

Winnefox Library System
Oshkosh, Wisconsin

MANAGEMENT COMMUNICATIONS

December 31, 2018

Winnefox Library System Oshkosh, Wisconsin

DECEMBER 31, 2018

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COMMUNICATION TO THE BOARD OF TRUSTEES

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APPENDIX

Management Representation Letter



CliftonLarsonAllen LLP
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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, Oshkosh, Wisconsin (the "System") as of and for the year ended December 31, 2018. The System's financial statements, including our report thereon dated May 23, 2019, 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 AUDIT 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 state program 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 System 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 system 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 each of 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, 2018, 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 35 - 36 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 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 following deficiency in internal control to be a material weakness:

Finding 2018-001 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 2018-0002 Preparation of Annual Financial Report

These findings are described in detail in the Summary of Auditors' Results on pages 43 - 44 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 each 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 programs for the year ended December 31, 2018, 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 37 - 38 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 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, 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 federal or state award programs 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 deficiency in the System's internal control to be a significant deficiency:

Finding 2018-03 Segregation of Duties - State Grant Management

This finding is described in detail in the Summary of Auditors' Results on page 45 of the annual report.

The System's written response to the significant deficiency 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

As described in Note 1 to the financial statements, the System changed accounting policies related to postemployment benefits by adopting Statement of Governmental Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of activities. 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 other postemployment benefits is based on an actuarial report. We evaluated the key factors and assumptions used to develop the other postemployment benefits 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 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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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 May 23, 2019. 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. We were informed by management that there were no 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 and other postemployment benefits 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, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared 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.

With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of the Uniform Guidance, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated May 23, 2019.

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.

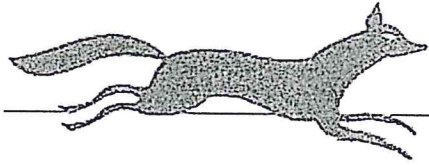
CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Sheboygan, Wisconsin

May 23, 2019

APPENDIX



Jeff Gilderson-Duwe, Director
Mark Arend, Assistant Director

WINNEFOX LIBRARY SYSTEM

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May 23, 2019

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This representation letter is provided in connection with your audit of the financial statements of Winnefox Library System, which comprise the respective financial position of the governmental activities and the major fund as of December 31, 2018, and the respective changes in financial position for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on 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.

We confirm, to the best of our knowledge and belief, as of May 23, 2019, the following representations made to you during your audit of the financial statements as of and for the year ended December 31, 2018.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 17, 2018, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We acknowledge and have fulfilled 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

5. Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.
6. Related party relationships and transactions, including, but not limited to, 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 the requirements of U.S. GAAP.
7. No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements or in the schedule of findings and questioned costs.
8. We have not identified or been notified of any uncorrected financial statement misstatements. You have proposed adjusting journal entries that have been posted to the entity's accounts. We have reviewed and approved those adjusting journal entries and understand the nature of the changes and their impact on the financial statements. We are in agreement with those adjustments and accept responsibility for them.
9. 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 in accordance with U.S. GAAP, or which would affect federal award programs, and we have not consulted a lawyer concerning litigation, claims, or assessments.
10. Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.
11. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
12. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility. Impairment loss and insurance recoveries have been properly recorded.
13. We believe that all material expenditures that have been deferred to future periods will be recoverable.
14. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
15. We are unable to determine the possibility of a withdrawal liability in a multiple-employer benefit plan.
16. We do not plan to make frequent amendments to our pension or other postemployment benefit plans.

Information Provided

1. 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.

- b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - e. Access to all audit or relevant monitoring reports, if any, received from funding sources.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others when the fraud could have a material effect on the financial statements.
5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, grantors, regulators, or others.
6. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse whose effects should be considered when preparing financial statements.
7. 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 in accordance with U.S. GAAP, or which would affect federal award programs, and we have not consulted a lawyer concerning litigation, claims, or assessments.
8. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.
9. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
10. The entity 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, except as made known to you and disclosed in the financial statements.

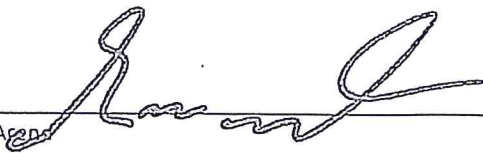
11. We have taken timely and appropriate steps to remedy fraud, illegal acts, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
12. We have a process to track the status of audit findings and recommendations.
13. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
14. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
15. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to Winnefox Library System, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
16. 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.
17. The entity has complied with all aspects of contractual or grant agreements that would have a material effect on the financial statements in the event of noncompliance.
18. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
19. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
20. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures, jointly governed organizations, and other related organizations.
21. The financial statements properly classify all funds and activities.
22. 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.
23. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
24. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.

