

WINNEFOX LIBRARY SYSTEM

Oshkosh, Wisconsin

FINANCIAL STATEMENTS

December 31, 2004

WINNEFOX LIBRARY SYSTEM

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Virchow Krause & company

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Winnefox Library System
Oshkosh, Wisconsin

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the Winnefox Library System (the "System") as of and for the year ended December 31, 2004, 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 opinion.

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, 2004, 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.

As described in Note I.B, the Winnefox Library System has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of December 31, 2004.

The budgetary comparison information on pages 22 through 24 is not a required part of the basic financial statements but are 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.

Board of Trustees
Winnefox Library System

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Winnefox Library System. The individual fund financial statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vrehow, Krause + Company, LLP

Madison, Wisconsin
November 15, 2005

WINNEFOX LIBRARY SYSTEM

STATEMENT OF NET ASSETS December 31, 2004

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 1,660,313
Receivables	78,115
Prepaid items	25,000
Capital assets	
Automotive	34,877
Computer equipment	24,929
Furniture and fixtures	34,927
Office equipment	51,201
Software	317,184
Less: Accumulated depreciation	<u>(128,467)</u>
Total Assets	<u>2,098,079</u>
LIABILITIES	
Accounts payable and accrued liabilities	79,953
Unearned revenues	629,243
Noncurrent liabilities	
Due in less one year	28,528
Due in more than one year	<u>22,869</u>
Total Liabilities	<u>760,593</u>
NET ASSETS	
Invested in capital assets, net of related debt	334,651
Restricted for grants	93,075
Unrestricted	<u>909,760</u>
TOTAL NET ASSETS	<u>\$ 1,337,486</u>

See accompanying notes to financial statements.

WINNEFOX LIBRARY SYSTEM

STATEMENT OF ACTIVITIES For the Year Ended December 31, 2004

<u>Functions/Programs</u>	Program Revenues				<u>Net (Expenses) Revenues and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities					
Library services	\$ 5,292,754	\$ 748,660	\$ 3,428,001	\$ 71,696	\$ (1,044,397)
Total Activities	5,292,754	748,660	3,428,001	71,696	(1,044,397)
General Revenues					
Intergovernmental revenues not restricted to specific programs					837,711
Investment income					28,164
Miscellaneous					59,350
Total General Revenues and Transfers					925,225
Change in Net Assets					(119,172)
NET ASSETS - Beginning					1,456,658
NET ASSETS - ENDING					\$ 1,337,486

See accompanying notes to financial statements.

WINNEFOX LIBRARY SYSTEM

BALANCE SHEET - GOVERNMENTAL FUNDS December 31, 2004

	General	Winnefox Automated Library Services	Nonmajor Other Governmental Fund	Totals
ASSETS				
Cash and investments	\$ 840,801	\$ 641,025	\$ 178,487	\$ 1,660,313
Accounts receivables	64,646	638	12,831	78,115
Due from other funds	183,070	-	-	183,070
Prepaid items	25,000	-	-	25,000
TOTAL ASSETS	\$ 1,113,517	\$ 641,663	\$ 191,318	\$ 1,946,498
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued liabilities	\$ 76,525	\$ 3,428	\$ -	\$ 79,953
Due to other funds	-	117,978	65,092	183,070
Deferred revenue	629,243	-	-	629,243
Total Liabilities	705,768	121,406	65,092	892,266
Fund Balances				
Reserved				
Equipment	-	133,594	-	133,594
Improvement grants	-	-	93,075	93,075
Payments to member libraries	110,680	-	-	110,680
Prepaid items	25,000	-	-	25,000
Subsequent year's expenditures	119,202	386,663	33,151	539,016
Unreserved and undesignated, reported in				
General fund	152,867	-	-	152,867
Total Fund Balances	407,749	520,257	126,226	1,054,232
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,113,517	\$ 641,663	\$ 191,318	

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.

334,651

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. See Note II.A.

