

MANAGEMENT COMMUNICATIONS

WINNEFOX LIBRARY SYSTEM

DECEMBER 31, 2016

WINNEFOX LIBRARY SYSTEM
December 31, 2016

TABLE OF CONTENTS

	<u>Page No.</u>
COMMUNICATION TO THE BOARD OF TRUSTEES	1 - 4
APPENDIX Management Representation Letter	

To the Board of Trustees
Winnefox Library System
Oshkosh, Wisconsin

We have audited the financial statements of the governmental activities and each major fund of the Winnefox Library System (the "System") for the year ended December 31, 2016. The System's financial statements, including our report thereon dated May 17, 2017 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 major 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 District Audit Manual*.

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

Planned Scope and Timing of the Audit

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

Significant Audit Findings

Consideration of Internal Control

Financial Statements

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the System as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control. Our report on internal control over financial reporting and on compliance and other matters is presented on pages 30 - 31 of the annual report.

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

A deficiency in internal control 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 City'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 2016-002 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 2016-001 Year End Financial Reporting

These findings are described in detail in the schedule of findings and questioned costs on pages 37 and 38 of the annual financial report.

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

State Awards

In planning and performing our audit of compliance for the major state program, we considered the System's internal control over compliance (internal control) as a basis for designing audit procedures for the purpose of expressing our opinion on compliance requirements that could have a direct and material effect on the System's major state program for the year ended December 31, 2016, 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 30 - 31 of the annual report.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that noncompliance of the System's major state award program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the System's internal control to be significant deficiencies:

- Finding 2016-003 Segregation of Duties - State Grant Management**
- Finding 2016-004 Financial Reporting for State Financial Assistance**

These findings are described in detail in the summary of audit results on pages 39 and 40 of the annual report.

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

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note A to the financial statements. As described in Note C.1 to the financial statements, the System changed accounting policies related to fair value measurement by adopting Statement of Governmental Accounting Standards Board (GASB) No. 72, *Fair Value Measurement and Application* in 2016. 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 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 asset and related deferred outflows/inflows of resources in determining that they are reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Copies of the audit adjustments are available from management. 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 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 17, 2017. The management representation letter follows this communication.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the schedules relating to pensions which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

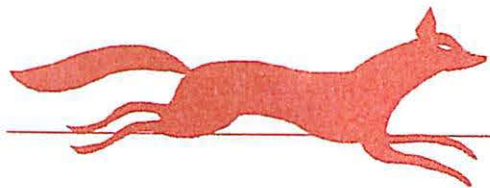
This information is intended solely for the information and use of the System, management, and others within the System, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,



Certified Public Accountants
Green Bay, Wisconsin
May 17, 2017

APPENDIX



Jeff Gilderson-Duwc, Director
Mark Arend, Assistant Director

WINNEFOX LIBRARY SYSTEM

106 Washington Avenue Oshkosh, WI 54901-4985
phone (920)236-5220 fax (920)236-5228
www.winnefox.org

May 17, 2017

Schenck SC
2200 Riverside Drive
P.O. Box 23819
Green Bay, WI 54305-3819

This representation letter is provided in connection with your audit of the financial statements of the Winnefox Library System, (the "System"), which comprise the respective financial position of the governmental activities and each major fund as of December 31, 2016, and the respective changes in the financial position for the year then ended, and the related notes to the financial statements for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items in No. 52 are considered material based on the materiality criteria specified in the *Wisconsin Public School district Audit Manual* issued by the Wisconsin Department of Public Instruction. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of May 17, 2017, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 22, 2017, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

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

Information Provided

12. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the System from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedules of expenditures of federal awards and state financial assistance.

14. We made an assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed the results of our assessment as follows:
 - a. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - i. Management,
 - ii. Employees who have significant roles in internal control, or
 - iii. Others where the fraud could have a material effect on the financial statements.
 - b. We have no knowledge of any allegations of fraud or suspected fraud affecting the System's financial statements communicated by employees, former employees, regulators, or others.
15. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
17. We have disclosed to you the identity of the System's related parties and all the related party relationships and transactions of which we are aware.

Government - specific

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

26. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
27. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
28. As part of your audit, you assisted with preparation of the financial statements and related notes, and the schedule of expenditures of federal awards and state financial assistance. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes, the schedule of expenditures of federal awards and state financial assistance.
29. In regard to the capital asset depreciation services performed by you, we have –
 - a. Assumed all management responsibilities.
 - b. Designated an individual (within senior management) with suitable skill, knowledge, or experience to oversee the services.
 - c. Evaluated the adequacy and results of the services performed.
 - d. Accepted responsibility for the results of the services.
30. The System has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
31. The System has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
32. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
33. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
34. The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.
35. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
36. Components of net position (net investment in capital assets, restricted, and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
37. Provisions for uncollectible receivables have been properly identified and recorded.

38. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
39. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
40. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
41. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
42. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
43. We have appropriately disclosed the System's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
44. We are following GASB Statement No. 54, paragraph 18, to determine the fund balance classifications for financial reporting purposes.
45. 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.
46. We agree with the findings of specialists in evaluating the pension benefits and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
47. The methods and significant assumptions used to determine fair values of financial instruments are as follows: Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
48. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been reduced to their estimated net realizable value.
49. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.
50. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
51. We do not plan to make frequent amendments to our pension benefit plans.