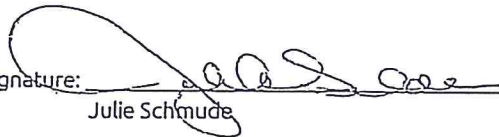
25. Provisions for uncollectible receivables have been properly identified and recorded.
26. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
27. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
28. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
29. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.
30. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
31. We have appropriately disclosed the entity'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.
32. 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.
33. As part of your audit, you prepared the draft financial statements and related notes and schedule of expenditures of state awards. We have designated an individual who possesses suitable skill, knowledge, and/or experience to understand and oversee your services; have made all management judgments and decisions; and have assumed all management responsibilities. We have evaluated the adequacy and results of the service. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of state awards.
34. We have evaluated the adequacy and results of the depreciation services performed and accept responsibility for the results. We acknowledge our responsibility for our depreciation schedules and have determined the methods and rates of depreciation and the salvage values used in the calculations. We have designated an individual who possesses suitable skill, knowledge, and/or experience to understand and oversee your depreciation services; have made all significant management judgments and decisions; and have assumed all management responsibilities.
35. With respect to state award programs:
 - a. We are responsible for understanding and complying with, and have complied with the requirements of the *Wisconsin Public School System Audit Manual* issued by the Wisconsin Department of Public Instruction, including requirements related to preparation of the schedule of expenditures of state awards.

- b. We acknowledge our responsibility for presenting the schedule of expenditures of state awards (SESA) in accordance with the requirements of the *State Single Audit Guidelines*, and we believe the SESA, including its form and content, is fairly presented in accordance with the *State Single Audit Guidelines*. The methods of measurement and presentation of the SESA has 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 SESA.
- c. We have identified and disclosed to you all of our government programs and related activities subject to the *State Single Audit Guidelines* compliance audit, and included in the SESA expenditures made during the audit period for all awards provided by state agencies in the form of state awards, state 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 state awards related to each of our state programs and have identified and disclosed to you the requirements of state statutes, regulations, and the terms and conditions of state awards that are considered to have a direct and material effect on each major 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 provides reasonable assurance that we are managing our state awards in compliance with state statutes, regulations, and the terms and conditions of state awards that could have a material effect on our state programs. We believe the internal control system is adequate and is functioning as intended.
- f. We have made available to you all state awards (including amendments, if any) and any other correspondence with state agencies or pass-through entities relevant to state programs and related activities.
- g. We have received no requests from a state agency to audit one or more specific programs as a major program.
- h. We have complied with the direct and material compliance requirements including when applicable, those set forth in the *State Single Audit Guidelines*, relating to state awards and confirm that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of state awards.
- i. We have disclosed to you any communications from 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 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 known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- o. We have disclosed to you whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies and/or material weaknesses in internal control over compliance, have occurred subsequent to the period covered by the auditors' report.
- p. State program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
- q. The copies of state program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective 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 *State Single Audit Guidelines*, and we have provided you with all information on the status of the follow-up on prior audit findings by 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 *State Single Audit Guidelines*.

36. We agree with the findings of specialists in evaluating the pension and other postemployment 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.

Signature:  Title: Assistant Director
Mark Agens

Signature:  Title: Bookkeeper
Julie Schmuide

Winnefox Library System
Oshkosh, Wisconsin

ANNUAL FINANCIAL REPORT

December 31, 2018

Winnefox Library System Oshkosh, Wisconsin

DECEMBER 31, 2018

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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, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the major fund of the System as of December 31, 2018, 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.

CHANGE IN ACCOUNTING PRINCIPLE

As discussed in Note 3.F to the financial statements, in 2018 the System adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

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 and other postemployment benefits on pages 32 and 33 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.

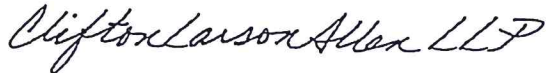
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis, as required by the *Wisconsin Public School District Audit Manual* issued 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 May 23, 2019, 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 solely 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 effectiveness of the System's 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Sheboygan, Wisconsin
May 23, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin

Management's Discussion and Analysis
(Unaudited)
December 31, 2018

This Management's Discussion and Analysis provides an overview of financial activities for the fiscal year ended December 31, 2018 and a comparison with 2017 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 2018 were \$3,202,783 and total liabilities and deferred inflows of resources were \$1,808,827. Thus, the System's net position at the end of 2018 is \$1,393,956, an increase of \$65,365 (or 4.92%) from its net position at the end of 2017. 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 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 2017-2018 follows.

CONDENSED STATEMENT OF NET POSITION

	<u>2018</u>	<u>2017</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current and Other Assets	\$ 2,721,566	\$ 2,279,680
Capital Assets	50,126	46,712
Net Pension Asset	148,920	0
Deferred Outflows of Resources	<u>282,171</u>	<u>318,315</u>
Total Assets and Deferred Outflows of Resources	3,202,783	2,644,707
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Other Liabilities	\$ 538,567	\$ 263,359
Long-term Liabilities	185,136	162,405
Unearned Revenue	80,776	74,278
Deferred Inflows of Resources	<u>1,004,348</u>	<u>816,074</u>
Total Liabilities and Deferred Inflows of Resources	1,808,827	1,316,116
NET POSITION		
Net investment in capital assets	\$ 50,126	\$ 46,712
Restricted	148,920	0
Unrestricted	<u>1,194,910</u>	<u>1,281,879</u>
Total Net Position	<u>\$ 1,393,956</u>	<u>\$ 1,328,591</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 2017 with 2018. The change in ending net position reflects a 9.21% increase. The change in accounting principle shown below reflect GASB Standard No. 75 implemented for 2018. Life insurance is considered an "Other Post Employment Benefit" that must be recorded on the government wide financial statements. This entry is very much like the recent standard for retirement benefits. Wisconsin Retirement funding hovers between 99% and 101% making it an asset some years and a liability in other years. Life insurance, on the other hand is underfunded and is expected to remain a liability for a number of years.

