

**SOUTH CENTRAL LIBRARY SYSTEM**

FINANCIAL STATEMENTS WITH  
SUPPLEMENTARY INFORMATION

December 31, 2020

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
South Central Library System  
Madison, Wisconsin

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, the general fund, and the remaining fund information of South Central Library System as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise South Central Library System's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, the general fund, and the remaining fund information of South Central Library System as of December 31, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, amounts held for third parties reported as liabilities in previously issued financial statements were restated as fiduciary net position as of the beginning of the year. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of net pension liability (asset)—Wisconsin Retirement System, schedule of contributions—Wisconsin Retirement System, and schedule of proportionate share of net OPEB liability—Local Retiree Life Insurance Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2021, on our consideration of South Central Library System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of South Central Library System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Central Library System's internal control over financial reporting and compliance.



Wegner CPAs, LLP  
Madison, Wisconsin  
March 25, 2021

**SOUTH CENTRAL LIBRARY SYSTEM**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2020

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Management's discussion and analysis of South Central Library System's ("System") financial performance provides an overview of the System's financial activities for the year ended December 31, 2020. Please read it in conjunction with the System's financial statements, which begin on page 13.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (on pages 13 and 14) provide information about the activities of the System as a whole and present a longer-term view of the System's finances. Fund financial statements start on page 15. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the System's operations in more detail than the government-wide statements by providing information about the System's most significant funds. The remaining statements provide financial information about activities for which the System acts solely as a trustee or agent for the benefit of others.

*Reporting the System as a Whole*

Our analysis of the System as a whole begins on page 5. One of the most important questions asked about the System's finances is, "Is the System as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the System as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the System's net position and changes in them. You can think of the System's net position—the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources—as one way to measure the System's financial health, or financial position. Over time, increases or decreases in the System's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, to assess the overall health of the System.

In the statement of net position and the statement of activities, we divide the System into two kinds of activities: governmental activities and component units.

Governmental activities

Most of the System's services are categorized as governmental activities, which generally are financed through intergovernmental revenues and other non-exchange revenues. These services are outlined in Chapter 43 of the Wisconsin Statutes and include the following:

- Written agreements to provide, to any resident of the System area, the same library services, on the same terms, that are provided to the residents of the municipality or county that established the member library, and to provide for the interlibrary loan of materials among all participating public libraries, as evidenced by agreements with those libraries.

**SOUTH CENTRAL LIBRARY SYSTEM**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2020

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- Backup reference, information, and interlibrary loan services from the System resource library (Madison Public Library), including the development of and access to specialized collections, as evidenced by a written agreement with that library.
- Referral or routing of reference and interlibrary loan requests from libraries within the System to libraries within and outside the System.
- In-service training for participating public library personnel and trustees.
- Professional consultant services to participating public libraries.
- Electronic delivery of information and physical delivery of library materials to participating libraries.
- Service agreements with all adjacent library systems.
- Promotion and facilitation of library service to users with special needs.
- Cooperation and continuous planning with other types of libraries in the System area, which results in agreements with those libraries for the appropriate sharing of library resources to benefit the clientele of all libraries in the System area.
- Planning with the Wisconsin Department of Public Instruction's Division for Libraries and Technology and with participating public libraries and other types of libraries in the area in regard to library technology and the sharing of resources.
- Any other service programs designed to meet the needs of participating public libraries and the residents of the System area, as determined by the public library system board after consultation with participating public libraries.

Component units

The System includes a separate legal entity in its report—South Central Library System Foundation, Inc., a tax-exempt public charity organized under Section 501(c)(3) of the Internal Revenue Code. Although legally separate, this “component unit” is important because it provides financial support to the System.

*Reporting the System's Most Significant Funds*

Our analysis of the System's major funds begins on page 7. The fund financial statements begin on page 15 and provide detailed information about the most significant funds—not the System as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The System, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

All of the System's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a

**SOUTH CENTRAL LIBRARY SYSTEM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2020

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detailed short-term view of the System's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the System's programs. The fund financial statements provide reconciliations to describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds.