52. With respect to federal and state award programs:

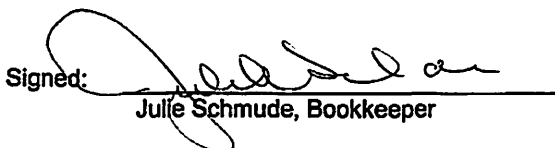
- a. We are responsible for understanding and complying with and have complied with the requirements of the *Wisconsin Public School District Audit Manual* issued by the Wisconsin Department of Public Instruction, including requirements relating to preparation of the schedule of federal awards and the schedule of state financial assistance.
- b. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards and state financial assistance (SEFASFA) in accordance with the requirements of the *Wisconsin Public School District Audit Manual* and we believe the SEFASFA, including its form and content, is fairly presented in accordance with the Guidelines. The methods of measurement or presentation of the SEFASFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFASFA.
- c. We have identified and disclosed to you all of our government programs and related activities subject to the *Wisconsin Public School District Audit Manual* and have included in the SEFASFA expenditures made during the audit period for all awards provided by federal and state agencies in the form of awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- d. We are responsible for understanding and complying with, and have complied with, the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards related to each of our federal and state programs and have identified and disclosed to you the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards that are considered to have a direct and material effect on each major federal and state program.
- e. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provide reasonable assurance that we are managing our federal and state awards in compliance with federal and state statutes, regulations, and the terms and conditions of federal and state awards that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended.
- f. We have made available to you all federal and state awards (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relevant to federal and state programs and related activities.
- g. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- h. We have complied with the direct and material compliance requirements, (except for noncompliance disclosed to you), including, when applicable, those set forth in the *Wisconsin Public School District Audit Manual*, relating to federal and state awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the requirements of federal and state awards.
- i. We have disclosed any communications from federal and state awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.

- j. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.
 - k. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
 - l. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
 - m. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
 - n. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
 - o. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditors' report.
 - p. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
 - q. The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
 - r. We have charged costs to federal and state awards in accordance with applicable cost principles.
 - s. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the *Wisconsin Public School District Audit Manual* and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
 - t. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the *Wisconsin Public School District Audit Manual*.
53. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Signed:


Mark Arend, Assistant Director

Signed:


Julie Schmude, Bookkeeper

**WINNEFOX LIBRARY SYSTEM
OSHKOSH, WISCONSIN**

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2016

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
December 31, 2016

Table of Contents

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 9
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements	
Balance Sheet - Governmental Funds	12 - 13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	14 - 15
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	16
Notes to Basic Financial Statements	17 - 28
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Proportionate Share of Net Pension Liability (Asset) - Wisconsin Retirement System	29
Schedule of Contributions - Wisconsin Retirement System	29
Notes to Required Supplementary Information	29
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 <i>Government Auditing Standards</i>	30 - 31
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE	
Independent Auditors' Report on Compliance for the Major State Program and on Internal Control Over Compliance Required by the Wisconsin Department of Public Instruction	32 - 33
Schedule of Expenditures of Federal Awards and State Financial Assistance	34
Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance	35
Summary of Audit Results	36 - 40
Schedule of Prior Year Audit Findings and Corrective Action Plan	41

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 each major fund of the Winnefox Library System ("the System") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the System as of December 31, 2016, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the schedules relating to pensions on page 28 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 awards and state financial assistance is presented for purposes of additional analysis, as required by the Wisconsin Department of Public Instruction and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards and state financial assistance 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 awards and state financial assistance are 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 17, 2017 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



Certified Public Accountants
Green Bay, Wisconsin
May 17, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

WINNEFOX LIBRARY SYSTEM

Oshkosh, Wisconsin

Management's Discussion and Analysis

(Unaudited)

December 31, 2016

This Management's Discussion and Analysis provides an overview of financial activities for the fiscal year ended December 31, 2016 and a comparison with 2015 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 2016 were \$2,736,575 and total liabilities and deferred inflows of resources were \$1,418,895. Thus, the System's net position at the end of 2016 is \$1,317,680, a decrease of \$49,070 (or 3.7%) from its net position at the end of 2015. The System's net position consists of funds invested in capital assets, restricted funds for subsequent years' expenditures and pensions and unrestricted funds.

In 2015, the System adopted GASB Statement No. 68 which revised and established new financial reporting requirements for governments that provide their employees with pension benefits. The new standards recognize pension costs as employment services are provided, rather than when the pensions are funded. The cumulative effect of this change in accounting principle is \$467,601. This has no real effect on the System's budgeting or operations. It is recording Winnefox's share of current excess of WRS assets over actuarially calculated liabilities.

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

USING THIS ANNUAL REPORT

Financial statements of the System include the three operational areas of the system. These areas are combined into one accounting entity with 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. 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 Assets from 2015-2016 follows.

