

WINNEFOX LIBRARY SYSTEM

Oshkosh, Wisconsin

FINANCIAL STATEMENTS

December 31, 2006

WINNEFOX LIBRARY SYSTEM

TABLE OF CONTENTS

December 31, 2006

Independent Auditors' Report	1
Basic Financial Statements	
Statement of Net Assets	2
Statement of Activities	3
Balance Sheet – Governmental Funds	4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Notes to Financial Statements	7 – 22
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	23
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Winnefox Automated Library Services	24
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Winnefox Cooperative Technical Services	25
Notes to Required Supplementary Information	26



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Winnefox Library System
Oshkosh, Wisconsin

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, 2006, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's Board of Trustees and management. 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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Winnefox Library System, as of December 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information on pages 23 through 26 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Winnefox Library System has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Virchow, Krause + Company, LLP

Milwaukee, Wisconsin
June 12, 2007

BASIC FINANCIAL STATEMENTS

WINNEFOX LIBRARY SYSTEM

STATEMENT OF NET ASSETS December 31, 2006

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 1,942,876
Receivables	115,572
Prepaid items	28,461
Capital assets	
Automotive	34,623
Computer equipment	39,327
Furniture and fixtures	34,927
Office equipment	51,201
Software	325,759
Less: Accumulated depreciation	<u>(191,417)</u>
Total Assets	<u>2,381,329</u>
LIABILITIES	
Accounts payable and accrued liabilities	73,870
Unearned revenues	694,523
Noncurrent liabilities	
Due in less one year	28,533
Due in more than one year	<u>41,936</u>
Total Liabilities	<u>838,862</u>
NET ASSETS	
Invested in capital assets	294,420
Restricted for grants	10,420
Unrestricted	<u>1,237,627</u>
TOTAL NET ASSETS	<u>\$ 1,542,467</u>

See accompanying notes to financial statements.

WINNEFOX LIBRARY SYSTEM

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

	Program Revenues				Net (Expenses) Revenues and Changes In Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Governmental Activities					
Library services	\$ 5,499,806	\$ 776,906	\$ 3,599,277	\$ 114,235	\$ (1,009,388)
General Revenues					
Intergovernmental revenues not restricted to specific programs					879,718
Investment income					116,788
Miscellaneous					102,137
Total General Revenues					1,098,643
Change in Net Assets					89,255
NET ASSETS - Beginning					1,453,212
NET ASSETS - ENDING					\$ 1,542,467

See accompanying notes to financial statements.

WINNEFOX LIBRARY SYSTEM

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2006

	General	Winnefox Automated Library Services	Winnefox Cooperative Technical Services	Totals
ASSETS				
Cash and investments	\$ 983,366	\$ 797,351	\$ 162,159	\$ 1,942,876
Accounts receivables	56,950	48,465	10,157	115,572
Due from other funds	182,526	2,231	-	184,757
Prepaid items	28,461	-	-	28,461
TOTAL ASSETS	\$ 1,251,303	\$ 848,047	\$ 172,316	\$ 2,271,666
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued liabilities	\$ 38,792	\$ 5,181	\$ 29,897	\$ 73,870
Due to other funds	-	111,251	73,506	184,757
Deferred revenue	686,900	7,623	-	694,523
Total Liabilities	725,692	124,055	103,403	953,150
Fund Balances				
Reserved				
Equipment	94,309	439,740	4,000	538,049
Improvement grants	-	-	10,420	10,420
Payments to member libraries	31,187	-	-	31,187
Prepaid items	28,461	-	-	28,461
Subsequent year's expenditures	-	284,252	54,493	338,745
Unreserved and undesignated, reported in				
General fund	371,654	-	-	371,654
Total Fund Balances	525,611	723,992	68,913	1,318,516
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,251,303	\$ 848,047	\$ 172,316	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. See Note III.C.	294,420
Some liabilities, including compensated absences, are not due and payable in the current period and, therefore are not reported in the funds. See Note III.E.	(70,469)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 1,542,467

See accompanying notes to financial statements.

