs with required procedures based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the compliance requirements of the Wisconsin Department of Public Instruction in the *Wisconsin Public School District Audit Manual*. Those standards and compliance requirements require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs with required procedures occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each state program with required procedures. However, our audit does not provide a legal determination on the System's compliance.

OPINION ON THE MAJOR STATE PROGRAM

In our opinion, Winnefox Library System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the System's state program with required procedures for the year ended December 31, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each state program with required procedures to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each state program with required procedures and to test and report on internal control over compliance in accordance with the *Wisconsin Public School District Audit Manual*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying summary of auditors' results as items 2017-003 and 2017-004 to be significant deficiencies.

The System's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of prior year audit findings and corrective action plan. The System's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of testing based on requirements of the *Wisconsin Public School District Manual*. Accordingly, this report is not suitable for any other purpose.

S. Schenk SC

Certified Public Accountants

Sheboygan, Wisconsin
July 19, 2018

Winnefox Library System Oshkosh, Wisconsin

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Grantor Agency/ Program Title</u>	<u>Federal CFDA or State Identification Number</u>	<u>Pass-Through Agency</u>
FEDERAL AWARDS		
Institute of Museum and Library Services Grant #16-70-9941	45.310	Wisconsin Dept of Public Instruction
STATE AWARDS		
Wisconsin Department of Public Instruction Public Library Systems Aid - January 1, 2018 to December 31, 2018	255.002	None
Public Library Systems Aid - January 1, 2017 to December 31, 2017	255.002	None

TOTAL EXPENDITURES OF STATE AWARDS

The notes to the schedule of expenditures of federal and state awards are an integral part of this schedule.

<u>Pass-Through Entity Identifying Number</u>	<u>(Accrued) Deferred Revenue 1/1/17</u>	<u>Cash Received (Refunded)</u>	<u>Accrued (Deferred) Revenue 12/31/17</u>	<u>Total Expenditures</u>	<u>Subrecipient Payments</u>
16-70-9941-16-183-LSTA	\$ -	\$ 3,983	\$ -	\$ 3,983	\$ -
N/A	\$ -	\$ 686,542	\$ (686,542)	\$ -	\$ -
N/A	<u>664,414</u>	<u>221,471</u>	<u>-</u>	<u>885,885</u>	<u>-</u>
	<u>\$ 664,414</u>	<u>\$ 908,013</u>	<u>\$ (686,542)</u>	<u>\$ 885,885</u>	<u>\$ -</u>

Winnefox Library System Oshkosh, Wisconsin

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State Awards for the System are presented in accordance with the requirements of the *Wisconsin Public School District Audit Manual* issued by the Wisconsin Department of Public Instruction.

The Schedule of Expenditures of Federal and State Awards include all federal and state awards of the System. Because the schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in net position, or cash flows of the System.

NOTE 2: OVERSIGHT AGENCY

The Wisconsin Department of Public Instruction is the state oversight agency for the System.

NOTE 3: INDIRECT COSTS

The System has not elected to charge a de minimis indirect rate of 10% of modified total direct costs.

Winnefox Library System Oshkosh, Wisconsin

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED DECEMBER 31, 2017

SECTION 1 - SUMMARY OF AUDIT RESULTS

BASIC FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
▶ Material weakness(es) identified?	Yes
▶ Significant deficiency(ies) identified?	Yes
Noncompliance material to basic financial statements noted?	No

STATE AWARDS

Internal control over state programs:	
▶ Material weakness(es) identified?	No
▶ Significant deficiency(ies) identified?	Yes

Type of auditors' report issued on compliance for state program with required procedures Unmodified

Any audit findings disclosed that are required to be reported in accordance with the *Wisconsin Public School District Audit Manual*? Yes

Identification of state program with required procedures:

State ID Number	Name of State Program
255.002	Public Library Systems Aid

Winnefox Library System Oshkosh, Wisconsin

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED DECEMBER 31, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

FINDING NO.	CONTROL DEFICIENCIES
2017-001	Segregation of Duties Repeat of Finding 2016-002
Criteria:	Segregation of duties is an internal control intended to prevent or decrease the occurrence of errors or intentional fraud. Segregation of duties ensures that no single employee has control over all phases of a transaction.
Condition:	The System has a limited number of employees and one position is essentially responsible for completing all financial and recordkeeping duties of the library system. Accordingly, this does not allow for proper segregation of duties for internal control purposes.
Cause:	The lack of segregation of duties is due to the limited number of employees and size of the System's operations. In addition, the System has not conducted a risk assessment and analysis of its internal controls to identify compensating controls and other potential opportunities to enhance its control structure.
Effect:	Errors or intentional fraud could occur and not be detected timely by other employees in the normal course of their responsibilities as a result of the lack of segregation of duties.
Recommendation:	We recommend the Board continue to monitor the transactions and the financial records of the System. We further recommend the System complete a risk assessment and analysis of its internal controls to identify opportunities to strengthen and enhance controls over financial reporting.

Winnefox Library System Oshkosh, Wisconsin

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED DECEMBER 31, 2017

FINDING NO.	CONTROL DEFICIENCIES
2017-002	Preparation of Annual Financial Report Repeat of Finding 2016-001
Criteria:	The preparation and review of the annual financial report by staff with expertise in financial reporting is an internal control intended to prevent, detect, and correct a potential omission or misstatement in the financial statements or notes.
Condition:	Current System staff maintains accounting records which reflect the System's financial transactions; however, preparing the System's annual financial report, including note disclosures, involves the selection and application of specific accounting principles which would require additional experience and knowledge. The System contracts with us and our knowledge of applicable accounting principles, financial statement formats, and note disclosures to assist in the preparation of the annual financial report in an efficient manner.
Cause:	System management has determined that the additional costs associated with training staff to become experienced in applicable accounting principles and note disclosures outweighs the derived benefits.
Effect:	Without our involvement, the System may not be able to completely prepare an annual financial report in accordance with accounting principles generally accepted in the United States of America.
Recommendation:	We recommend that management and the Board continue reviewing the annual financial report. While it may not be cost beneficial to train additional staff to completely prepare the report, a thorough review of this information by appropriate staff of the System is necessary to obtain a complete and adequate understanding of the System's annual financial report.