CONDENSED STATEMENT OF NET POSITION

	<u>2016</u>	<u>2015</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current and Other Assets	\$ 2,210,352	\$ 2,308,978
Capital Assets	58,622	46,242
Deferred Outflows of Resources	467,601	136,579
Total Assets	2,736,575	2,491,799
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Other Liabilities	457,447	344,533
Long-term Liabilities	83,779	85,777
Unearned Revenue	36,441	30,325
Deferred Inflows of Resources	841,228	664,414
Total Liabilities and Deferred Inflows of Resources	1,418,895	1,125,049
NET POSITION		
Net investment in capital assets	58,622	46,242
Restricted	467,601	909,765
Unrestricted	791,457	410,743
Total Net Position	\$ 1,317,680	\$ 1,366,750

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 expenditures. The schedule below demonstrates the Changes in Net Position from Operating Results comparing 2015 with 2016. The change in ending net position reflects a 3.7% decrease in net position.

CHANGES IN NET POSITION

	<u>2016</u>	<u>2015</u>
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 734,781	\$ 743,499
Operating Grants and Contributions	170,513	166,238
General Revenues		
State and Federal Aids	920,702	885,885
Interest	11,657	4,962
Miscellaneous	41,104	35,658
Total Revenues	<u>1,878,757</u>	<u>1,836,242</u>
<u>Expenses</u>		
Library Services	1,927,827	1,814,965
Changes in Net Position	(49,070)	22,548
Cumulative effect of change in accounting principle		259,554
Net Position, Beginning	1,366,750	1,084,648
Net Position, Ending	<u>\$ 1,317,680</u>	<u>\$ 1,366,750</u>

Governmental Activities

Revenues for the System’s governmental activities increased 2.32% for the year ended December 31, 2016. The schedule below demonstrates the major sources of revenue for the system in 2016. The following report shows very little shift in revenue sources.

REVENUE SOURCE COMPARISON				
	2016	% OF TOTAL	2015	% OF TOTAL
Member Services	\$ 602,613	32.08%	\$ 615,459	33.52%
State & Federal Aid	920,702	49.01%	885,885	48.24%
Sales to Member Libraries	19,573	1.04%	12,657	0.69%
County Revenue	283,108	15.07%	271,341	14.78%
Other	52,761	2.81%	50,900	2.77%
Total	\$ 1,878,757		\$ 1,836,242	

The schedule below shows revenue comparison between 2016 and 2015. Increases in revenue resulted from state and federal aids due to LSTA grants, county revenue, sales to member libraries and interest. Services to member libraries revenue declined.

REVENUE COMPARISON TO PREVIOUS YEAR			
	2016	2015	% DIFFERENCE
State and federal aids	\$ 920,702	\$ 885,885	3.93%
County revenue	283,108	271,341	4.34%
Services to member libraries	602,613	615,459	-2.09%
sales to libraries	19,573	12,657	54.64%
interest	11,657	4,962	134.93%
Other	41,104	45,938	-10.52%
Total	\$ 1,878,757	\$ 1,836,242	2.32%

The schedule below is a snap shot of 2016 and 2015 System expenditures as a percentage of total expenditures. This report has changed for 2016 to include a service report breakdown as opposed to a budget line item approach. Budget percentages remain consistent. Please note that Contractual Services includes an amount previously accounted for in WALs operations.

EXPENDITURE AS PERCENT OF BUDGET

	2016	% OF TOTAL	2015	% OF TOTAL
Salaries and related fringe benefits	\$ 1,135,062	60.41%	\$ 1,178,443	65.31%
Administration	29,822	1.59%	28,819	1.60%
Capital expenditures	40,017	2.13%	30,599	1.70%
Collection development	23,123	1.23%	27,103	1.50%
Consulting	1,589	0.08%	704	0.04%
Continuing education	13,836	0.74%	14,628	0.81%
Contractual services	349,173	18.58%	183,706	10.18%
Delivery services	50,987	2.71%	29,944	1.66%
Grant expenses	1,503	0.08%	0	0.00%
Interlibrary loan	3,147	0.17%	5,927	0.33%
Online fine payment	42,231	2.25%	35,346	1.96%
Public information	4,954	0.26%	15,081	0.84%
Reference services	199	0.01%	199	0.01%
Services to youth	908	0.05%	0	0.00%
Technology	795	0.04%	2,293	0.13%
WALS operations	181,730	9.67%	251,704	13.95%
Total	\$ 1,879,076		\$ 1,804,496	

Total governmental fund expenditures for the system increased by 4.36% from 2015. The largest increases occurred in capital expenditures, consulting, contractual services, delivery services, online fine payment, and public information. Server equipment, mileage fees, a network vulnerability assessment, and purchase of a new van resulted in these increases. Salaries and benefits decreased due to the graphic artist layoff at the end of 2015. Interlibrary loan decrease was due to lower usage of telephone and postage. Fewer supplies were purchased in Technology resulting in lower costs. Finally, the online fine payment included in this report is a pass-through account. The number, however, shows that patrons paying fines online increased 19.48% over 2015.