WINNEFOX LIBRARY SYSTEM

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS For the Year Ended December 31, 2006

	General	Winnefox Automated Library Services	Winnefox Cooperative Technical Services	Total Governmental Funds
REVENUES				
State aids	\$ 879,718	\$ -	\$ -	\$ 879,718
Intergovernmental, primarily counties	3,563,723	-	-	3,563,723
Grants	-	35,554	-	35,554
Services to member libraries	-	759,152	-	759,152
Sales to libraries	3,004	-	128,985	131,989
Interest	59,054	52,352	5,382	116,788
Other	59,295	29,224	13,575	102,094
Total Revenues	<u>4,564,794</u>	<u>876,282</u>	<u>147,942</u>	<u>5,589,018</u>
EXPENDITURES				
Current				
Payments to member libraries	3,281,777	-	-	3,281,777
Salaries and related fringe benefits	626,210	221,770	141,786	989,766
Supplies and postage	76,520	42,800	1,028	120,348
Telephone and communication	1,852	64,130	1,214	67,196
Travel, training and conferences	24,120	9,065	1,171	34,356
Insurance	5,627	-	740	6,367
Equipment maintenance	26,597	97,216	437	124,250
Contractual services	137,276	75,741	15,890	228,907
System and library materials	86,689	-	132,143	218,812
Collection grants	-	-	9,002	9,002
Improvement grants	-	-	35,296	35,296
Minor equipment	-	5,924	-	5,924
Operations support	-	176,070	-	176,070
Other	5,000	2,828	1,328	9,156
Capital outlay	57,929	108,616	-	166,545
Total Expenditures	<u>4,329,577</u>	<u>804,160</u>	<u>340,035</u>	<u>5,473,772</u>
Excess (deficiency) of revenues over expenditures	<u>235,217</u>	<u>72,122</u>	<u>(192,093)</u>	<u>115,246</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	10,000	49,819	165,672	225,491
Transfers out	(204,454)	(10,000)	(11,037)	(225,491)
Total Other Financing Sources (Uses)	<u>(194,454)</u>	<u>39,819</u>	<u>154,635</u>	<u>-</u>
Change in Fund Balances	40,763	111,941	(37,458)	115,246
FUND BALANCES - Beginning of Year	<u>484,848</u>	<u>612,051</u>	<u>106,371</u>	<u>1,203,270</u>
FUND BALANCES - END OF YEAR	<u>\$ 525,611</u>	<u>\$ 723,992</u>	<u>\$ 68,913</u>	<u>\$ 1,318,516</u>

See accompanying notes to financial statements.

WINNEFOX LIBRARY SYSTEM

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended December 31, 2006

Net change in fund balances - total governmental funds	\$ 115,246
--	------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of net assets the cost of these assets is capitalized and they are depreciated over their estimated useful lives with depreciation expense reported in the statement of activities.

Capital outlay is reported as an expenditure in the fund financial statements but is capitalized in the government-wide financial statements	126,652
Some items in capital outlay are not capitalized	(86,044)
Depreciation is reported in the government-wide statements	(48,378)

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

Compensated absences	<u>(18,221)</u>
----------------------	-----------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 89,255</u>
--	-------------------------

WINNEFOX LIBRARY SYSTEM

INDEX TO NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE	<u>Page</u>
I. Summary of Significant Accounting Policies	8
A. Reporting Entity	8
B. Government-Wide and Fund Financial Statements	9
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	10
D. Assets, Liabilities, and Net Assets or Equity	11
1. Deposits and Investments	11
2. Receivables	12
3. Prepaid Items	12
4. Capital Assets	12
5. Compensated Absences	13
6. Long-Term Obligations	13
7. Claims and Judgments	14
8. Equity Classifications	14
II. Stewardship, Compliance, and Accountability	15
A. Budgetary Information	15
B. Excess Expenditures Over Appropriations	15
III. Detailed Notes on All Funds	15
A. Deposits and Investments	15
B. Receivables	18
C. Capital Assets	18
D. Interfund Receivables/Payables and Transfers	19
E. Long-Term Obligations	20
F. Lease Disclosures	20
G. Net Assets/Fund Balances	20
IV. Other Information	21
A. Employees' Retirement System	21
B. Risk Management	22
C. Commitments and Contingencies	22
D. Economic Dependency	22

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Winnefox Library System conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

A. REPORTING ENTITY

In 1972, the Wisconsin Legislature passed legislation enabling the establishment of public library systems. The Winnefox Library System was established in 1977. The System, a federation of the thirty 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. These financial statements present Winnefox Library System as the primary government.