CHANGES IN NET POSITION

	<u>2018</u>	<u>2017</u>
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 965,455	\$ 896,162
Operating Grants and Contributions	180,660	175,539
General Revenues		
Public Library System Aid	934,619	889,868
Interest	53,609	23,616
Miscellaneous	<u>48,768</u>	<u>42,415</u>
Total Revenues	<u>2,183,111</u>	<u>2,027,600</u>
<u>Expenses</u>		
Library Services	<u>2,065,515</u>	<u>2,016,689</u>
Changes in Net Position	117,596	10,911
Net Position, as originally report	1,328,591	1,317,680
Change in accounting principle	<u>-52,231</u>	<u>0</u>
Net position, restated	<u>1,276,360</u>	<u>1,317,680</u>
Net Position, Ending	\$ <u>1,393,956</u>	<u>1,328,591</u>

Governmental Fund Revenues

Revenues for the System's governmental fund increased 7.67% for the year ended December 31, 2018. The schedule below demonstrates the major sources of revenue for the system in 2018. The increases in Member Services and County Revenue reflect adjustments made in the way revenues are reported. The schedule also reflects the increase in State Aid in 2018.

REVENUE SOURCE COMPARISON		
	2018	Percentage of Total
Member Services	\$ 816,460	37.40%
State & Federal Aid	934,619	42.81%
Sales to Member Libraries	9,742	.45%
County Revenue	319,913	13.15%
Other	102,377	4.69%
Total	\$ 2,183,111	100%

The following schedule shows revenue comparison between 2018 and 2017. Overall revenue increased in all categories.

REVENUE COMPARISON TO PREVIOUS YEAR			
	2018		2017
State and federal aids	\$ 934,619	\$	889,868
County revenue	319,913		266,631
Services to member libraries	816,460		798,398
Sales to libraries	9,742		6,672
Interest	53,609		23,616
Other	48,768		42,415
Total	\$ 2,183,111	\$	2,027,600

The schedule below is a snapshot of 2018 System expenditures as a total and as a percentage of total expenditures. Total governmental fund expenditures for the system increased by 5.40% over 2017.

EXPENDITURES AS PERCENT OF BUDGET

	2018	% OF TOTAL
Salaries and related fringe benefits	\$	
Administration	198,767	9.72%
Capital expenditures	59,937	2.93%
Collection development	52,256	2.56%
Consulting	69,960	3.42%
Continuing education	84,293	4.12%
Contractual services	135,914	6.65%
Delivery services	116,962	5.72%
Grant expenses	0	0%
Interlibrary loan	89,417	4.37%
Online fine payment	41,476	2.03%
Public information	23,369	1.14%
Reference services	0	0%
Services to youth	2,471	0.12%
Technology	176,778	8.64%
WCTS Operations	170,077	8.32%
WALS operations	823,381	40.26%
Total	\$ 2,045,058	

Fund Budgetary Highlights

The System had no revisions to the operating budget during 2018.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By December 31, 2018, the System had invested \$268,691 in capital assets, including computers and other equipment, furnishings, and delivery vans. The accumulated depreciation on these items was \$218,565.

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

A significant portion of the Winnefox Library System's revenues come from State and Federal aid (42.81%). After a 10% decrease in Wisconsin State aid from 2011 to 2012, this source of revenues was frozen from 2012 through 2017. A small increase was granted by the Wisconsin legislature for the years 2018 and 2019. Now, the legislature is considering the 2020-2021 biennial budget proposal of a new governor, which contains the prospect of a healthy increase in aid to Wisconsin library systems. If the proposed increase is supported by the legislature, Winnefox will have first opportunity in many years to restore previously eliminated support services to its member public libraries or, perhaps, add new services to help those libraries better serve their residents. Discussions with two other public library systems in the region – Outagamie-Waupaca Library System and Nicolet Federated Library System – may result in a joint venture to provide integrated library automation system services to 58 public library organizations in Northeast Wisconsin. A collaboration on this scale holds the promise of stabilizing future costs for this core public library function through increased purchasing power and operational efficiencies.

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>.