*Reporting the System's Fiduciary Responsibilities*

The System acts as a custodian, or fiduciary, for several libraries within the System. All of the System's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 19 and 20. We exclude these activities from the System's other financial statements because the System cannot use these assets to finance its operations. The System is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

*Notes to the Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 through 41.

**THE SYSTEM AS A WHOLE**

The System's net position decreased by \$186,257 from a year ago—from \$3,536,009 to \$3,349,752, a decrease of 5.3%. In contrast, last year's net position increased by \$360,530. Net position at December 31, 2020 and 2019 consists of the following elements:

<b>Net Position</b>		
Governmental Activities		
	2020	2019
Current assets	\$ 4,075,681	\$ 4,027,485
Long-term assets	550,174	-
Capital assets	1,516,330	1,617,989
Total assets	6,142,185	5,645,474
Deferred outflows of resources	376,378	1,701,201
Current liabilities	326,299	280,808
Long-term liabilities	597,756	985,369
Total liabilities	924,055	1,266,177
Deferred inflows of resources	2,244,756	2,544,489
Net position		
Net investment in capital assets	1,516,330	1,617,989
Unrestricted	1,833,422	1,918,020
Total net position	\$ 3,349,752	\$ 3,536,009

**SOUTH CENTRAL LIBRARY SYSTEM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2020

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Unrestricted net position—the part of net position that can be used to finance day-to-day operations—decreased from \$1,918,020 at December 31, 2019 to \$1,833,422 at December 31, 2020. This decrease is primarily attributed to the Wisconsin Retirement System's pension expense exceeding employer contributions. As discussed in Note 7, the measurement date of the net pension liability was December 31, 2019.

**Changes in Wisconsin Retirement System (WRS)**

	(in millions)	
Assets—WRS Total		
CY19	\$ 112,092.7	
CY18	<u>96,737.1</u>	
Change in net position	<u>15,355.6</u>	(a)
Pension Liability—WRS Total		
CY19	108,868.3	
CY18	<u>100,294.8</u>	
Change in total pension asset (TPA)	<u>8,573.5</u>	(b)
WRS change in net pension asset (NPA)	6,782.1	(a-b)
Multiplied by the System's allocation %	<u>0.01682%</u>	
The System's share of WRS' change in NPA	1.1	
The System's FY18 net pension liability	<u>(0.2)</u>	
The System's FY19 net pension asset	<u><u>\$ 0.9</u></u>	

The System's net investment in capital assets decreased from \$1,617,989 at December 31, 2019 to \$1,516,330 at December 31, 2020, primarily due to depreciation expense of \$285,571 exceeding capital assets additions of \$183,912. Additional information regarding capital assets is available on page 10 as well as in the notes to the basic financial statements.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2020

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For the years ended December 31, 2020 and 2019, the System's net position changed as follows:

	2020	2019
<b>Changes in Net Position</b>		
Governmental Activities		
Revenues		
Program revenues		
Charges for services	\$ 3,821,817	\$ 4,124,750
Operating grants and contributions	609,687	2,457,844
General revenues		
State aid to public library systems	2,199,966	2,199,966
Investment earnings	83,286	135,510
Gain on sale of capital assets	8,179	2,333
Total revenues	6,722,935	8,920,403
Expenses		
Library services	5,870,727	6,206,918
System contract expenditures	1,006,372	2,321,837
Payments to member libraries	32,093	31,118
Total expenses	6,909,192	8,559,873
Change in net position	(186,257)	360,530
Net position—beginning	3,536,009	3,175,479
Net position—ending	\$ 3,349,752	\$ 3,536,009

Revenues for the System's governmental activities decreased by 24.6% (\$2,197,467), while total expenses decreased by 19.3% (\$1,650,680). The decrease in operating grants and contributions and the decrease in system contract expenditures are due to the System no longer serving as the fiscal agent for Green and Sauk counties. The total amount of this budget reduction is \$1,473,716 from the year ended December 31, 2019. The decrease in net position for governmental activities was \$186,257 for the year ended December 31, 2020 compared to a \$360,530 increase in net position for the year ended December 31, 2019.