This report includes all of the funds of the Winnefox Library System. The reporting entity for the system consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities, are, in substance, part of the government's operations and are reported with similar funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government. This report does not contain any component units.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The system does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The system does not allocate indirect expenses to functions in the Statement of Activities. 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 or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Fund Financial Statements

Financial statements of the reporting entity are organized into 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, fund equity, revenues, and expenditures.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Funds are organized as major funds or non-major funds within the governmental statements. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the system or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. The same element of the individual governmental fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental funds combined.
- c. In addition, any other governmental fund that the system believes is particularly important to financial statement users may be reported as a major fund.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (cont.)

Fund Financial Statements (cont.)

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 required to be 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.

Winnefox Cooperative Technical Services (WCTS) Special Revenue Fund – Accounts for resources legally restricted to supporting expenditures for the system program.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Unbilled receivables are recorded as revenues when services are provided.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used 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 with the exception of state aids received for the following fiscal year, all revenues are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for compensated absences and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resource.

Intergovernmental aids and grants are recognized as revenues in the period the system is entitled the resources and the amounts are available. Amounts owed to the system which are not available are recorded as receivables and deferred revenues. Amounts received prior to the entitlement period are also recorded as deferred revenues.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (cont.)

Fund Financial Statements (cont.)

Revenues susceptible to accrual include public charges for services and interest. Other general revenues such as miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above.

The System reports deferred revenues on its governmental funds balance sheet. Deferred revenues arise from intergovernmental revenues received in the current year which are for subsequent year's operations. For governmental fund financial statements, deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the System has a legal claim to them, as when grant monies are received prior to the incurrance of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the System has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

All Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Deposits and Investments

Investment of system funds is restricted by state statutes. Available investments are limited to:

1. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
2. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a local cultural arts district, or by the University of Wisconsin Hospitals and Clinics Authority.
3. Bonds or securities issued or guaranteed by the federal government.
4. The Local Government Investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

1. Deposits and Investments (cont.)

7. Repurchase agreements with public depositories, with certain conditions.

The Winnefox Library System does not have an investment policy. Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated based on average balances. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

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, 2006, the fair value of the system's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

See Note IV.A. for further information.

2. Receivables

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital Assets

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the government as assets with an initial cost of more than \$5,000, and an estimated useful life in excess of 1 year. All capital assets are valued at historical cost, or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated fair value at the date of donation.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

4. Capital Assets (cont.)

Government-Wide Statements (cont.)

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Automotive	5 Years
Computer Equipment	5 Years
Furniture and Fixtures	10 Years
Office Equipment	5 Years
Software	10 Years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

5. Compensated Absences

The System's policy allows employees to earn varying amounts of vacation and sick pay for each year employed. Upon retirement or termination of employment, the employees are entitled to the full amount of their unused accrued vacation pay in cash. Upon retirement or death the employee is entitled to payment for one-half (50%) of accumulated sick leave, up to a maximum of 600 hours. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable available resources. The remainder of the liability is recorded on the statement of net assets. The liability includes gross pay as well as related payroll taxes and retirement plan contributions.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2006 are determined on the basis of current salary rates and include salary related payments.

6. Long-Term Obligations

All long-term obligations to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of accrued compensated absences. Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (cont.)

7. Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

8. Equity Classifications

Government-Wide Statements

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

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets less any unspent debt proceeds.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled "designated". The balance of unreserved fund balance is labeled "undesignated", which indicates it is available for appropriation.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1.

A budget has been adopted for the general fund and both the special revenue funds. Wisconsin Statute 65.90 requires that an annual budget be adopted for all funds.

The budgeted amounts presented are as presented in the original budget and no amendments were adopted during the year. Transfers between departments and changes to the overall budget must be approved by a two-thirds board action.

Appropriations lapse at year end unless specifically carried over. There were no carryovers to the following year. Budgets are adopted at the object level of expenditure.

B. EXCESS EXPENDITURES OVER APPROPRIATIONS

The system controls expenditures at the object level. Some individual funds experienced expenditures which exceeded appropriations. The detail of those items can be found in the system's year-end budget to actual report.

NOTE III – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The System's cash and investments at year end were comprised of the following:

	Carrying Value	Statement Balance	Associated Risks
Deposits	\$ 98,387	\$ 123,519	Custodial credit risk
Repurchase agreement	506,594	506,594	Credit risk, Custodial credit risk, Concentration of credit risk, Interest rate risk
LGIP	1,327,427	1,327,427	Credit risk, Interest rate risk
Petty cash/cash on hand	10,443	-	
Total Deposits and Investments	<u>\$ 1,942,876</u>	<u>\$ 1,957,540</u>	
Reconciliation to financial statements			
Per statement of net assets			
Unrestricted cash and investments	<u>\$ 1,942,876</u>		

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE IV – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS (cont.)