EXPENDITURE COMPARISON TO PREVIOUS YEAR

	2016	2015	% DIFFERENCE
Salaries and related fringe benefits	\$ 1,135,062	\$ 1,178,443	-3.68%
Administration	29,822	28,819	3.48%
Capital expenditures	40,017	30,599	30.78%
Collection development	23,123	27,103	-14.68%
Consulting	1,589	704	125.71%
Continuing education	13,836	14,628	-5.41%
Contractual services	349,173	183,706	90.07%
Delivery services	50,987	29,944	70.27%
Grant expenses	1,503	0	0.00%
Interlibrary loan	3,147	5,927	-46.90%
Online fine payment	42,231	35,346	19.48%
Public information	4,954	1,581	213.35%
Reference services	199	199	0.00%
Services to youth	908	0	0.00%
Technology	795	2,293	-65.33%
WALS operations	181,730	251,704	-27.80%
Total	\$ 1,879,076	\$ 1,800,520	4.36%

Fund Budgetary Highlights

The System had no revisions to the operating budget during 2016.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By December 31, 2016, the System had invested \$236,089 in capital assets, including computers and other equipment, furnishings, and delivery vans. The accumulated depreciation on these items was \$177,467.

Long Term Debt

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

FACTORS BEARING ON THE SYSTEM'S FUTURE

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

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

WINNEFOX LIBRARY SYSTEM

Oshkosh, Wisconsin
Statement of Net Position
December 31, 2016

	Governmental Activities
ASSETS	
Cash and investments	\$ 2,143,411
Accounts receivable	66,941
Capital assets:	
Automotive	67,283
Computer equipment	94,662
Office equipment	48,739
Software	25,405
Less: accumulated depreciation	<u>(177,467)</u>
TOTAL ASSETS	<u>2,268,974</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pension	<u>467,601</u>
LIABILITIES	
Accounts payable and accrued liabilities	73,244
Due to other governments	268,100
Unearned revenue	36,441
Net pension liability	84,018
Compensated absences	
Due within one year	32,085
Due in more than one year	<u>83,779</u>
TOTAL LIABILITIES	<u>577,667</u>
DEFERRED INFLOWS OF RESOURCES	
State aid	664,414
Deferred inflows related to pension	<u>176,814</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>841,228</u>
NET POSITION	
Investment in capital assets	58,622
Unrestricted	<u>1,259,058</u>
TOTAL NET POSITION	<u>\$ 1,317,680</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, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Library services	\$ 1,927,827	\$ 734,781	\$ 170,513	\$ (1,022,533)
General revenues				
Public library system aid				920,702
Interest income				11,657
Other income				41,104
Total General Revenues				<u>973,463</u>
Change in net position				(49,070)
Net position - January 1				<u>1,366,750</u>
Net position - December 31				<u>\$ 1,317,680</u>

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

WINNEFOX LIBRARY SYSTEM

Oshkosh, Wisconsin

Balance Sheet

Governmental Funds

December 31, 2016

	General	Automated Library Services	Cooperative Technical Services	Total
ASSETS				
Cash and investments	\$ 2,143,411	\$ -	\$ -	\$ 2,143,411
Accounts receivable	66,941	-	-	66,941
TOTAL ASSETS	\$ 2,210,352	\$ -	\$ -	\$ 2,210,352
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued liabilities	\$ 73,244	\$ -	\$ -	\$ 73,244
Due to other governments	268,100	-	-	268,100
Unearned revenues	36,441	-	-	36,441
Total Liabilities	377,785	-	-	377,785
Deferred Inflows of Resources				
State aid	664,414	-	-	664,414
Fund Balances				
Unassigned	1,168,153	-	-	1,168,153
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,210,352	\$ -	\$ -	\$ 2,210,352

(Continued)

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Balance Sheet (Continued)
Governmental Funds
December 31, 2016

Reconciliation to the Statement of Net Position

Total Fund Balances from previous page	\$ 1,168,153
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>	58,622
<p>The System's proportionate share of the Wisconsin Retirement System pension plan is not an available financial resource; therefore, it is not reported in the fund financial statements:</p>	
Deferred outflows related to pensions	467,601
Net pension liability	(84,018)
Deferred inflows related to pension	(176,814)
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds.</p>	
Compensated absences	(115,864)
<p>Net Position of Governmental Activities as Reported on the Statement of Net Position (see page 10)</p>	\$ 1,317,680

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 Balances
Governmental Funds
For the Year Ended December 31, 2016

	General	Automated Library Services	Cooperative Technical Services	Total
Revenues				
State and federal aids	\$ 920,702	\$ -	\$ -	\$ 920,702
Intergovernmental, primarily counties	283,108	-	-	283,108
Services to member libraries	602,613	-	-	602,613
Sales to libraries	19,573	-	-	19,573
Interest income	11,657	-	-	11,657
Other income	41,104	-	-	41,104
Total Revenues	1,878,757	-	-	1,878,757
Expenditures				
Salaries and related fringe benefits	1,135,062	-	-	1,135,062
Administration	29,822	-	-	29,822
Capital expenditures	40,017	-	-	40,017
Collection development	23,123	-	-	23,123
Consulting	1,589	-	-	1,589
Continuing education	13,836	-	-	13,836
Contractual services	349,173	-	-	349,173
Delivery services	50,987	-	-	50,987
Grant expenses	1,503	-	-	1,503
Interlibrary loan	3,147	-	-	3,147
Online fine payment	42,231	-	-	42,231
Public information	4,954	-	-	4,954
Reference services	199	-	-	199
Services to youth	908	-	-	908
Technology	795	-	-	795
WALS operations	181,730	-	-	181,730
Total Expenditures	1,879,076	-	-	1,879,076
Excess of Revenues Under Expenditures	(319)	-	-	(319)
Other Financing Sources (Uses)				
Transfers in	647,174	-	-	647,174
Transfers out	-	(614,437)	(32,737)	(647,174)
Total Other Financing Sources (Uses)	647,174	(614,437)	(32,737)	-
Net Change in Fund Balance	646,855	(614,437)	(32,737)	(319)
Fund Balances - January 1	521,298	614,437	32,737	1,168,472
Fund Balances - December 31	\$ 1,168,153	\$ -	\$ -	\$ 1,168,153