(22,869)

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 1,366,014

WINNEFOX LIBRARY SYSTEM

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2004

	General	Winnefox Automated Library Services	Nonmajor Other Governmental Fund	Total Governmental Funds
REVENUES				
State aids	\$ 837,711	\$ -	\$ -	\$ 837,711
Intergovernmental, primarily counties	3,245,810	-	151,903	3,397,713
Grants	4,500	25,788	-	30,288
Services to member libraries	-	667,375	-	667,375
Sales to libraries	2,742	-	150,238	152,980
Interest	12,609	13,752	1,803	28,164
Other	24,994	23,896	10,460	59,350
Total Revenues	<u>4,128,366</u>	<u>730,811</u>	<u>314,404</u>	<u>5,173,581</u>
EXPENDITURES				
Payments to member libraries	3,152,103	-	-	3,152,103
Salaries and related fringe benefits	575,872	213,138	122,972	911,982
Supplies and postage	69,702	45,758	1,068	116,528
Telephone and communication	1,379	46,423	1,485	49,287
Travel, training and conferences	18,062	13,047	887	31,996
Insurance	6,001	-	816	6,817
Equipment maintenance	25,411	76,242	272	101,925
Contractual services	119,573	59,294	11,741	190,608
System and library materials	62,661	-	149,275	211,936
Capital expenditures	15,582	512,642	-	528,224
Collection grants	-	-	26,794	26,794
Minor equipment	-	17,814	-	17,814
Operations support	-	164,298	-	164,298
Other	-	181	5	186
Total Expenditures	<u>4,046,346</u>	<u>1,148,837</u>	<u>315,315</u>	<u>5,510,498</u>
Excess (deficiency) of revenues over expenditures	<u>82,020</u>	<u>(418,026)</u>	<u>(911)</u>	<u>(336,917)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	5,000	35,020	-	40,020
Transfers out	<u>(24,684)</u>	<u>(5,000)</u>	<u>(10,336)</u>	<u>(40,020)</u>
Total Other Financing Sources (Uses)	<u>(19,684)</u>	<u>30,020</u>	<u>(10,336)</u>	<u>-</u>
SPECIAL ITEM				
Retirement of prior service	<u>(49,734)</u>	-	-	<u>(49,734)</u>
Total Special Item	<u>(49,734)</u>	-	-	<u>(49,734)</u>
Change in Fund Balances	12,602	(388,006)	(11,247)	(386,651)
FUND BALANCES - Beginning of Year	<u>395,147</u>	<u>908,263</u>	<u>137,473</u>	<u>1,440,883</u>
FUND BALANCES - END OF YEAR	<u>\$ 407,749</u>	<u>\$ 520,257</u>	<u>\$ 126,226</u>	<u>\$ 1,054,232</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, 2004

Net change in fund balances - total governmental funds	\$ (386,651)
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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.

Some capital outlay is recorded as a functional expenditure	274,565
Depreciation is reported in the government-wide statements	(55,863)

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	(957)
Unfunded pension liability	<u>49,734</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (119,172)</u>
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WINNEFOX LIBRARY SYSTEM

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WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Winnefox Library System conform to generally accepted accounting principles as applicable to governmental units.

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. This report does not contain any component units. However, the following describes the reporting entity and provides the definition for component units. 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.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

In December 1998 the Governmental Accounting Standards Board (GASB) issued Statement No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions* (GASB 33). In June 1999, GASB issued Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34). In June 2001, GASB issued Statement No. 37 *Basic Financial Statement – and Management's Discussion and Analysis – For State and Local Governments – Omnibus*, (GASB 37), and Statement No. 38 *Certain Financial Statement Note Disclosures*.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2004

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

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

The Winnefox Library System made the decision to implement these standards effective January 1, 2004.

Statements No. 34 and 37, among many other changes, add two new “government-wide” financial statements as basic financial statements required for all governmental units. The statement of net assets and the statement of activities are the two new required statements. Both statements are prepared on the full accrual basis. Previously, in accordance with accounting standards for governmental units, the system used the modified accrual basis of accounting for its funds. The modified accrual basis of accounting continues to be the appropriate basis of accounting for governmental activity 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.

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, 2004

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:

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.

The system has the following non-major governmental fund:

Non-Major Governmental Fund

Special Revenue Funds – used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Winnefox Cooperative Technical Services (WCTS)

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.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2004

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

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

Fund Financial Statements (cont.)

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.

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 incurrence 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.