Deposits in each local and area bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for noninterest bearing accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to individual municipalities. This coverage has not been considered in computing custodial credit risk.

Investments in the LGIP are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the pool except U.S. Government and agency securities. The bond provides unlimited coverage on principal losses, reduced by any FDIC and State of Wisconsin Guarantee Fund insurance.

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the System's deposits may not be returned to the System. As of December 31, 2006 \$23,519 of the System's total bank balance was exposed to custodial credit risk as uninsured and uncollateralized deposits.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of December 31, 2006, the System's investments were exposed to custodial credit risk as follows:

Neither insured nor registered and held by counterparty's trust department or agent not in the System's name

\$ 406,594

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

A. DEPOSITS AND INVESTMENTS (cont.)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, 2006, the System had the following investments which were not rated:

Investment Type
Repurchase agreement – FHLMC

The System also had investments in the following external pool which are not rated:

LGIP

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

At December 31, 2006, the investment portfolio was concentrated as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage of Portfolio</u>
Associated Bank	FHLMC	26%

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment.

As of December 31, 2006, the System's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Repurchase agreements	\$ 506,594	3
LGIP	<u>1,327,427</u>	27
Totals	<u>\$ 1,834,021</u>	

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

B. RECEIVABLES

All of the receivables on the balance sheet are expected to be collected within one year. There were no allowances necessary at year end.

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital assets being depreciated				
Automotive	\$ 34,877	\$ 34,623	\$ 34,877	\$ 34,623
Computer equipment	33,342	5,985	-	39,327
Furniture and fixtures	34,927	-	-	34,927
Office equipment	51,201	-	-	51,201
Software	325,759		-	325,759
Total Capital Assets Being Depreciated	480,106	40,608	34,877	485,837
Less: Accumulated depreciation for				
Automotive	(34,049)	(3,841)	34,877	(3,012)
Computer equipment	(13,091)	(7,547)	-	(20,638)
Furniture and fixtures	(16,376)	(3,423)	-	(19,799)
Office equipment	(47,625)	(2,475)	-	(50,100)
Software	(66,775)	(31,093)	-	(97,868)
Total Accumulated Depreciation	(177,916)	(48,378)	34,877	(191,417)
 Total Governmental Activities Capital Assets, Net of Accumulated Depreciation	 \$ 302,190	\$ (7,770)	\$ -	\$ 294,420

Depreciation expense was charged to functions as follows:

Governmental Activities	
Library Services	\$ 48,378

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

D. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Winnefox Automated Library Services	\$ 182,526
Winnefox Automated Library Services	Winnefox Cooperative Technical Services	2,231
Total – Fund Financial Statements		<u>184,757</u>
Less: Fund eliminations		<u>(184,757)</u>
Total Internal Balances – Government-Wide Statement of Net Assets		<u>\$ -</u>

All amounts are due within one year.

For the statement of net assets, interfund receivables/payables have been netted and eliminated.

The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the account system, and (3) payments between funds are made.

The following is a schedule of interfund transfers:

<u>Fund Transferred To</u>	<u>Fund Transferred From</u>	<u>Amount</u>	<u>Principal Purpose</u>
General fund	Winnefox Automated Library System	\$ 10,000	Funding for vehicle replacement
Winnefox Automated Library System	General fund	38,782	Transfer revenues to cover related expenditures.
Winnefox Automated Library System	Winnefox Cooperative Technical Services	11,037	Transfer revenues to cover related expenditures.
Winnefox Cooperative Technical Services	General Fund	<u>165,672</u>	Transfer revenues to cover related expenditures.
Total – Fund Financial Statements		225,491	
Less: Fund eliminations		<u>(225,491)</u>	
Total Transfers – Government-Wide Statement of Activities		<u>\$ -</u>	

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the statement of activities, interfund transfers have been netted and eliminated.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

E. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
GOVERNMENTAL ACTIVITIES					
Other Liabilities					
Vested compensated absences	\$ 52,248	\$ 46,866	\$ 28,645	\$ 70,469	\$ 28,533
Total Governmental Activities Long-Term Liabilities	<u>\$ 52,248</u>	<u>\$ 46,866</u>	<u>\$ 28,646</u>	<u>\$ 70,469</u>	<u>\$ 28,533</u>

F. LEASE DISCLOSURES

Lessee – Operating Leases

The System leases office space from the Oshkosh Public Library (OPL) under a lease agreement that requires annual payments of \$11,844 plus a percentage of OPL's maintenance and utility charges. Rental payments for 2006 totaled \$36,202.