(Continued)

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended December 31, 2016

Reconciliation to the Statement of Activities

Net Change in Fund Balances from previous page		\$ (319)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital assets purchased 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.</p>		
Capital assets purchased in governmental fund statements	\$ 33,000	
Depreciation expense reported in the statement of activities	<u>(20,620)</u>	
Amount by which capital outlays are greater than depreciation		12,380
<p>Change in the net pension liability (asset) and related deferred outflows and inflows of resources as a result of employer contributions, changes in assumptions and proportionate share and the difference between the expected and actual experience of the pension plan</p>		
		(55,822)
<p>Certain employee benefits are reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year. The accrual of these benefits decreased (increased) by:</p>		
		<u>(5,309)</u>
<p>Change in Net Position of Governmental Activities as Reported on the Statement of Activities (see page 11)</p>		<u>\$ (49,070)</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, 2016

	Original and Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
State and federal aids	\$ 904,985	\$ 920,702	\$ 15,717
Intergovernmental, primarily counties	281,732	283,108	1,376
Services to member libraries	690,783	602,613	(88,170)
Sales to libraries	5,000	19,573	14,573
Interest income	4,398	11,657	7,259
Other income	15,075	41,104	26,029
Total Revenues	1,901,973	1,878,757	(23,216)
Expenditures			
Salaries and related fringe benefits	1,133,585	1,135,062	(1,477)
Administration	30,907	29,822	1,085
Capital expenditures	-	40,017	(40,017)
Collection development	132,196	23,123	109,073
Consulting	650	1,589	(939)
Continuing education	20,280	13,836	6,444
Contractual services	455,708	349,173	106,535
Delivery services	37,923	50,987	(13,064)
Grant expenses	-	1,503	(1,503)
Interlibrary loan	5,100	3,147	1,953
Online fine payment	-	42,231	(42,231)
Public information	14,100	4,954	9,146
Reference services	-	199	(199)
Services to youth	-	908	(908)
Technology	1,500	795	705
WALS operations	163,483	181,730	(18,247)
Total Expenditures	1,995,432	1,879,076	116,356
Excess of Revenues Under Expenditures	(93,459)	(319)	93,140
Other Financing Sources			
Transfers in	-	647,174	647,174
Net Change in Fund Balance	(93,459)	646,855	740,314
Fund Balance - January 1	521,298	521,298	-
Fund Balance - December 31	\$ 427,839	\$ 1,168,153	\$ 740,314

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, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Winnefox Library System ("the System"), Oshkosh, Wisconsin, 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:

1. Reporting Entity

The Winnefox Library 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 a 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 by GASB Statement No. 61.

2. Government-Wide and Fund Financial Statements

The system-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the System. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. 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, liabilities, deferred outflows and inflows of resources, 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 funds:

General Fund - accounts for the System's primary operating activities. It is used to account for all financial resources except those accounted for in another fund.

Winnefox Automated Library Services (WALS) Special Revenue Fund - accounts for resources legally restricted to supporting expenditures for the System program. Significant revenues are services to member libraries.

Winnefox Cooperative Technical Services (WCTS) Special Revenue Fund - accounts for resources legally restricted to supporting expenditures for the System program. Significant revenues are funding from the counties of Waushara, Green Lake and Marquette.

Effective January 1, 2016, all funds were closed into the General Fund.

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Notes to Basic Financial Statements
December 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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.

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, 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.

4. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Fund Balance

a. 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.

b. Accounts Receivable

Accounts receivable are recorded at gross amount 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.

c. 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 one 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.

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Notes to Basic Financial Statements
December 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

<u>Assets</u>	<u>Years</u>
Automotive	5
Computer equipment	5
Furniture and fixtures	10
Office equipment	5
Software	10

d. 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 under the Wisconsin Retirement System.

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.

e. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The System has one item that qualifies for reporting in this category in the government-wide statement of net position. The item is related to the System's proportionate share of the Wisconsin Retirement System pension plan and is deferred and amortized over the expected remaining service lives of the pension plan participants.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The System has two items that qualify for reporting in this category in the government-wide statement of net position. The first, state aid, will be recognized as an inflow of resources in the subsequent year when the time requirement is met. The second is related to the System's proportionate share of the Wisconsin Retirement System pension plan and is deferred and amortized over the expected remaining services lives of the pension plan participants.

f. 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.

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Notes to Basic Financial Statements
December 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. 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.

GOVERNMENT-WIDE STATEMENTS

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

1. 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.
2. Restricted net position - Amount of net position that is subject to restrictions that are imposed by a) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position - Net position that is neither classified as restricted nor as net investment in capital assets.