BASIC FINANCIAL STATEMENTS

Winnefox Library System Oshkosh, Wisconsin

STATEMENT OF NET POSITION DECEMBER 31, 2018

	Governmental Activities
ASSETS	
Cash and investments	\$ 2,686,672
Accounts receivable	24,069
Inventory	10,825
Net pension asset	148,920
Capital assets, depreciable	50,126
Total assets	<u>2,920,612</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related amounts	270,794
Other postemployment related amounts	11,377
Total deferred outflows of resources	<u>282,171</u>
LIABILITIES	
Accounts payable	296,536
Accrued and other current liabilities	28,560
Due to other governments	213,471
Unearned revenues	80,776
Long-term obligations	
Due within one year	39,124
Due in more than one year	75,870
Other postemployment benefits liability	70,142
Total liabilities	<u>804,479</u>
DEFERRED INFLOWS OF RESOURCES	
State aid for subsequent year	708,669
Pension related amounts	294,691
Other postemployment related amounts	988
Total deferred inflows of resources	<u>1,004,348</u>
NET POSITION	
Net investment in capital assets	50,126
Restricted	148,920
Unrestricted	1,194,910
Total net position	<u>\$ 1,393,956</u>

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

Winnefox Library System

Oshkosh, Wisconsin

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Library services	\$ 2,065,515	\$ 965,455	\$ 180,660	\$ (919,400)
General revenues				
Public library system aid				934,619
Interest income				53,609
Other income				48,768
Total general revenues				1,036,996
Change in net position				117,596
Net position - January 1, as originally reported				1,328,591
Change in accounting principle				(52,231)
Net position - January 1, restated				1,276,360
Net position - December 31				\$ 1,393,956

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, 2018

ASSETS	
Cash and investments	\$ 2,686,672
Accounts receivable	24,069
Inventory	<u>10,825</u>
Total assets	<u>\$ 2,721,566</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 296,536
Accrued and other current liabilities	28,560
Due to other governments	213,471
Unearned revenues	<u>80,776</u>
Total liabilities	<u>619,343</u>
Deferred inflows of resources	
State aid received for subsequent year	<u>708,669</u>
Fund balance	
Nonspendable	10,825
Unassigned	<u>1,382,729</u>
Total fund balance	<u>1,393,554</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 2,721,566</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, 2018

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance as shown on previous page	\$ 1,393,554
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.	50,126
Net pension asset is not available to pay current period expenditures and therefore is deferred in the funds.	148,920
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	270,794
Deferred inflows related to pensions	(294,691)
Deferred outflows related to other postemployment benefits	11,377
Deferred inflows related to other postemployment benefits	(988)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	(114,994)
Other postemployment benefit	<u>(70,142)</u>
Net position of governmental activities as reported on the statement of net position (see page 10)	<u>\$ 1,393,956</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, 2018

REVENUES	
State and federal aids	\$ 934,619
Intergovernmental, primarily counties	319,913
Services to member libraries	816,460
Sales to libraries	9,742
Interest income	53,609
Other income	<u>48,768</u>
Total revenues	<u>2,183,111</u>
EXPENDITURES	
Administration	198,767
Capital expenditures	59,937
Collection development	52,256
Consulting	69,960
Continuing education	84,293
Contractual services	135,914
Delivery services	116,962
Interlibrary loan	89,417
Online fine payment	41,476
Public information	23,369
Services to youth	2,471
Technology	176,778
WCTS Operations	170,077
WALS operations	<u>823,381</u>
Total expenditures	<u>2,045,058</u>
Net change in fund balance	138,053
Fund balance - January 1	<u>1,255,501</u>
Fund balance - December 31	<u>\$ 1,393,554</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, 2018

RECONCILIATION TO THE STATEMENT OF ACTIVITIES

Net change in fund balances as shown on previous page	\$ 138,053
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	25,039
Depreciation expense reported in the statement of activities	(21,625)
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	6,223
Net pension liability / asset	190,108
Deferred outflows of resources related to pensions	(47,521)
Deferred inflows of resources related to pensions	(165,159)
Other postemployment benefits	(17,911)
Deferred outflows of resources related to other postemployment benefits	11,377
Deferred inflows of resources related to other postemployment benefits	(988)
Change in net position of governmental activities as reported in the statement of activities (see page 11)	<u>\$ 117,596</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, 2018

	Budget		Variance
	Original & Final	Actual	Final Budget - Positive (Negative)
REVENUES			
State and federal aids	\$ 925,389	\$ 934,619	\$ 9,230
Intergovernmental, primarily counties	294,313	319,913	25,600
Services to member libraries	688,807	816,460	127,653
Sales to libraries	5,000	9,742	4,742
Interest income	10,500	53,609	43,109
Other income	41,593	48,768	7,175
Total revenues	1,965,602	2,183,111	217,509
EXPENDITURES			
Current			
Administration	220,527	198,767	21,760
Capital expenditures	76,000	59,937	16,063
Collection development	54,004	52,256	1,748
Consulting	70,640	69,960	680
Continuing education	88,356	84,293	4,063
Contractual services	138,243	135,914	2,329
Delivery services	108,356	116,962	(8,606)
Inclusive Services	29,504	-	29,504
Interlibrary loan	90,928	89,417	1,511
Online fine payment	40,000	41,476	(1,476)
Public information	30,475	23,369	7,106
Services to youth	2,179	2,471	(292)
Technology	306,993	176,778	130,215
WCTS Operations	166,191	170,077	(3,886)
WALS operations	699,048	823,381	(124,333)
Total expenditures	2,121,444	2,045,058	76,386
Net change in fund balance	(155,842)	138,053	293,895
Fund balance - January 1	1,255,501	1,255,501	-
Fund balance - December 31	\$ 1,099,659	\$ 1,393,554	\$ 293,895

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, 2018

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, 2018

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:

Assets	Years
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, 2018

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. Other Postemployment Benefits Other Than Pensions (OPEB)

Local Retiree Life Insurance Fund

The fiduciary net position of the Local Retiree Life Insurance Fund (LRLIF) has been determined using the flow of economic resources measurement focus and the accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, OPEB expense, and information about the fiduciary net position of the LRLIF and additions to/deductions from LRLIF's fiduciary net position have been determined on the same basis as they are reported by LRLIF. 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.