In addition to the annual rent payments, a prepayment in the amount of \$50,000 was made to the Oshkosh Public Library in 1994 for the System's share of expenses related to construction and building rehabilitation. This amount is being amortized over twenty years as additional rent expense. The unamortized prepayment is \$20,000 at December 31, 2006.

G. NET ASSETS/FUND BALANCES

Net assets reported on the government wide statement of net assets at December 31, 2006 includes the following:

Governmental Activities

Invested in capital assets	
Capital assets, net of accumulated depreciation	\$ 294,420
Restricted for improvement grants	10,420
Unrestricted	<u>1,237,627</u>
Total Governmental Activities Net Assets	<u>\$ 1,542,467</u>

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE IV – DETAILED NOTES ON ALL FUNDS (cont.)

F. NET ASSETS/FUND BALANCES (cont.)

Governmental Funds

Governmental fund balances reported on the fund financial statements at December 31, 2006 include the following:

Reserved	
Major Funds	
General Fund	
Equipment	\$ 94,309
Payments to member libraries	31,187
Prepaid items	<u>28,461</u>
Total	<u>\$ 153,957</u>
Winnefox Automated Library System Special Revenue Fund	
Equipment	\$ 439,740
Subsequent year's expenditures	<u>284,252</u>
Total	<u>\$ 723,992</u>
Winnefox Cooperative Technical Services Special Revenue Fund	
Equipment	\$ 4,000
Improvement grants	10,420
Subsequent year's expenditures	<u>54,493</u>
Total	<u>\$ 68,913</u>
Unreserved (undesignated)	
Major Funds	
General Fund	<u>\$ 371,654</u>

NOTE IV – OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

All eligible system employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the General category are required by statute to contribute 5.8% of their salary (2.8% for Executives and Elected Officials, 4.9% for Protective Occupations with Social Security, and 3.3% for Protective Occupations without Social Security) to the plan. Winnefox Library System makes these contributions to the plan on behalf of its employees and is required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2006

NOTE V – OTHER INFORMATION (cont.)

A. EMPLOYEES' RETIREMENT SYSTEM (cont.)

The payroll for the Winnefox Library System employees covered by the system for the year ended December 31, 2006 was \$651,116; the employer's total payroll was \$681,359. The total required contribution for the year ended December 31, 2006 was \$67,714 or 10.4 percent of covered payroll. Of this amount, 100 percent was contributed by the employer for the current year. Total contributions for the years ending December 31, 2005 and 2004 were \$64,301 and \$64,734, respectively, equal to the required contributions for each year.

Employees who retire at or after age 65 (62 for elected officials and 55 for protective occupation employees) are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees) and receive actuarially reduced benefits. 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 employee's three highest years earnings. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. 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 are immediately vested.

The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits is determined under Chapter 40 of Wisconsin Statutes. The System issues an annual financial report which may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

B. RISK MANAGEMENT

The system is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

C. COMMITMENTS AND CONTINGENCIES

The system has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

D. ECONOMIC DEPENDENCY

The System received approximately 61% of its funding from Green Lake, Marquette, Waushara, Winnebago and Fond du Lac counties in 2006, creating an economic dependency between the System and these sources.