5. 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.

WINNEFOX LIBRARY SYSTEM
 Oshkosh, Wisconsin
 Notes to Basic Financial Statements
 December 31, 2016

NOTE B - STEWARDSHIP AND COMPLIANCE

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

The Library System did not have any material violation of legal or contractual provisions for the fiscal year ended December 31, 2016.

NOTE C - DETAILED NOTES ON ALL FUNDS

1. Cash and Investments

The System maintains various cash and investment accounts. 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.

The carrying amount of the System's cash and investments totaled \$2,143,411 on December 31, 2016 as summarized below:

Deposits with financial institutions	\$ 252,244
Investments	
Wisconsin local government investment pool	1,891,167
	\$ 2,143,411

Fair Value Measurements

The System implemented GASB Statement No. 72, *Fair Value Measurement and Application*, for the year ending December 31, 2016. 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 subject to fair value measurement.

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

Deposits with Financial Institutions

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 risk policy.

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Notes to Basic Financial Statements
December 31, 2016

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

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.

As of **December 31, 2016**, none of the System's deposits with financial institutions were in excess of federal and state depository insurance limits and uncollateralized.

Investments

The System has investments in the Wisconsin local government investment pool of \$1,891,167 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, 2016**, the fair value of the System's share of the LGIP's assets was substantially equal to the carrying value.

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 twelve months or less.

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Notes to Basic Financial Statements
December 31, 2016

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

2. Capital Assets

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, being depreciated:				
Automotive	\$ 58,260	\$ 26,334	\$ 17,311	\$ 67,283
Computer equipment	87,996	6,666	-	94,662
Office equipment	48,739	-	-	48,739
Software	25,405	-	-	25,405
Subtotals	220,400	33,000	17,311	236,089
Less accumulated depreciation for:				
Automotive	41,175	10,243	17,311	34,107
Computer equipment	69,570	6,191	-	75,761
Office equipment	44,880	2,503	-	47,383
Software	18,533	1,683	-	20,216
Subtotals	174,158	20,620	17,311	177,467
Governmental activities, being depreciated, net	\$ 46,242	\$ 12,380	\$ -	\$ 58,622

Depreciation has been allocated to the library services function.

3. Long-term Obligations

The following is a summary of changes in long-term obligations of the System for the year ended December 31, 2016:

	Outstanding 1/1/16	Issued	Retired	Outstanding 12/31/16	Due Within One Year
Compensated absences	\$ 110,555	\$ 83,676	\$ 78,367	\$ 115,864	\$ 32,085

4. Leases

The System leases office space from the Oshkosh Public Library (OPL) under a lease agreement that requires annual payments of \$18,437 plus a percentage of OPL's maintenance and utility charges. Winnefox rental payments for 2016 totaled \$21,673.

5. Pension Plan

a. 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.

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Notes to Basic Financial Statements
December 31, 2016

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

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

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

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

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

The WRS also provides death and disability benefits for employees.

b. 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:

Year	Core Fund Adjustment	Variable Fund Adjustment
2006	0.8%	3%
2007	3.0	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

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Notes to Basic Financial Statements
December 31, 2016

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

c. 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. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period, the WRS recognized \$52,622 in contributions from the System.

Contribution rates as of December 31, 2016 are:

Employee Category	Employee	Employer
General (including teachers)	6.6%	6.6%
Executives & Elected Officials	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

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

At December 31, 2016, the System reported a liability of \$84,018 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The System's proportion of the net pension liability was based on the System's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the System's proportion was .00517040%, which was an increase of .00004021% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2016, the System recognized pension expense of \$102,550.

At December 31, 2016, 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	\$ 14,213	\$ 176,814
Changes in assumptions	58,782	-
Net differences between projected and actual earnings on pension plan investments	343,992	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,392	-
Employer contributions subsequent to the measurement date	46,222	-
Total	\$ 467,601	\$ 176,814

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Notes to Basic Financial Statements
December 31, 2016

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

The \$46,222 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, 2017. 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,	Deferred Outflows of Resources	Deferred Inflows of Resources
2016	\$ 109,521	\$ 42,789
2017	109,521	42,789
2018	109,521	42,789
2019	90,910	42,789
2020	1,906	5,658
	<u>\$ 421,379</u>	<u>\$ 176,814</u>

e. Actuarial Assumption

The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2014
Measurement Date of Net Pension Liability:	December 31, 2015
Actuarial Cost Method:	Entry Age
Asset Valuation Method:	Fair Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*	2.1%

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

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 - 2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 actuarial valuation.

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Notes to Basic Financial Statements
December 31, 2016

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

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

<u>Core Fund Asset Class</u>	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
U.S. Equities	27%	23%	7.6%	4.7%
International Equities	24.5%	22%	8.5%	5.6%
Fixed Income	27.5%	37%	4.4%	1.6%
Inflation Sensitive Assets	10%	20%	4.2%	1.4%
Real Estate	7%	7%	6.5%	3.6%
Private Equity/Debt	7%	7%	9.4%	6.5%
Multi-Asset	4%	4%	6.7%	3.8%
Total Core Fund	107%	120%	7.4%	4.5%
<u>Variable Fund Asset Class</u>				
U.S. Equities	70%	70%	7.6%	4.7%
International Equities	30%	30%	8.5%	5.6%
Total Variable Fund	100%	100%	7.9%	5.0%

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 3.57%. 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 member 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.