8. 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.

Winnefox Library System Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

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.

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 appropriates 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, 2018.

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, 2018

The carrying amount of the System's cash and investments totaled \$2,686,672 on December 31, 2018 as summarized below:

Deposits with financial institutions	\$ 181,631
Investments	
Wisconsin local government investment pool	<u>2,505,041</u>
	<u>\$ 2,686,672</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, 2018, 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 \$2,505,041 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, 2018, the fair value of the System's share of the LGIP's assets was substantially equal to the carrying value.

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NOTES TO BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2018

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, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, depreciable:				
Automotive	\$ 67,283	\$ -	\$ -	\$ 67,283
Computer equipment	102,225	25,039	-	127,264
Office equipment	48,739	-	-	48,739
Software	25,405	-	-	25,405
Subtotals	<u>243,652</u>	<u>25,039</u>	<u>-</u>	<u>268,691</u>
Less accumulated depreciation for:				
Automotive	43,789	9,682	-	53,471
Computer equipment	83,612	10,260	-	93,872
Office equipment	47,640	-	-	47,640
Software	21,899	1,683	-	23,582
Subtotals	<u>196,940</u>	<u>21,625</u>	<u>-</u>	<u>218,565</u>
Governmental activities capital assets, net	<u>\$ 46,712</u>	<u>\$ 3,414</u>	<u>\$ -</u>	<u>\$ 50,126</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, 2018:

	Beginning Balance	Issued	Retired	Ending Balance	Due Within One Year
Compensated absences	<u>\$ 121,217</u>	<u>\$ 93,483</u>	<u>\$ 99,706</u>	<u>\$ 114,994</u>	<u>\$ 39,124</u>

D. LEASES

The System leases office space from the Oshkosh Public Library (the "OPL") under a lease agreement that requires annual payments of \$20,899 plus a percentage of OPL's maintenance and utility charges. Winnefox rental payments for 2018 totaled \$27,589.

Winnefox Library System Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

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 executive service retirement plan participants, if hired on or before December 31, 2016) are entitled to a retirement benefit based on a formula factor, their final average earnings, and creditable service.

Final average earnings is the average of the participant's three highest earnings periods. Creditable service includes current service and prior service for which a participant received earnings and made contributions as required. Creditable service also includes creditable military service. The retirement benefit will be calculated as a money purchase benefit based on the employee's contributions plus matching employer's contributions, with interest, if that benefit is higher than the formula benefit.

Vested participants may retire at or after age 55 (50 for protective occupations) and receive an actuarially-reduced benefit. Participants terminating covered employment prior to eligibility for an annuity may either receive employee-required contributions plus interest as a separation benefit or leave contributions on deposit and defer application until eligible to receive a retirement benefit.

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, 2018

Year	Core Fund Adjustment	Variable Fund Adjustment
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)
2017	2	4

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 year ending December 31, 2018, the WRS recognized \$48,757 in contributions from the System.

Contribution rates for the reporting period are:

Employee Category	Employee	Employer
General (including teachers, executives and elected officials)	6.8%	6.8%
Protective with Social Security	6.8%	10.6%
Protective without Social Security	6.8%	14.9%

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

At December 31, 2018, the System reported an asset of \$148,920 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. 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 asset was based on the System's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2017, the System's proportion was 0.00501566%, which was an increase of 0.00001859% from its proportion measured as of December 31, 2016.

For the year ended December 31, 2018, the System recognized pension expense of \$65,974.

Winnefox Library System Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

At December 31, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 189,207	\$ 88,505
Net differences between projected and actual earnings on pension plan investments	29,423	204,677
Changes in assumptions		-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,407	1,509
Employer contributions subsequent to the measurement date	48,757	-
Total	<u>\$ 270,794</u>	<u>\$ 294,691</u>

\$48,757 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended December 31,	Expense
2019	\$ 17,490
2020	(584)
2021	(50,921)
2022	(38,991)
2023	352
Total	<u>\$ (72,654)</u>

5. Actuarial Assumptions

The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date:	December 31, 2016
Measurement date of net pension liability:	December 31, 2017
Actuarial cost method:	Entry Age
Asset valuation method:	Fair Market 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, 2018

Actuarial assumptions are based upon an experience study conducted in 2015 using experience from 2012 - 2014. The total pension liability for December 31, 2017 is based upon a roll-forward of the liability calculated from the December 31, 2016 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>Current Asset Allocation %</u>	<u>Long-term Expected Nominal Rate of Return %</u>	<u>Long-term Expected Real Rate of Return %</u>
<u>Core Fund Asset Class</u>			
Global equities	50%	8.2%	5.3%
Fixed income	24.5%	4.2%	1.4%
Inflation sensitive assets	15.5%	3.8%	1.0%
Real estate	8%	6.5%	3.6%
Private equity/debt	8%	9.4%	6.5%
Multi-asset	4%	6.5%	3.6%
Total Core Fund	110%	7.3%	4.4%
<u>Variable Fund Asset Class</u>			
U.S. equities	70%	7.5%	4.6%
International equities	30%	7.8%	4.9%
Total Variable Fund	100%	7.9%	5.0%

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 3.31%. 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, 2018

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:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
System's proportionate share of the net pension liability (asset)	\$ 385,309	\$ (148,920)	\$ (554,952)

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, 2018, the System reported a payable of \$7,128 for the outstanding amount of contributions to the pension plan for the year ended December 31, 2017.