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

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2004

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

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

1. Deposits and Investments (cont.)

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, 2004, 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. If the system had donated capital assets they would be recorded at their estimated fair value at the date of donation.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE I – 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. Benefits that require payment in future fiscal years though related to services previously rendered are recorded as a liability in the governmental funds to the extent they would be liquidated 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, 2004 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 unfunded pension liabilities and accrued compensated absences. The unfunded pension liability was paid off in 2005. Refer to Note V.A. 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, 2004

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

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

7. Claims and Judgments

There were no significant claims or judgments at year end. 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 “undesigned”, which indicates it is available for appropriation.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE II – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE STATEMENT OF NET ASSETS

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. The details of this reconciliation include the following items:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds.

Capital assets (net of accumulated depreciation)	<u>\$ 334,651</u>
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Long-term liabilities applicable to the system's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities.

All liabilities—both current and long-term—are reported in the statement of net assets.

Compensated absences	<u>\$ 51,397</u>
Combined Adjustment for Long-Term Liabilities	<u>\$ 51,397</u>

NOTE III – 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. 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.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2004

NOTE IV – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The system's deposits and investments are categorized to give an indication of the level of custodial credit risk assumed by the entity at year end. Category 1 includes items that are insured or registered or which are collateralized by or evidenced by securities held by the system or its agent in the system's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the system's name, or uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the system's name. Category 3 includes uncollateralized deposits, and uninsured and unregistered investments, with securities held by the counterparty or its trust department or agent but not in the system's name.

	Category			Totals	Carrying Amount/ Fair Value
	1	2	3		
Local and area banks	\$ 230,706	\$ -	\$ 255,094	\$ 488,800	\$ 144,578
Local Government Investment Pool					1,515,685
Petty cash					50
Total Deposits and Investments					1,660,313
Per Statement of Net Assets					\$ 1,660,313

The system had no significant type of investment during the year not included in the above schedule.

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 the amounts in Category 1 above.

Investments in the Local Government Investment Pool 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.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2004

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

B. RECEIVABLES

All receivables 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, 2004 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets				
Automotive	\$ 34,877	\$ -	\$ -	\$ 34,877
Computer equipment	24,929	-	-	24,929
Furniture and fixtures	34,927	-	-	34,927
Office equipment	51,201	-	-	51,201
Software	42,619	274,565	-	317,184
Total Other Capital Assets at Historical Cost	188,553	274,565	-	463,118
Less: Accumulated Depreciation for:				
Automotive	\$ 29,866	\$ 4,183	\$ -	\$ 34,049
Computer equipment	3,004	4,986	-	7,990
Furniture and fixtures	9,530	3,423	-	12,953
Office equipment	27,585	10,020	-	37,605
Software	2,619	33,251	-	35,870
Total Accumulated Depreciation	72,604	55,863	-	128,467
Net Other Capital Assets	\$ 115,949	\$ 218,702	\$ -	\$ 334,651

Depreciation expense was charged to functions as follows:

Governmental Activities	
Library Services	\$ 55,863
Total Governmental Activities Depreciation Expense	\$ 55,863

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2004

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	\$ 117,978
General Fund	Winnefox Cooperative Technical Services	<u>65,092</u>
Subtotal – Fund financial statements		183,070
Less: Government-wide eliminations		<u>(183,070)</u>
Total Internal Balances – Government-Wide Statement of Net Assets		<u><u>\$ -</u></u>

All amounts are due within one year.

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>
General fund	Winnefox Automated Library System	\$ 5,000
Winnefox Automated Library System	General fund	24,684
Winnefox Automated Library System	Winnefox Cooperative Technical Services	<u>10,336</u>
Total		<u><u>\$ 40,020</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.

All interfunds have been eliminated in the statement of activities.

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS December 31, 2004

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

E. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Other Liabilities					
Unfunded prior service costs	\$ 49,734	\$ -	\$ (49,734)	\$ -	\$ -
Vested compensated absences	50,440	957	-	51,397	28,528
Total Governmental Activities Long-Term Liabilities	\$ 100,174	\$ 957	\$ (49,734)	\$ 51,397	\$ 28,528

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 OPLs maintenance and utility charges. Rental payments for 2004 totaled \$35,458.

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 \$25,000 at December 31, 2004.

G. GOVERNMENTAL ACTIVITIES NET ASSETS

Governmental activities net assets reported on the government wide statement of net assets at December 31, 2004 includes the following:

Governmental Activities

Invested in capital assets, net of related debt	
Capital assets, net of accumulated depreciation	\$ 334,651
Restricted for improvement grants	93,075
Unrestricted	909,760
Total Governmental Activities Net Assets	\$ 1,337,486

WINNEFOX LIBRARY SYSTEM

NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

F. GOVERNMENTAL ACTIVITIES NET ASSETS (cont.)

Governmental Activities (cont.)