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 7.20 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 (6.2%)	Current Discount Rate (7.2%)	1% Increase to Discount Rate (8.2%)
System's proportionate share of the net pension liability (asset) \$	\$ 589,302	\$ 84,018	\$ (31,018)

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Notes to Basic Financial Statements
December 31, 2016

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

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://ef.wi.gov/publications/cafr.htm>.

f. Payable to the WRS

At December 31, 2016 the System reported a payable of \$10,716 for the outstanding amount of contributions to the pension plan for the year ended December 31, 2016.

NOTE D - OTHER INFORMATION

1. 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.

2. Concentrations

The System received approximately 50% of its funding from state aids in 2016, creating an economic dependency between the System and that source.

3. Contingencies

a. The System participates in a number of 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.

b. 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.

REQUIRED SUPPLEMENTARY INFORMATION

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Schedule of Proportionate Share of the Net Pension Liability (Asset)
Wisconsin Retirement System
Last 10 Fiscal Years

Fiscal Year Ending	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
12/31/15	0.00513019%	\$ (126,012)	\$ 696,457	18.09%	102.74%
12/31/16	0.00517040%	84,018	773,855	10.86%	98.20%

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	Contributions as a Percentage of Covered Payroll
12/31/15	\$ 47,314	\$ 47,314	\$ -	\$ 696,457	6.79%
12/31/16	52,622	52,622	-	773,855	6.80%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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.

**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 each major fund of the Winnefox Library System, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Winnefox Library System's basic financial statements, and have issued our report thereon dated May 17, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness, and another 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, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying summary of audit results as item 2016-002 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying summary of audit results as item 2016-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Winnefox Library 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 Winnefox Library System's response to the findings identified in our audit is described in the accompanying schedule of prior year audit findings and corrective action plan. The Winnefox Library 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 Winnefox Library 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 Winnefox Library System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants
Green Bay, Wisconsin
May 17, 2017

FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

**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 Winnefox Library System's major state program for the year ended December 31, 2016. The Winnefox Library System's major state program is identified in the summary of auditors' results section of the accompanying summary of audit results.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Winnefox Library System's major state program 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 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 a major state program occurred. An audit includes examining, on a test basis, evidence about the Winnefox Library 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 of the Winnefox Library System's compliance.

Opinion on the Major State Program

In our opinion, the 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 its major state program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the Winnefox Library System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Winnefox Library System's internal control over compliance with the types of requirements that could have a direct and material effect on its designated state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Winnefox Library 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 federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or 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 federal or 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 were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying summary of audit results as items 2016-003 and 2016-004, that we consider to be significant deficiencies.

The Winnefox Library System's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of prior year audit findings and corrective action plan. The 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.

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 that testing based on the requirements of the *Wisconsin Public School District Audits Manual*. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountants
Green Bay, Wisconsin
May 17, 2017

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year ended December 31, 2016

Awarding Agency/Pass-Through Agency/Award Description	Federal CFDA or State I.D. Number	Pass-Through Entity Identifying Number	(Accrued Receivable) Deferred Revenue 1/1/16	Cash Received	Accrued Receivable (Deferred Revenue) 12/31/16	Revenue	Expenditures	Subrecipient Payments
Federal Awards								
Institute of Museum and Library Services								
Wisconsin Department of Public Instruction								
State Library Programs								
	45.310							
Grant #15-70-9941		15-192-LSTA	\$ -	\$ 19,700	\$ -	\$ 19,700	\$ 19,700	\$ -
Grant #16-70-9941		16-183-LSTA	-	15,117	-	15,117	15,117	-
Total Federal Awards			<u>\$ -</u>	<u>\$ 34,817</u>	<u>\$ -</u>	<u>\$ 34,817</u>	<u>\$ 34,817</u>	<u>\$ -</u>
State Financial Assistance								
Wisconsin Department of Public Instruction								
Public Library Systems Aid	255.002	Not available	\$ 664,414	\$ 885,885	\$ (664,414)	\$ 885,885	\$ 885,885	\$ -

See Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance.

WINNEFOX LIBRARY SYSTEM

Oshkosh, Wisconsin

Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended December 31, 2016

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance include the federal and state grant activity of the Winnefox Library System and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *Wisconsin Public School District Audit Manual*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - 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 Audit Results
 For the Year Ended December 31, 2016

Section I - Summary of Auditors' 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 Financial Assistance

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes
Type of auditors' report issued on compliance for major programs	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:

State ID Number	Name of State Program
255.002	Wisconsin Department of Public Instruction Public Library Systems Aid

WINNEFOX LIBRARY SYSTEM
 Oshkosh, Wisconsin
 Summary of Audit Results (Continued)
 For the Year Ended December 31, 2016

Section II - Financial Statement Findings

Finding No.	Control Deficiencies
2016-001	<p>Year End Financial Reporting</p> <p>Repeat of Finding 2014-001</p> <p>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.</p> <p>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.</p> <p>Cause: System management has determined that the additional costs associated with training staff to become experienced in applicable accounting principles and note disclosures outweigh the derived benefits.</p> <p>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.</p> <p>Recommendation: We recommend the System continue reviewing the annual financial report. While it may not be cost beneficial to hire additional staff to 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.</p>