To aid in the understanding of the statement of activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical statement of revenues, expenses, and changes in fund balance. You will notice that expenses are listed in the first column with revenues for that particular program reported to the right. The result is a net expense or revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the System. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants.

**THE SYSTEM'S FUNDS**

As the System completed the year, its governmental funds (as presented in the balance sheet on page 15) reported a combined fund balance of \$2,016,825, which consists entirely of the fund balance of the System's general fund. This fund balance increased by \$408 from a year ago.

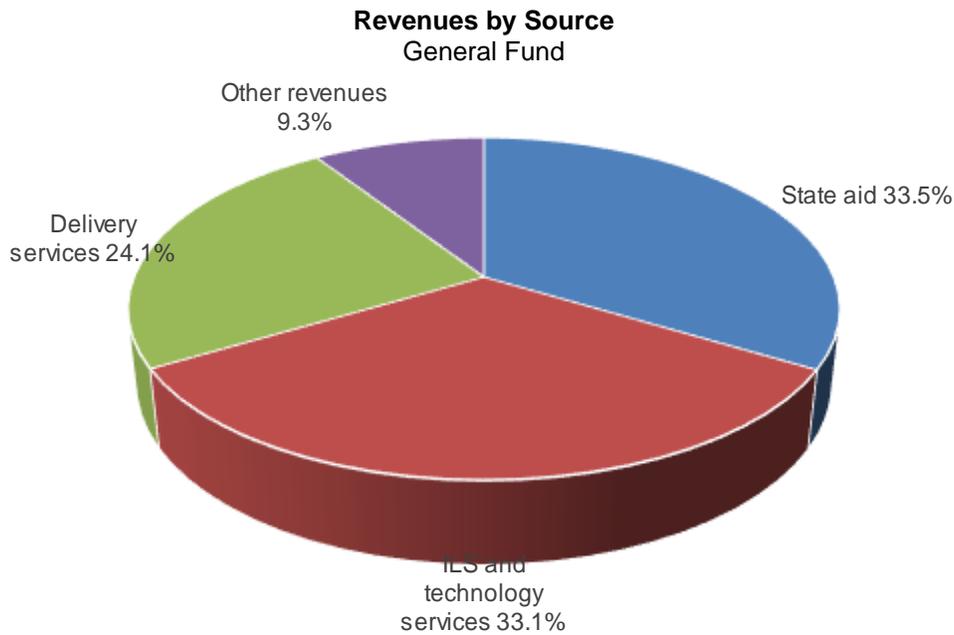
**SOUTH CENTRAL LIBRARY SYSTEM**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2020

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For the year ended December 31, 2020, the System's state aid remained the same as the previous year at \$2,199,966. State aid comprised 33.5% of the System's general fund revenues for the year ended December 31, 2020.

Revenues related to the ILS and technology services—which consist primarily of annual membership fees paid by member libraries—increased \$5,681, or 0.3%, from the previous year. The increase in revenue is due primarily to increased PC support fees for additional computers added to the network, as well as increases in contracted support and central server hardware. Contracts for ILS and technology services comprised 33.1% of the System's general fund revenues for the year ended December 31, 2020.

In addition to its basic delivery services, the System operates multi-type and intersystem delivery services that link public and non-public libraries within and outside the System area. Costs for the internal delivery services are split between the System and the member counties and libraries. Revenues from delivery services decreased \$61,874 from the previous year due to rebates issued to all delivery customers for the temporary cessation of delivery services caused by the COVID-19 pandemic, as well as a reduction in special request delivery services. Contracts for delivery services comprised 24.1% of the System's general fund revenues for the year ended December 31, 2020.



For the year ended December 31, 2020, general fund expenditures totaled \$6,576,316, a decrease of 22.1% from the previous year. As mentioned previously, the decrease in direct payments to member libraries for nonresident access and direct payments for services provided across system borders is due to the System no longer serving as the fiscal agent for Green and Sauk counties. The total amount of this budget reduction is \$1,473,716 from the year ended December 31, 2019.