Governmental fund balances reported on the fund financial statements at December 31, 2004 include the following:

Reserved	
Major Funds	
General Fund	
Payments to member libraries	\$ 110,680
Prepaid items	25,000
Subsequent year's expenditures	<u>119,202</u>
Total	<u>\$ 254,882</u>
Winnefox Automated Library System Special Revenue Fund	
Equipment	\$ 133,594
Subsequent year's expenditures	<u>386,663</u>
Total	<u>\$ 520,257</u>
Non-Major Fund	
Winnefox Cooperative Technical Services Special Revenue Fund	
Improvement grants	\$ 93,075
Subsequent year's expenditures	<u>33,151</u>
Total	<u>\$ 126,226</u>

The WALs reserve for subsequent year's expenditures relates to costs associated with the operation of a minicomputer based integrated system providing circulation control, on-line cataloging, materials booking and acquisitions for larger library members contributing to this fund. The WCTS reserve for subsequent year's expenditures relates to costs associated with providing materials, acquisitions, cataloging, and processing to smaller libraries in Green Lake, Marquette and Waushara counties.

NOTE V – 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 5.6% of their salary 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, 2004

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, 2004 was \$616,516; the employer's total payroll was \$637,533. The total required contribution for the year ended December 31, 2004 was \$64,734 or 10.5 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, 2003 and 2002 were \$62,533 and \$63,739, 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.

In 2004, Winnefox Library System paid off its unfunded pension liability with the Wisconsin Retirement System. The amount was \$49,734 and is reported as a special item in the financial statements.

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. ECONOMIC DEPENDENCY

The System received approximately 82% of its funding from the State of Wisconsin and Green Lake, Marquette, Waushara, Winnebago and Fond du Lac counties in 2004, 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, 2004

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
State aids	\$ 837,711	\$ 837,711	\$ 837,711	\$ -
Intergovernmental, primarily counties	3,243,294	3,243,294	3,245,810	2,516
Grants	-	-	4,500	4,500
Sales to libraries	3,000	3,000	2,742	(258)
Interest	16,000	16,000	12,609	(3,391)
Other	47,500	47,500	24,994	(22,506)
Total Revenues	<u>4,147,505</u>	<u>4,147,505</u>	<u>4,128,366</u>	<u>(19,139)</u>
EXPENDITURES				
Payments to member libraries	3,138,470	3,138,470	3,152,103	(13,633)
Salaries and related fringe benefits	558,430	558,430	575,872	(17,442)
Supplies and postage	86,650	86,650	69,702	16,948
Telephone and communication	1,550	1,550	1,379	171
Travel, training and conferences	18,950	18,950	18,062	888
Insurance	6,550	6,550	6,001	549
Equipment maintenance	34,385	34,385	25,411	8,974
Contractual services	141,042	141,042	119,573	21,469
System and library materials	70,177	70,177	62,661	7,516
Capital expenditures	14,000	14,000	15,582	(1,582)
Total Expenditures	<u>4,070,204</u>	<u>4,070,204</u>	<u>4,046,346</u>	<u>23,858</u>
Excess of revenues over expenditures	77,301	77,301	82,020	4,719
OTHER FINANCING SOURCES (USES)				
Transfers in	5,000	5,000	5,000	-
Transfers out	(24,684)	(24,684)	(24,684)	-
Total Other Financing Sources (Uses)	<u>(19,684)</u>	<u>(19,684)</u>	<u>(19,684)</u>	<u>-</u>
SPECIAL ITEM				
Retirement of prior service	(49,734)	(49,734)	(49,734)	-
Total Special Item	<u>(49,734)</u>	<u>(49,734)</u>	<u>(49,734)</u>	<u>-</u>
Change in Fund Balance	7,883	7,883	12,602	4,719
FUND BALANCE - Beginning of Year	<u>395,147</u>	<u>395,147</u>	<u>395,147</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 403,030</u>	<u>\$ 403,030</u>	<u>\$ 407,749</u>	<u>\$ 4,719</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, 2004