REQUIRED SUPPLEMENTARY INFORMATION

WINNEFOX LIBRARY SYSTEM

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND For the Year Ended December 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State aids	\$ 879,718	\$ 879,718	\$ 879,718	\$ -
Intergovernmental, primarily counties	3,926,527	3,926,527	3,563,723	(362,804)
Sales to libraries	3,000	3,000	3,004	4
Interest	32,000	32,000	59,054	27,054
Other	52,000	52,000	59,295	7,295
Total Revenues	<u>4,893,245</u>	<u>4,893,245</u>	<u>4,564,794</u>	<u>(328,451)</u>
EXPENDITURES				
Current				
Payments to member libraries	3,276,212	3,276,212	3,281,777	(5,565)
Salaries and related fringe benefits	1,076,760	1,076,760	626,210	450,550
Supplies and postage	82,018	82,018	76,520	5,498
Telephone and communication	1,550	1,550	1,852	(302)
Travel, training and conferences	23,000	23,000	24,120	(1,120)
Insurance	6,050	6,050	5,627	423
Equipment maintenance	21,585	21,585	26,597	(5,012)
Contractual services	105,889	105,889	137,276	(31,387)
System and library materials	77,629	77,629	86,669	(9,040)
Other	3,874	3,874	5,000	(1,126)
Capital outlay	24,000	24,000	57,929	(33,929)
Total Expenditures	<u>4,698,567</u>	<u>4,698,567</u>	<u>4,329,577</u>	<u>368,990</u>
Excess of Revenues Over Expenditures	<u>194,678</u>	<u>194,678</u>	<u>235,217</u>	<u>40,539</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	10,000	10,000
Transfers out	(193,192)	(193,192)	(204,454)	(11,262)
Total Other Financing Sources (Uses)	<u>(193,192)</u>	<u>(193,192)</u>	<u>(194,454)</u>	<u>(1,262)</u>
Change in Fund Balance	1,486	1,486	40,763	39,277
FUND BALANCE - Beginning of Year	<u>484,848</u>	<u>484,848</u>	<u>484,848</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 486,334</u>	<u>\$ 486,334</u>	<u>\$ 525,611</u>	<u>\$ 39,277</u>

See accompanying notes to required supplementary information.

WINNEFOX LIBRARY SYSTEM

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - WINNEFOX AUTOMATED LIBRARY SERVICES For the Year Ended December 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Grants	\$ 20,520	\$ 20,520	\$ 35,554	\$ 15,034
Services to member libraries	844,583	844,583	759,152	(85,431)
Interest	15,000	15,000	52,352	37,352
Other	-	-	29,224	29,224
Total Revenues	<u>880,103</u>	<u>880,103</u>	<u>876,282</u>	<u>(3,821)</u>
EXPENDITURES				
Current				
Salaries and related fringe benefits	224,746	224,746	221,770	2,976
Supplies and postage	47,825	47,825	42,800	5,025
Telephone and communication	61,350	61,350	64,130	(2,780)
Travel, training and conferences	12,000	12,000	9,065	2,935
Equipment maintenance	119,035	119,035	97,216	21,819
Contractual services	75,344	75,344	75,741	(397)
Minor equipment	11,381	11,381	5,924	5,457
Operations support	188,207	188,207	176,070	12,137
Other	350	350	2,828	(2,478)
Capital outlay	<u>149,900</u>	<u>149,900</u>	<u>108,616</u>	<u>41,284</u>
Total Expenditures	<u>890,138</u>	<u>890,138</u>	<u>804,160</u>	<u>85,978</u>
Excess (deficiency) of revenues over expenditures	<u>(10,035)</u>	<u>(10,035)</u>	<u>72,122</u>	<u>82,157</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	49,819	49,819
Transfers out	-	-	(10,000)	(10,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>39,819</u>	<u>39,819</u>
Change in Fund Balance	(10,035)	(10,035)	111,941	121,976
FUND BALANCE - Beginning of Year	<u>612,051</u>	<u>612,051</u>	<u>612,051</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 602,016</u>	<u>\$ 602,016</u>	<u>\$ 723,992</u>	<u>\$ 121,976</u>

See accompanying notes to required supplementary information.

WINNEFOX LIBRARY SYSTEM

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - WINNEFOX COOPERATIVE TECHNICAL SERVICES For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Sales to libraries	\$ 143,500	\$ 143,500	\$ 128,985	\$ (14,515)
Interest	2,000	2,000	5,382	3,382
Other	19,000	19,000	13,575	(5,425)
Total Revenues	164,500	164,500	147,942	(16,558)
EXPENDITURES				
Current				
Salaries and related fringe benefits	138,664	138,664	141,786	(3,122)
Supplies and postage	1,600	1,600	1,028	572
Telephone and communication	1,600	1,600	1,214	386
Travel, training and conferences	1,350	1,350	1,171	179
Insurance	875	875	740	135
Equipment maintenance	450	450	437	13
Contractual services	24,327	24,327	15,890	8,437
System and library materials	156,450	156,450	132,143	24,307
Collection grants	9,500	9,500	9,002	498
Improvement grants	40,000	40,000	35,296	4,704
Other	100	100	1,328	(1,228)
Total Expenditures	374,916	374,916	340,035	34,881
Excess (deficiency) of revenues over expenditures	(210,416)	(210,416)	(192,093)	18,323
OTHER FINANCING SOURCES (USES)				
Transfers in	167,268	167,268	165,672	(1,596)
Transfers out	-	-	(11,037)	(11,037)
Total Other Financing Sources (Uses)	167,268	167,268	154,635	(12,633)
Change in Fund Balances	(43,148)	(43,148)	(37,458)	5,690
FUND BALANCES - Beginning of Year	106,371	106,371	106,371	-
FUND BALANCES - END OF YEAR	\$ 63,223	\$ 63,223	\$ 68,913	\$ 5,690