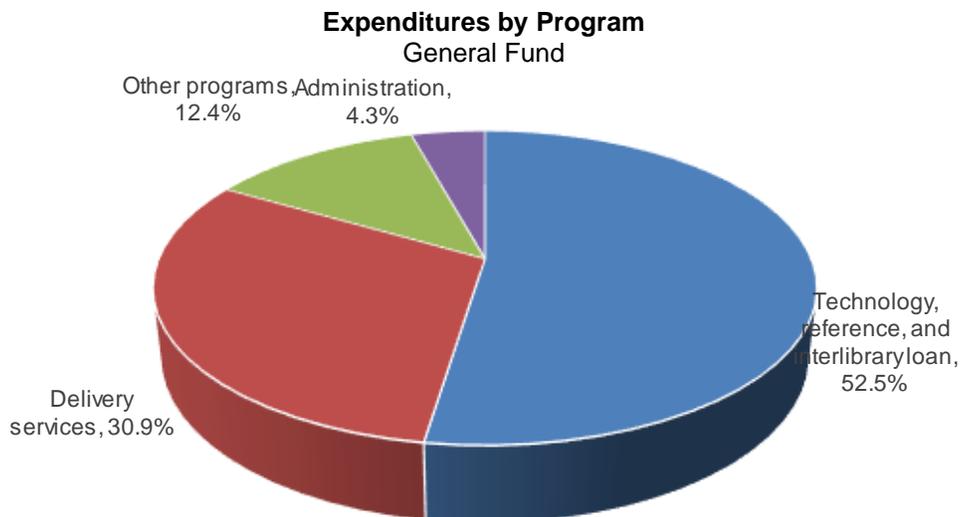
**SOUTH CENTRAL LIBRARY SYSTEM**  
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The System's personnel costs—salaries and wages, payroll taxes, and benefits, including retirement contributions—totaled \$3,880,364 for the year ended December 31, 2020, an increase of 1.6% from the previous year. Total costs of health, life, and dental insurance increased \$53,419, or 8.7%, from the previous year. For the year ended December 31, 2020, the Wisconsin Department of Employee Trust Funds continued a premium holiday for income continuation insurance that began in March 2012. Total retirement contributions increased \$6,165, or 3.4%, from the previous year due to increases in salaries and wages and an increase in the WRS employer contribution rate from 6.55% for the year ended December 31, 2019 to 6.75% for the year ended December 31, 2020.

Technology, reference, and interlibrary loan expenditures—which include expenditures related to ILS operations and interlibrary loan services, as well as an allocation of personnel and administrative costs related to these activities—decreased \$237,011, or 6.4%, from the previous year. This decrease is primarily due to the System's technology personnel participating in a back-up collaboration project and the System investing in equipment for this project during the previous year. Therefore, central server hardware and back-up collaboration expenses were much higher for the year ended December 31, 2019 than for the year ended December 31, 2020. Also, third party annual support and maintenance expenses decreased from the previous year due to a restructured maintenance agreement with Bibliotheca. Technology, reference, and interlibrary loan expenditures comprised 52.5% of the System's general fund expenditures for the year ended December 31, 2020.

Expenditures related to delivery services decreased \$49,569, or 2.4%, from the previous year. This decrease is due to the previously mentioned cessation of delivery services for several months due to the COVID-19 pandemic. The System also received \$75,000 in grant funds, the same amount as in the previous year, to cover delivery related costs. As discussed below, these costs are accounted for in the System's special revenue fund as opposed to its general fund. Delivery services expenditures comprised 30.9% of the System's general fund expenditures for the year ended December 31, 2020.



**SOUTH CENTRAL LIBRARY SYSTEM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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The System's special revenue fund is used to account for revenues that are legally restricted to expenditures for specified purposes, which currently consist of Library Services and Technology Act (LSTA) and other grants received from the Wisconsin Department of Public Instruction. During the year ended December 31, 2020, the System received five LSTA grants,—a \$75,000 grant to provide additional support for the statewide portion of the System's delivery services, a \$6,644 digitization collaboration grant, an \$1,100 leadership capacity training grant, a \$6,250 system connectivity grant, and a \$432 technology sparsity grant. In addition to these grants, the System received \$56,786 in CARES Act funding to assist libraries with expanding wireless internet access, mobile printing, and purchasing RFID stations and other equipment. Grant timelines frequently extend across fiscal years. The CARES Act grant will be completed during the year ending December 31, 2021.