F. OTHER POSTEMPLOYMENT BENEFITS

The System has adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended December 31, 2018. This statement revised and established new financial reporting requirements for governments that provide their employees with postemployment benefits. Financial statements for the year ended December 31, 2017 have not been restated.

The cumulative effect of this change was to decrease the December 31, 2017 net position by \$52,231 as follows:

Other postemployment liability		
OPEB asset balance previously reported	\$ -	
Actuarially determined balance	52,231	
Change in other postemployment liability		<u>\$ (52,231)</u>

Local Retiree Life Insurance Fund

Plan Description

The LRLIF is a multiple-employer, cost-sharing defined benefit OPEB plan. LRLIF benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. The Wisconsin Department of Employee Trust Funds (ETF) and the Group Insurance Board have statutory authority for program administration and oversight. The plan provides postemployment life insurance benefits for all eligible employees.

OPEB Plan Fiduciary Net Position

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

Benefits Provided

The LRLIF plan provides fully paid up life insurance benefits for post-age 64 retired employees and pre-65 retirees who pay for their coverage.

Winnefox Library System

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NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

Contributions

The Group Insurance Board approves contribution rates annually, based on recommendations from the insurance carrier. Recommended rates are based on an annual valuation, taking into consideration an estimate of the present value of future benefits and the present value of future contributions. A portion of employer contributions made during a member's working lifetime funds a post-retirement benefit.

Employers are required to pay the following contributions based on employee contributions for active members to provide them with Basic Coverage after age 65. There are no employer contributions required for pre-age 65 annuitant coverage. If a member retires prior to age 65, they must continue paying the employee premiums until age 65 in order to be eligible for the benefit after age 65.

Contribution rates as of December 31, 2018 are:

Coverage Type	Employer Contribution
50% Post-retirement coverage	40% of employee contribution
25% Post-retirement coverage	20% of employee contribution

Employee contributions are based upon nine age bands through age 69 and an additional eight age bands for those age 70 and over. Participating employees must pay monthly contribution rates per \$1,000 of coverage until the age of 65 (age 70 if active). The employee contribution rates in effect for the year ended December 31, 2017 are listed below:

Life Insurance Employee Contribution Rates For the Year Ended December 31, 2017	
Attained Age	Basic
Under 30	\$0.05
30 - 34	0.06
35 - 39	0.07
40 - 44	0.08
45 - 49	0.12
50 - 54	0.22
55 - 59	0.39
60 - 64	0.49
65 - 69	0.57

During the reporting period, the LRLIF recognized \$470 in contributions from the employer.

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018, the System reported a liability of \$70,142 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016 rolled forward to December 31, 2017. No material changes in assumptions or benefits terms occurred between the actuarial valuation date and the measurement date. The System's proportion of the net OPEB liability was based on the System's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2017, the System's proportion was 0.02331400%, which was an increase of 0.0018010% from its proportion measured as of December 31, 2016.

For the year ended December 31, 2018, the System recognized OPEB expense of \$8,003.

Winnefox Library System Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

At December 31, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 988
Net differences between projected and actual earnings on OPEB plan investments	808	-
Changes in assumptions	6,778	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,791	-
Total	<u>\$ 11,377</u>	<u>\$ 988</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31,	Expense
2019	\$ 1,670
2020	1,670
2021	1,670
2022	1,670
2023	1,469
Thereafter	2,240
Total	<u>\$ 10,389</u>

Actuarial assumptions. The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial valuation date:	January 1, 2017
Measurement date of net OPEB liability (asset):	December 31, 2017
Actuarial cost method:	Entry age normal
20 year tax-exempt municipal bond yield:	3.44%
Long-term expected rate of return:	5.00%
Discount rate:	3.63%
Salary increases:	
Inflation	3.20%
Seniority/Merit	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table

Long-term expected return on plan assets. The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. Investments for the LRLIF are held with Securian, the insurance carrier. Interest is calculated and credited to the LRLIF based on the rate of return for a segment of the insurance carriers' general fund, specifically 10-year A- Bonds (as a proxy, and not tied to any specific investments). The overall aggregate interest rate is calculated using a tiered approach based on the year the funds were originally invested and the rate of return for that year. Investment interest is credited based on the aggregate rate of return and assets are not adjusted to fair market value. Furthermore, the insurance carrier guarantees the principal amounts of the reserves, including all interest previously credited thereto.