WINNEFOX LIBRARY SYSTEM

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2006

Budgetary Information

Budgetary information is derived from the annual operating budget and is presented using generally accepted accounting principles and the modified accrual basis of accounting.

Excess expenditures over appropriations are as follows:

	<u>Final</u> <u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
<u>General Fund</u>			
Telephone and communication	\$ 1,550	\$ 1,852	\$ 302
Travel, training and conferences	23,000	24,120	1,120
Equipment maintenance	31,585	66,490	34,905
Contractual services	105,889	137,276	31,387
System and library materials	77,629	86,669	9,040
Other	3,874	5,000	1,126
Capital outlay	14,000	18,036	4,036
<u>Winnefox Automated Library Services Special Revenue Fund</u>			
Telephone and communications	\$ 61,350	\$ 64,130	\$ 2,780
Contractual services	75,344	75,741	397
Other	350	2,828	2,478
<u>Winnefox Cooperative Technical Services Special Revenue Fund</u>			
Salaries and fringe benefits	\$ 138,664	\$ 141,786	\$ 3,122
Other	100	1,328	1,228

WINNEFOX LIBRARY SYSTEM

REPORT ON INTERNAL CONTROL

**(Including Memorandum on Accounting Procedures,
Internal Controls, and Other Matters)**

December 31, 2006

WINNEFOX LIBRARY SYSTEM

INDEX

	<u>Page No.</u>
Material Weakness – Internal Control Documentation and Financial Reporting	1
New Internal Control Audit Testing for 2007	2
Status of Prior Year's Points	3
Audit Communications	4
Closing	6



To the Board of Trustees
Winnefox Library System
Oshkosh, Wisconsin

In planning and performing our audit of the financial statements of the Winnefox Library System as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion(s) on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of the System's internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

- The System has the auditors prepare the System's financial statements.
- The auditors found material journal entries that were not detected by System personnel.

Also, during our audit we became aware of other matters that are opportunities for strengthening internal controls, improving operating efficiencies or procedures, or policy considerations. Our comments are presented on the following pages. As always, you should consider the costs of making improvements to the expected benefits.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with System personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

Vincent, Krause + Company, LLP

Milwaukee, Wisconsin
June 12, 2007

MATERIAL WEAKNESSES – FINANCIAL REPORTING

Recently a new auditing standard was issued that focuses on internal control, and what we communicate to you regarding your controls. Those requirements are set out in Statement in Auditing Standards No. 112, "*Communicating Internal Control Matters Identified in an Audit.*"

The new standard clarifies some definitions and will promote more consistency in how weak areas in internal control are communicated by auditors to their clients.

How does this affect your organization? The new standard required us to review many factors to determine if a material weakness exists within your organization. There are three factors in particular which will require us to report a material weakness that affects many governments.

- *Financial Reporting* - the auditor finds material journal entries not detected by the client,
- *Financial Reporting* - the auditor prepares the annual financial statements and footnotes for the client.

Financial Reporting

The new standard makes it clear that the definition of a material weakness in internal control should now include consideration of the year end financial reporting process. To avoid the auditor reporting a material weakness in internal control, your system of controls would need to be able to accomplish the following:

- Present the books and records to the auditor in such a condition that the auditor is not able to identify any material journal entries as a result of our audit procedures. This is very rare for most of our clients.
- Be capable of preparing a complete set of year end financial statements for the auditor to test. Currently, almost all of our clients have us prepare the financial statement document. This includes drafting the individual fund statements, making conversion entries, drafting the government-wide statements, and preparing footnote disclosures. Your staff would need to be capable of presenting the auditor with a set of complete financial statements in such a condition that the auditor is not able to identify any material changes as a result of the audit.

To accomplish such a high level of internal control over financial reporting is a difficult task for most governments. Many large organizations, such as SEC companies, have been required by law to prepare their own statements for years, and are staffed appropriately to do so. Most governments operate with only enough staff to process monthly transactions and reports, and so rely on us to prepare certain year end audit entries and handle the year end financial reporting. Under the new auditing standards, we must, therefore, inform you that these are material weaknesses in your internal control.