**CAPITAL ASSETS**

At December 31, 2020, the System had \$1,516,330 invested in capital assets, which includes vehicles used in the System's delivery operations, the central equipment and software of the ILS, improvements to the System's leased facilities, and other furniture and equipment used in the System's activities (see table below). This investment represents a decrease of \$101,659, or 6.3%, from last year, primarily attributable to depreciation expense.

**Capital Assets at Year-end**  
**(Net of Accumulated Depreciation)**  
Governmental Activities

	2020	2019
Work in progress	\$ 839,350	\$ 839,350
Vehicles	249,463	238,141
ILS and technology equipment	395,596	509,675
Leasehold improvements	1,094	1,641
Furniture and equipment	30,827	29,182
Totals	\$ 1,516,330	\$ 1,617,989

This year's major capital assets additions included:

- Two new delivery vehicles at a total cost of \$73,739
- ILS and technology equipment at a total cost of \$91,527
- Furniture and equipment at a total cost of \$18,646

There is no outstanding balance of any bonds, mortgages, or other borrowings that are attributable to the acquisition, construction, or improvement of the System's capital assets. The System is, however, planning a building project that is anticipated to be completed during the year ending December 31, 2023. The building will house both the System's headquarters and its delivery operations and will replace the two facilities it currently leases. It is expected that during the year ending December 31, 2021 the System will either purchase a parcel of land upon which to build a new building or purchase an existing building to renovate. The purchase and construction will be financed with a general obligation loan from the Wisconsin Board of Commissioners of Public Lands State Trust Fund Loan Program. The project is expected to have a total budget of \$5,000,000.

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During the year ending December 31, 2021, the System will also complete the installation and begin full use of the back-up collaboration equipment purchased in the previous year. This equipment is currently listed as \$839,350 of work in progress.

Additional information on the System's capital assets can be found in Note 5 on page 30.

**FACTORS BEARING ON THE SYSTEM'S FUTURE**

The System is facing the same difficulties as its libraries and many municipalities. Basically, the ability to fund services is not keeping pace with the public demand or cost for those services. The COVID-19 pandemic will have lasting impacts on the System's services and its libraries.

A portion of the System's total budget is reserved to cover all unexpected costs. The reserve represents the System's primary resource to enable it to cope with rising service demands and to take advantage of new opportunities. In an effort to increase interest earnings, a portion of this reserve has been invested in low-risk, highly rated investments that have yielded a higher return than the System's money market account.

The level of state aid to public library systems will remain level in 2021. The System's budget for 2021 does not include a wage grid adjustment. Delivery fees for 2021 were returned to 2019 levels to lessen the impact upon members. In 2021 the System, in partnership with its members, will not change its cost formula for 2022 membership fees for ILS and technology services. The System's Cost Formula Work Group will begin meeting in late 2021 to work on the cost formula and membership fees for 2023.

The preparation and implementation of the 2022 budget will be one of the System's most challenging. The System has begun site selection for a new combination headquarters and delivery building to be completed by the spring of 2023. The System has hired a contractor and contacted the Wisconsin Board of Commissioners of Public Lands for a low-interest loan. The Rio Community Library will be migrating to the shared ILS, LINKcat, in 2021. The Everett Roehl Marshfield Public Library will also join LINKcat if a LSTA grant is approved. The Marathon County Public Library is seeking to join SCLS in 2022. Adding this library will necessitate a revision of the System's governance structure, an adjustment in state funding, an overhaul of the delivery system, and an additional nine libraries to serve.

As always these factors need to be incorporated to support members' needs and priorities while keeping the System's fees at a minimal level.