Winnefox Library System Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

Asset Class	Index	Target Allocation	Long-term Expected Geometric Real Rate of Return %
U.S. Government Bonds	Barclays Government	1%	1.13%
U.S. Credit Bonds	Barclays Credit	65%	2.61%
U.S. Long Credit Bonds	Barclays Long Credit	3%	3.08%
U.S. Mortgages	Barclays MBS	31%	2.19%
Inflation			2.30%
Long-term expected rate of return			5.00%

Single discount rate. A single discount rate of 3.63% was used to measure the total OPEB liability. The Plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total OPEB Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payment to the extent that the plan's fiduciary net position is projected to be insufficient.

Sensitivity of the System's proportionate share of net OPEB liability (asset) to changes in the discount rate. The following presents the System's proportionate share of the net OPEB liability (asset) calculated using the discount rate of 3.63%, as well as what the System's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (2.63%) or 1-percentage-point higher (4.63%) than the current rate:

	1% Decrease to Discount Rate (2.63%)	Current Discount Rate (3.63%)	1% Increase to Discount Rate (4.63%)
System's proportionate share of the net OPEB liability (asset)	\$ 99,137	\$ 70,142	\$ 47,891

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

Payable to the OPEB Plan

At December 31, 2018, the System reported a payable of \$0 for the outstanding amount of contribution to the Plan required for the year ended December 31, 2018.

G. 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, 2018, nonspendable fund balance was as follows:

General Fund	
Nonspendable	
Inventory and prepaid items	<u>\$ 10,825</u>

Winnefox Library System Oshkosh, Wisconsin

NOTES TO BASIC FINANCIAL STATEMENTS DECEMBER 31, 2018

Net Position

The System reports restricted net position at December 31, 2018 as follows:

Restricted for Pension benefits	<u>\$ 148,920</u>
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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 43% of its funding from state aids in 2018, creating an economic dependency between the System and that source.

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 January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The statement establishes criteria for identifying fiduciary activities and addresses financial reporting for these activities. This statement is effective for reporting periods beginning after December 15, 2018. The System is currently evaluating the impact this standard will have on the financial statements when adopted.

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

Plan Year Ending	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered 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)
12/31/14	0.00513019%	\$ (126,012)	\$ 696,457	18.09%	102.74%
12/31/15	0.00517040%	84,018	773,855	10.86%	98.20%
12/31/16	0.00499707%	41,188	700,164	5.88%	99.12%
12/31/17	0.00501566%	(148,920)	725,932	20.51%	102.93%

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 Payroll (fiscal year)	Contributions as a Percentage of Covered 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%
12/31/18	48,757	48,757	-	666,186	7.32%

See notes to required supplementary information.

Winnefox Library System

Oshkosh, Wisconsin

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)
 LOCAL RETIREE LIFE INSURANCE FUND
 LAST 10 FISCAL YEARS

Plan Year Ending	Proportion of the Net OPEB Liability (Asset)	Proportionate Share of the Net OPEB Liability (Asset)	Covered-Employee Payroll	Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)
12/31/17	0.02331400%	\$ 70,142	\$ 980,420	7.15%	44.81%

SCHEDULE OF CONTRIBUTIONS
 LOCAL RETIREE LIFE INSURANCE FUND
 LAST 10 FISCAL YEARS

Fiscal Year Ending	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
12/31/18	\$ 470	\$ 470	\$ -	\$ 666,186	0.07%

See notes to required supplementary information.

Winnefox Library System Oshkosh, Wisconsin

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2018

A. WISCONSIN RETIREMENT SYSTEM

There were no changes of benefit terms 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.

B. OTHER POSTEMPLOYMENT BENEFITS

The System implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, for the fiscal year ended December 31, 2018. Information for prior years is not available.

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, 2018, and the related notes to the financial statements, which collectively comprise the System's financial statements, and have issued our report thereon dated May 23, 2019.

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 have not been identified. However, as described in the accompanying summary of auditors' results, we did identify a certain deficiency in internal control that we consider to be a material weakness and a deficiency that 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 Utilities' financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying summary of auditors' results as item 2018-001 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 auditors' results as item 2018-002 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 summary of auditors' results. 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.



CliftonLarsonAllen LLP

Sheboygan, Wisconsin
May 23, 2019

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

We have audited Winnefox Library 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 major state programs for the year ended December 31, 2018. The System's major state program 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 major state programs 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 major state program 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 the major state program. 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 major state program for the year ended December 31, 2018.

OTHER MATTERS

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *State Single Audit Guidelines* and which is described in the accompanying summary of auditors' results as item 2018-004. Our opinion on the major state program is not modified with respect to this matter.

Winnefox Library System's response to the noncompliance finding identified in our audit is described in the accompanying Summary of Auditors' Results. Winnefox Library 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.

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 major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program 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.

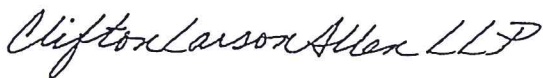
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. We did identify certain deficiencies in internal control over compliance, described in the accompanying summary of auditors' results as items 2018-003 and 2018-004 that we consider to be significant deficiencies.

The System's response to the internal control over compliance findings identified in our audit is described in the accompanying summary of auditors' results. 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.