If you have any questions on these new disclosures, please contact your audit team.

NEW INTERNAL CONTROL AUDIT TESTING FOR 2007

In March of 2006, the American Institute of Certified Public Accountants issued eight new auditing standards (#104-111) that will change the way auditors approach the audit process. These changes are a direct result of the major frauds that have occurred in the United States in the past several years. The new standards are intended to improve the auditors' understanding of you, the client, and the environment in which you operate, your internal controls, and the risks involved in the audit. The auditor will be required to make a more rigorous assessment of the risk of material misstatements based on that understanding. The result will be improved linkage between the assessed risks, and the nature, timing, and extent of our audit procedures.

One of the concepts that affect most units of governments is the level of documentation of their internal controls. Most of our clients do not have adequate written documentation of the various internal control processes that take place within their organization. We, as auditors, have done some amount of high level documentation of your processes for our files. You, on the other hand, should theoretically have all of your major processes contained in written documents in enough detail that another person could come in and fulfill the requirements of a particular process by following the explanations.

The major areas that should be documented are:

Cash Receipts	Inventories
Cash Disbursements	Capital Assets – Additions and Retirements
Investment Transactions	Capital Assets – Depreciation
Receivables – Billings	Debt Transactions
Receivables – Collections	Payroll
Purchasing	Financial Reporting
Receiving	Information Technology
Interfund Transactions	

Other than the computer software instruction manual, most of our clients have little written documentation covering these areas.

For the current and past audits, we have been able to complete your audit without asking for such documentation. However, beginning with your calendar year 2007 audit, we will be required to ask you for complete documentation of your internal control systems, due to the new auditing standards. Therefore, you should plan now to complete that documentation during 2007, so that we can evaluate your compliance with the new rules during our audit of your 2007 financial statements. We will be able to provide you with forms and other resources to assist you with meeting the new requirements.

STATUS OF PRIOR YEAR'S POINTS

CAPITAL DEPOSITS (PER 12/31/05 LETTER)

During the audit, we noted that the Library System will invoice member libraries for their portion of the WALs capital deposit. If the member library decides make a payment in excess of or less than the invoice, the Library System staff will change the invoice amount to the actual contribution. We recommend that the Library System not change the original source documentation. A new invoice should be created for any additional payments and a credit memo should be issued if a lesser payment is made. In either case, an appropriate trail should be documented in the accounting records.

Status (12/31/06)

Management plans to address this issue in 2007.

STATUS OF PRIOR YEAR'S POINTS (continued)

REVIEW OF JOURNAL ENTRIES (PER 12/31/05 LETTER)

During our review and testing of the System's journal entry process, we found the individuals at the Library System have the ability to post journal entries without any review or approval from other individuals. We recommend an approval process be implemented to ensure all entries are reasonable and proper.

Status (12/31/06)

Management has addressed this issue in 2007.

AUDIT COMMUNICATIONS

This section of our report is to inform the System board about significant matters related to the annual audit.

OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Winnefox Library System. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

SIGNIFICANT ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used in the preparation of the basic financial statements are discussed in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by the Winnefox Library System during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

ACCOUNTING ESTIMATES

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. We are not aware of any particularly sensitive accounting estimates utilized by management in its financial statement process.

AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Winnefox Library System's financial reporting process. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated. All audit and bookkeeping adjustments have been included in your financial statements. Copies of the adjustments are available from management.

Prepaid rent of \$22,500 is being amortized over a period of time longer than the life of the applicable lease. This audit adjustment was not entered on the System's books. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during our audit.

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 governmental unit'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.

ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS

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 Winnefox Library System's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CLOSING

In closing, we would like to thank you for allowing us to serve you. We are very interested in the long-term success of the Winnefox Library System and our comments are intended to draw your attention to issues which need to be addressed for the System to meet its goals and responsibilities.

This letter, by its nature, focuses on improvements and does not comment on the stronger areas of the System's systems, procedures and personnel. The comments and suggestions in this report are not intended to reflect in any way on the integrity or ability of the personnel of the System. They are made solely in the interest of establishing sound internal control structure practices and improving the System's financial operations. The System's staff is genuinely concerned about maintaining the System's financial reporting system so that informed decisions can be made. They were receptive to our ideas, comments and suggestions.

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