Throughout 2020 and into 2021 the Wisconsin Department of Public Instruction Superintendent's Public Library System Redesign (PLSR) Project has continued. This community-based project studies how to best provide public library system services in Wisconsin. Building on the work of many, its goal is to develop a plan for implementation of new models of service. In 2019, the PLSR Steering Committee released its final report with recommendations for the Wisconsin Department of Public Instruction (DPI) and the 16 public library systems. The report is less proscriptive as originally envisioned but outlines seven recommendations with suggested implementation processes. Delivery service is one of the seven recommendations. In 2021 DPI will implement the new PLSR model of statewide delivery. The System's delivery may or may not be the purveyor of the service and the delivery agreement with the University of Wisconsin System, which is an important financial support to the System, ends July 31, 2021. The System is already working on collaborating with other systems to implement the other recommendations. Starting in 2018 and continuing into 2021, the System's technology services staff has been working with all of the systems and various

**SOUTH CENTRAL LIBRARY SYSTEM**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2020

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subsets on projects to share computer vendor discounts, create a shared back-up solution with redundant capability of an existing data center, and pooling LSTA funding and the training of staff across system borders. These activities meld perfectly into the PLSR recommendations and help to strengthen the System's member libraries along with the member libraries of other systems.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the System's finances. If you have questions about this report or need additional financial information, contact the System Director at South Central Library System, 4610 South Biltmore Lane, Suite 101, Madison, WI 53718-2153.

Additional information about the System and its services can also be found on the System's website at <http://www.scls.info>.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**STATEMENT OF NET POSITION**  
December 31, 2020

	South Central Library System	South Central Library System Foundation, Inc.
	Governmental Activities	Component Unit
<b>ASSETS</b>		
Cash	\$ 2,287,606	\$ 2,856
Investments	1,463,304	278,590
Receivables	213,708	-
Prepaid items	111,063	-
Net pension asset	550,174	-
Capital assets net of accumulated depreciation	1,516,330	-
Total assets	<u>6,142,185</u>	<u>281,446</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Related to pension	144,384	-
Related to other postemployment benefits	231,994	-
Total deferred outflows of resources	<u>376,378</u>	<u>-</u>
<b>LIABILITIES</b>		
Accounts payable	188,030	16,547
Accrued expenses	131,637	-
Unearned revenues	138,269	-
Net other postemployment benefits liability	466,119	-
Total liabilities	<u>924,055</u>	<u>16,547</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Advance receipt of state aid to public library systems	1,649,975	-
Related to pension	522,630	-
Related to other postemployment benefits	72,151	-
Total deferred inflows of resources	<u>2,244,756</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	1,516,330	-
Unrestricted	1,833,422	264,899
Total net position	<u>\$ 3,349,752</u>	<u>\$ 264,899</u>

See accompanying notes.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	South Central Library System Governmental Activities	South Central Library System Foundation, Inc. Component Unit
South Central Library System						
Governmental activities						
Library services	\$ 5,870,727	\$ 3,170,713	\$ 609,687	\$ -	\$ (2,090,327)	
System contract expenditures	1,006,372	651,104	-	-	(355,268)	
Payments to member libraries	32,093	-	-	-	(32,093)	
Total governmental activities	<u>\$ 6,909,192</u>	<u>\$ 3,821,817</u>	<u>\$ 609,687</u>	<u>\$ -</u>	(2,477,688)	
Component unit						
South Central Library System Foundation, Inc.	<u>\$ 9,299</u>	<u>\$ -</u>	<u>\$ 9,837</u>	<u>\$ -</u>		\$ 538
General revenues						
State aid to public library systems					2,199,966	-
Investment earnings					83,286	22,077
Gain on sale of capital assets					8,179	-
Total general revenues					<u>2,291,431</u>	<u>22,077</u>
Change in net position					(186,257)	22,615
Net position—beginning					<u>3,536,009</u>	<u>242,284</u>
Net position—ending					<u>\$ 3,349,752</u>	<u>\$ 264,899</u>