Winnefox Library System Oshkosh, Wisconsin

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED DECEMBER 31, 2017

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

<u>FINDING NO.</u>	<u>CONTROL DEFICIENCIES</u>
2017-003	Segregation of Duties - State Grant Management Repeat of Finding 2016-003 <i>State ID - 255.002</i>
Criteria:	Segregation of duties is an internal control intended to prevent or decrease the occurrence of errors or intentional fraud. Segregation of duties ensures that no single employee has control over all phases of a transaction.
Condition:	The System has a limited staff to complete all financial and recordkeeping duties of the library system. Accordingly, this does not allow for proper segregation of duties for internal control purposes.
Cause:	The lack of segregation of duties is due to the limited number of employees and size of the System's operations.
Effect:	Because one employee is currently processing all transactions, errors and intentional fraud to allowable costs could occur and not be detected in a timely manner by other employees in the normal course of their responsibilities as a result of the lack of segregations of duties.
Recommendation:	We recommend the System complete a risk assessment and review its payroll process to identify payroll tasks that could be reassigned to other System personnel. We also recommend the Board of Trustees continue to monitor the transactions and the financial records of the System.

Winnefox Library System Oshkosh, Wisconsin

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED DECEMBER 31, 2017

FINDING NO.	CONTROL DEFICIENCIES
2017-004	<p>Financial Reporting for State Financial Assistance Repeat of Finding 2016-004 <i>State ID - 255.002</i></p>
Criteria:	Having staff with expertise in state financial reporting prepare the System's audit report is an internal control intended to prevent, detect and correct a potential misstatement in the schedules of expenditures of state awards, or the accompanying not to the schedule.
Condition:	The Wisconsin Public School District Audit Manual requires the System to prepare the appropriate financial statements, including the schedules of expenditures of state awards. While the current staff of the System maintains financial records supporting amounts reported in the schedules of expenditures of state awards, the System contracts with Schenck to compile the data from these records and draft the schedules for the system.
Cause:	The additional costs associated with hiring staff sufficiently experienced to prepare the System's audit report, including additional training time, outweighs the derived benefits.
Effect:	The system could receive state grant awards which are not included in the accompanying Schedule of Expenditures of State Awards.
Recommendation:	We recommend the System personnel continue reviewing the System's audit report. While it may not be cost beneficial to hire additional staff to prepare these items, a thorough review of this information by appropriate staff of the System is necessary to ensure all state financial assistance programs are properly reported in the System's audit report.

SECTION IV - OTHER ISSUES

- | | |
|--|-----|
| 1. Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern? | No |
| 2. Does the audit report show audit issues (i.e. material non-compliance, non-material non-compliance, questioned cost, material weakness, significant deficiencies, management letter comment, excess revenue or excess reserve) related to grant/contracts with funding agencies that require audits to be in accordance with the <i>Wisconsin Public School District Manual</i> :

Department of Public Instruction | Yes |
| 3. Was a Management Letter or other document conveying audit comments issued as a result of this audit? | Yes |

4. Name and signature of partner

Bryan Grunewald CPA

Bryan Grunewald, CPA

5. Date of report

July 19, 2018

Winnefox Library System Oshkosh, Wisconsin

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2017

PRIOR YEAR AUDIT FINDINGS

The findings noted in the 2016 Schedule of Findings and Questioned Costs have been reported to the proper state agencies. The current status of the prior year audit findings, as provided by management, follows:

<u>Finding No.</u>	<u>Prior Year Audit Finding</u>
2016-001	Year End Financial Reporting Management continues to rely upon the audit firm to prepare its financial statements. The finding is repeated as 2017-002.
2016-002	Segregation of Duties Management has segregated duties when cost effective. The finding is repeated as 2017-001.
2016-003	Segregation of Duties - State Grant Management Management has segregated duties when cost effective. The finding is repeated as 2017-003.
2016-004	Financial Reporting for State Financial Assistance Management continues to rely upon the audit firm to prepare its financial report and state financial assistance. The finding is repeated as 2017-004.

Winnefox Library System Oshkosh, Wisconsin

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2017

CORRECTIVE ACTION PLAN

Finding No.

Corrective Action Plan

2017-001

Segregation of Duties

Management
Response:

Management has effectively segregated cash receipts, disbursements, and general ledger maintenance responsibilities when possible or has established additional oversight and review Procedures that are completed by either management or the Board. Ideal segregation of all transaction types is not possible due to limited staff. Management will continue to be aware of this condition.

2017-002

Preparation of Annual Financial Report

Management
Response:

Management believes the cost of additional staff time and training to prepare year-end closing entries and reports outweigh the benefits to be received. Management will continue to review the financial statements and other information prior to issuance.

2017-003

Segregation of Duties - State Grant Management

Management
Response:

Management has effectively segregated cash receipts, disbursements, and general ledger maintenance responsibilities when possible or has established additional oversight and review Procedures that are completed by either management or the Board. Ideal segregation of all transaction types is not possible due to limited staff. Management will continue to be aware of this condition.

2017-003

Financial Reporting for State Financial Assistance

Management
Response:

The director and administrative coordinator have reviewed the federal and state schedules and compared them to the System's ledger.