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Grants	\$ -	\$ -	\$ 25,788	\$ 25,788
Services to member libraries	710,078	710,078	667,375	(42,703)
Interest	8,400	8,400	13,752	5,352
Other	-	-	23,896	23,896
Total Revenues	<u>718,478</u>	<u>718,478</u>	<u>730,811</u>	<u>12,333</u>
EXPENDITURES				
Salaries and related fringe benefits	204,398	204,398	213,138	(8,740)
Supplies and postage	34,075	34,075	45,758	(11,683)
Telephone and communication	56,701	56,701	46,423	10,278
Travel, training and conferences	10,000	10,000	13,047	(3,047)
Equipment maintenance	99,990	99,990	76,242	23,748
Contractual services	59,200	59,200	59,294	(94)
Capital expenditures	117,000	117,000	512,642	(395,642)
Minor equipment	10,500	10,500	17,814	(7,314)
Operations support	159,203	159,203	164,298	(5,095)
Other	350	350	181	169
Total Expenditures	<u>751,417</u>	<u>751,417</u>	<u>1,148,837</u>	<u>(397,420)</u>
Excess (deficiency) of revenues over expenditures	<u>(32,939)</u>	<u>(32,939)</u>	<u>(418,026)</u>	<u>(385,087)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	35,020	35,020	35,020	-
Transfers out	(5,000)	(5,000)	(5,000)	-
Total Other Financing Sources (Uses)	<u>30,020</u>	<u>30,020</u>	<u>30,020</u>	<u>-</u>
Change in Fund Balance	(2,919)	(2,919)	(388,006)	(385,087)
FUND BALANCE - Beginning of Year	<u>908,263</u>	<u>908,263</u>	<u>908,263</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 905,344</u>	<u>\$ 905,344</u>	<u>\$ 520,257</u>	<u>\$ (385,087)</u>

See accompanying notes to required supplementary information.

WINNEFOX LIBRARY SYSTEM

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION December 31, 2004

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>Amended Budget</u>	<u>Expenditures</u>	<u>Excess</u>
<u>General Fund</u>			
Payments to member libraries	\$ 3,138,470	\$ 3,152,103	\$ 13,633
Salaries and related fringe benefits	558,430	575,872	17,442
Capital expenditures	14,000	15,582	1,582
<u>Winnefox Automated Library Services Special Revenue Fund</u>			
Salaries and related fringe benefits	\$ 204,398	\$ 213,138	\$ 8,740
Supplies and postage	34,075	45,758	11,683
Travel, training, and conferences	10,000	13,047	3,047
Contractual services	59,200	59,294	94
Capital expenditures	117,000	512,642	395,642
Minor equipment	10,500	17,814	7,314
Operations support	159,203	164,298	5,095

S U P P L E M E N T A R Y I N F O R M A T I O N

WINNEFOX LIBRARY SYSTEM

BALANCE SHEET - NONMAJOR GOVERNMENTAL FUND December 31, 2004

	Winnefox Cooperative Technical Services
ASSETS	
Cash and investments	\$ 178,487
Accounts receivables	<u>12,831</u>
 TOTAL ASSETS	 <u>\$ 191,318</u>
LIABILITIES AND FUND BALANCE	
Due to other funds	\$ 65,092
Total Liabilities	<u>65,092</u>
 Fund Balance Reserved	 <u>126,226</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 191,318</u>

WINNEFOX LIBRARY SYSTEM

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUND For the Year Ended December 31, 2004

	Winnefox Cooperative Technical Services
	<u> </u>
REVENUES	
Intergovernmental, primarily counties	\$ 151,903
Sales to libraries	150,238
Interest	1,803
Other	10,460
Total Revenues	<u>314,404</u>
EXPENDITURES	
Salaries and related fringe benefits	122,972
Supplies and postage	1,068
Telephone and communication	1,485
Travel, training and conferences	887
Insurance	816
Equipment maintenance	272
Contractual services	11,741
System and library materials	149,275
Collection grants	26,794
Other	5
Total Expenditures	<u>315,315</u>
Excess (deficiency) of revenues over expenditures	(911)
OTHER FINANCING SOURCES (USES)	
Transfers out	<u>(10,336)</u>
Net Change in Fund Balances	(11,247)
FUND BALANCE - Beginning of Year	<u>137,473</u>
FUND BALANCE - END OF YEAR	<u>\$ 126,226</u>