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Summary of Audit Results (Continued)
For the Year Ended December 31, 2016

Section II - Financial Statement Findings (Continued)

Finding No.	Control Deficiencies
2016-002	<p>Segregation of Duties</p> <p>Repeat of finding 2014-002</p> <p>Condition: The System has a limited number of employees to essentially complete all financial and recordkeeping duties of the library system. Accordingly, this does not allow for a proper segregation of duties for internal control purposes.</p> <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.</p> <p>Cause: The lack of segregation of duties is due to the limited number of employees and the size of the System's operations. In addition, the System has not conducted a risk assessment and analysis of its internal control to identify compensating controls and other potential opportunities to enhance its control structure.</p> <p>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.</p> <p>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.</p>

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Summary of Audit Results (Continued)
For the Year Ended December 31, 2016

Section III - State Financial Assistance Findings and Questioned Costs

Finding No.	Control Deficiencies
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2016-003 Segregation of Duties - State Grant Management

Repeat of finding 2014-003

State ID - 255.002

Condition: The System has limited staff to complete all financial and recordkeeping duties of the System's operations. Accordingly, this does not allow for a proper segregation of duties for internal control purposes over state awards programs.

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.

Cause: The lack of segregation of duties is due to the limited number of employees and the size of the System's operations.

Effect: Because one employee is currently processes all transactions, errors or intentional fraud related to allowable costs 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 System complete a risk assessment and review its payroll process to identify payroll tasks that could be reassigned to other System personnel. We also recommend the Board of Trustees continue to monitor the transactions and the financial records of the System.

WINNEFOX LIBRARY SYSTEM
Oshkosh, Wisconsin
Summary of Audit Results (Continued)
For the Year Ended December 31, 2016

Section III - State Financial Assistance Findings and Questioned Costs (Continued)

Finding No.	Control Deficiencies
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2016-004 Financial Reporting for State Financial Assistance

Repeat of finding 2014-004

State ID - 255.002

Criteria: Having staff with expertise in state financial reporting prepare the System's audit report is an internal control intended to prevent, detect and correct a potential misstatement in the schedules of expenditures of state financial assistance, or the accompanying note to the schedule.

Condition: The *Wisconsin Public School District Audit Manual* requires the System to prepare appropriate financial statements, including the schedules of expenditures of state financial assistance. While the current staff of the System maintains financial records supporting amounts reported in the schedules of expenditures of state financial assistance, the System contracts with Schenck to compile the data from these records and draft the schedules of expenditures of state financial assistance for the System.

Cause: The additional costs associated with hiring staff sufficiently experienced to prepare the System's audit report, including the additional training time, outweigh the derived benefits.

Effect: The System could receive state grant awards which are not included in the accompanying Schedule of Expenditures of State Financial Assistance.

Recommendation: We recommend System personnel continue reviewing the System's audit report. While it may not be cost beneficial to hire additional staff to prepare these items, a thorough review of this information by appropriate staff of the System is necessary to ensure all state financial assistance programs are properly reported in the System's audit report.

WINNEFOX LIBRARY SYSTEM
 Oshkosh, Wisconsin
 Schedule of Prior Year Audit Findings and Corrective Action Plan
 For the Year Ended December 31, 2016

Status of Prior Year Audit Findings

The findings noted in the 2015 Summary of Audit Results have been reported to the proper State agency. The current status of the prior year audit findings, as provided by management, follows:

Finding No.	Prior Year Audit Finding
2014-001	<p>Year End Financial Reporting</p> <p>Management continues to rely upon the audit firm to prepare its financial statements. The finding is repeated as 2016-001.</p>
2014-002	<p>Segregation of Duties</p> <p>Management has segregated duties when cost effective. The finding is repeated as 2016-002.</p>
2014-003	<p>Segregation of Duties - State Grant Management</p> <p>Management has segregated duties when cost effective. The finding is repeated as 2016-003.</p>
2014-004	<p>Financial Reporting for State Financial Assistance</p> <p>Management continues to rely upon the audit firm to prepare its financial report for state financial assistance. The finding is repeated as 2016-004.</p>

Corrective Action Plan for Audit Findings

Finding No.	Control Deficiencies
2016-001	<p>Year End Financial Reporting</p> <p>Management Response: Management believes that the cost of hiring additional staff to prepare financial reports outweighs the benefits to be received. Management will continue to review the financial statements and other information prior to issuance.</p>
2016-002	<p>Segregation of Duties</p> <p>Management Response: Management believes that the cost of segregating cash receipts, disbursement and general ledger maintenance responsibilities outweigh the benefits to be received.</p>
2016-003	<p>Segregation of Duties - State Grant Management</p> <p>Management Response: Management believes that the cost of segregating cash receipts, disbursement and general ledger maintenance responsibilities outweigh the benefits to be received.</p>
2016-004	<p>Financial Reporting for State Financial Assistance</p> <p>Management Response: Management believes that the cost of hiring additional staff to prepare financial reports outweighs the benefits to be received. Management will continue to review the financial statements and other information prior to issuance.</p>