See accompanying notes.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2020

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash	\$ 2,287,606	\$ -	\$ 2,287,606
Investments	1,463,304	-	1,463,304
Receivables	156,490	57,218	213,708
Prepaid items	111,063	-	111,063
Due from special revenue fund	57,218	-	57,218
	<u>\$ 4,075,681</u>	<u>\$ 57,218</u>	<u>\$ 4,132,899</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 188,030	\$ -	\$ 188,030
Accrued expenditures	82,582	-	82,582
Unearned revenues	138,269	-	138,269
Due to general fund	-	57,218	57,218
	<u>408,881</u>	<u>57,218</u>	<u>466,099</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Advance receipt of state aid to public library systems	1,649,975	-	1,649,975
<b>FUND BALANCES</b>			
Nonspendable			
Prepaid items	111,063	-	111,063
Assigned			
Integrated library system (ILS)	383,902	-	383,902
Technology services	696,206	-	696,206
Delivery/general	825,654	-	825,654
	<u>2,016,825</u>	<u>-</u>	<u>2,016,825</u>
Total fund balances	<u>2,016,825</u>	<u>-</u>	<u>2,016,825</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,075,681</u>	<u>\$ 57,218</u>	<u>\$ 4,132,899</u>

See accompanying notes.

**SOUTH CENTRAL LIBRARY SYSTEM**  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
December 31, 2020

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Total fund balances—governmental funds	\$ 2,016,825
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,516,330
The net pension asset is not an available resource and, therefore, is not reported in the funds.	550,174
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds. Those liabilities at year-end consist of:	
Compensated absences	(49,055)
Deferred outflows related to pension	144,384
Deferred inflows related to pension	(522,630)
Other postemployment benefit liability	(466,119)
Deferred outflows related to other postemployment benefit liability	231,994
Deferred inflows related to other postemployment benefit liability	<u>(72,151)</u>
Net position of governmental activities	<u>\$ 3,349,752</u>

See accompanying notes.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Year Ended December 31, 2020

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
State aid to public library systems	\$ 2,199,966	\$ -	\$ 2,199,966
Library Services and Technology Act (LSTA) grants	-	146,212	146,212
Contracts for ILS and technology services	2,176,257	-	2,176,257
Contracts for delivery services	1,584,390	-	1,584,390
Investment earnings	83,286	-	83,286
Other revenues	524,646	-	524,646
	<u>6,568,545</u>	<u>146,212</u>	<u>6,714,757</u>
<b>EXPENDITURES</b>			
Current			
Technology, reference, and interlibrary loan services	3,449,593	63,468	3,513,061
Continuing education and consulting services	336,534	7,744	344,278
Delivery services	2,029,046	75,000	2,104,046
Library services to special users	52,270	-	52,270
Library collection development	5,433	-	5,433
Library services to youth	79,127	-	79,127
Public information	316,793	-	316,793
Administration	281,119	-	281,119
Other system programs	26,401	-	26,401
	<u>6,576,316</u>	<u>146,212</u>	<u>6,722,528</u>
Excess of revenues over expenditures	(7,771)	-	(7,771)
<b>OTHER FINANCING SOURCES</b>			
Proceeds from sale of capital assets	8,179	-	8,179
Net change in fund balances	408	-	408
Fund balances—beginning	2,016,417	-	2,016,417
Fund balances—ending	<u>\$ 2,016,825</u>	<u>\$ -</u>	<u>\$ 2,016,825</u>

See accompanying notes.

**SOUTH CENTRAL 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, 2020

Net change in fund balances—total governmental funds	\$	408
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital assets additions as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$285,571) exceeded capital asset additions (\$183,912).		(101,659)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Net increase in compensated absences		(6,907)
Net increase in pension expense		(35,582)
Net increase in other postemployment benefits		(42,517)
		(85,006)
Change in net position of governmental activities	\$	(186,257)

See accompanying notes.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
December 31, 2020

	<u>Custodial Funds</u>	
	<u>South Central Library System</u>	<u>South Central Library System Foundation, Inc.</u>
<b>ASSETS</b>		
Cash	\$ 206,011	\$ -
Investments	-	2,968,914
	<u>206,011</u>	<u>2,968,914</u>
<b>LIABILITIES</b>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>		
Held for member libraries	206,011	1,986,934
Held for others	-	981,980
	<u>\$ 206,011</u>	<u>\$ 2,968,914</u>

See accompanying notes.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
For the Year Ended December 31, 2020