CliftonLarsonAllen LLP

Sheboygan, Wisconsin
May 23, 2019

Winnefox Library System Oshkosh, Wisconsin

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED DECEMBER 31, 2018

Grantor Agency/ Program Title	Federal CFDA or State Identification Number	Pass-Through Agency
FEDERAL AWARDS		
Institute of Museum and Library Services Grant #2017-709941-LSTA	45.310	Wisconsin Dept of Public Instruction
STATE AWARDS		
Wisconsin Department of Public Instruction Public Library Systems Aid - January 1, 2019 to December 31, 2019	255.002	None
Public Library Systems Aid - January 1, 2018 to December 31, 2018	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 1/1/18</u>	<u>Cash Received (Refunded)</u>	<u>Accrued (Deferred) Revenue 12/31/18</u>	<u>Total Expenditures</u>	<u>Subrecipient Payments</u>
2017-709941-LSTA	<u>\$ -</u>	<u>\$ 19,230</u>	<u>\$ -</u>	<u>\$ 19,230</u>	<u>\$ -</u>
N/A	\$ -	\$ 708,669	\$ (708,669)	\$ -	\$ -
N/A	<u>686,542</u>	<u>228,847</u>	<u>-</u>	<u>915,389</u>	<u>-</u>
	<u>\$ 686,542</u>	<u>\$ 937,516</u>	<u>\$ (708,669)</u>	<u>\$ 915,389</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, 2018

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: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Wisconsin Public School District Audit Manual*, issued by the Wisconsin Department of Public Instruction, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3: OVERSIGHT AGENCY

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

NOTE 4: 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, 2018

SECTION I - 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 <i>Wisconsin Public School District Audit Manual</i> ?	Yes

Identification of major state program:

<u>State ID Number</u>	<u>Name of State Program</u>
255.002	Public Library Systems Aid

Audit threshold used to determine between Type A and B programs:

State Awards	\$250,000
Auditee qualified as low-risk auditee	No

Winnefox Library System Oshkosh, Wisconsin

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

FINDING NO.	CONTROL DEFICIENCIES
2018-001	Segregation of Duties Repeat of Finding 2017-001
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:	When performing audit procedures, it was noted that the System has not adequately segregated duties. The System has a limited number of employees 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.
Views of responsible officials and planned corrective actions:	Refer to the management response per the corrective action plan.

Winnefox Library System Oshkosh, Wisconsin

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

FINDING NO.	CONTROL DEFICIENCIES
2018-002	Preparation of Annual Financial Report Repeat of Finding 2017-002
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.
Views of responsible officials and planned corrective actions:	Refer to the management response per the corrective action plan.

Winnefox Library System Oshkosh, Wisconsin

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

FINDING NO.	CONTROL DEFICIENCIES
2018-003	<p>Segregation of Duties - State Grant Management Repeat of Finding 2017-003</p> <p><i>State ID - All</i></p>
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.
Context:	While performing audit procedures, it was noted that management does not have internal controls in place to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP.
Condition:	As noted in Finding 2018-001, when performing audit procedures, it was noted that the System has not adequately segregated duties. The System has a limited number of employees to complete all recordkeeping duties of the library system. Accordingly, this does not allow for proper segregation of duties for internal control purposes.
Questioned costs:	None
Cause:	The lack of segregation of duties is due to the limited number of employees and size of the System's operations.
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 review its payroll process to identify payroll tasks that could be reassigned to other System personnel.
Views of responsible officials and planned corrective actions:	Refer to the management response per the corrective action plan.

Winnefox Library System Oshkosh, Wisconsin

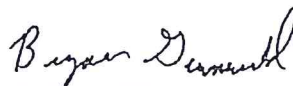
SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

FINDING NO.	CONTROL DEFICIENCIES
2018-004	<p>Reporting for State Financial Assistance</p> <p><i>State ID - 255.002</i></p> <p>Criteria: As stated in the <i>Wisconsin Public School District Audit Manual</i>, the system is required to file an annual report and evaluation describing its operations and reporting on its income, expenditures, and programs. The Public Library System Annual Report (PI-2404) and System Evaluation are required to be submitted by March 1 to the Department of Public Instruction.</p> <p>Context: While performing audit procedures, it was noted that the Public Library System Annual Report (PI-2404) was submitted to the Wisconsin Department of Public Instruction after the March 1, 2019 due date.</p> <p>Condition: The System did not meet the reporting deadline of March 1.</p> <p>Questioned costs: None</p> <p>Cause: The System has historically delayed submitting the report based on the timing of board meetings in order to obtain board approval prior to submission.</p> <p>Effect: The system submits annual reports after the reporting deadline as outlined in the <i>Wisconsin Public School District Manual</i>.</p> <p>Recommendation: We recommend the System review their process of preparing the annual report in conjunction with the bimonthly board meetings to allow for approval prior to the submission deadline of March 1.</p> <p>Views of responsible officials and planned corrective actions: Refer to the management response per the corrective action plan.</p>

SECTION IV - OTHER ISSUES

- Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern? No
- 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 *Wisconsin Public School District Manual*:
Department of Public Instruction Yes
- 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

5. Date of report

May 23, 2019