	<u>Custodial Funds</u>	
	<u>South Central Library System</u>	<u>South Central Library System Foundation, Inc.</u>
<b>ADDITIONS</b>		
Deposits by member libraries and others	\$ 74,895	\$ 300,841
E-commerce payments received from library patrons	77,336	-
E-rate payments received	77,610	-
Investment earnings		
Interest and dividends	668	49,354
Net realized and unrealized gains on investments	-	202,144
Investment costs		
Investment management fees	-	(13,282)
Administrative fees	-	(21,996)
	<u>668</u>	<u>216,220</u>
Net investment earnings		
	<u>668</u>	<u>216,220</u>
Total additions	<u>230,509</u>	<u>517,061</u>
<b>DEDUCTIONS</b>		
Withdrawals by member libraries and others	47,161	44,643
E-commerce payments to member libraries	77,620	-
E-rate rebates paid to member libraries	76,643	-
	<u>201,424</u>	<u>44,643</u>
Total deductions		
	<u>201,424</u>	<u>44,643</u>
Change in net position	29,085	472,418
Net position—beginning	<u>176,926</u>	<u>2,496,496</u>
Net position—ending	<u>\$ 206,011</u>	<u>\$ 2,968,914</u>

See accompanying notes.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

South Central Library System (“System”) was established on January 1, 1975, as a federated public library system under Chapter 43 of the Wisconsin Statutes. The System serves over 800,000 people in Adams, Columbia, Dane, Green, Portage, Sauk, and Wood counties. Its membership is comprised of 54 public libraries consisting of 65 library sites, including the central library and eight branches of the Madison Public Library, the central library and three branches of the Portage County Public Library, and the Dane County Library Service. More than 200 libraries of all types participate with the System in multitype planning and to further cooperative activities among all types of libraries. The System is governed by a board of trustees comprised of twenty statutory voting members representing the participating counties.

The System is one of sixteen public library systems in Wisconsin. Although it is not a state agency, it is funded primarily by state universal service fund revenues, which are funded primarily by assessments paid by telecommunications providers. The amount of public library system aid is determined by a formula based on the number of system residents, the land area, and local library budgets.

The financial statements of the System are prepared in accordance with generally accepted accounting principles applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies used by the System are discussed in subsequent sections of this note.

**Reporting Entity**

This report includes all of the funds of the System (the primary government). 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. If a primary government appoints a voting majority of an organization’s officials or if the organization is fiscally dependent on the primary government and there is a potential for those organizations either to provide specific financial benefits to, or to impose specific financial burdens on, the primary government, the primary government is financially accountable for those organizations. An organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists. The primary government may be financially accountable if an organization is fiscally dependent on the government. These financial statements present the System (the primary government) and its discretely presented component unit, South Central Library System Foundation, Inc.

The purpose of South Central Library System Foundation, Inc. is to provide financial support for the System and its member libraries. South Central Library System Foundation, Inc. is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government. Separate financial statements for South Central Library System Foundation, Inc. are not issued.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Basis of Presentation**

*Government-wide Financial Statements*

The government-wide financial statements consist of the statement of net position and the statement of activities and report information about the reporting government as a whole. These statements include all funds of the reporting entity except for fiduciary funds. Governmental activities, which normally are supported by intergovernmental and other nonexchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the System's services are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. 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 program and (2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Items not properly included among program revenues are reported instead as general revenues.

*Fund Financial Statements*

The financial transactions of the System are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balances of current financial resources.

The System reports the following major governmental fund:

*General fund*—The general fund is the primary operating fund of the System and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Additionally, the System reports the following fund type:

*Special revenue fund*—The special revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The System uses its special revenue fund to account for its Library Services and Technology Act (LSTA) grants.

Proprietary funds are those funds used to account for activities that are similar to those found in the private sector. The measurement focus of proprietary funds is on determining operating income, changes in net position (or cost recovery), financial position, and cash flows. The System does not report any proprietary funds.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary funds are those funds used to report assets held in a trustee or custodial capacity for others and therefore are not available to support the System's programs. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the System, these funds are not incorporated into the government-wide financial statements.

In previously issued financial statements, the System reported amounts held for third parties as liabilities on the statement of fiduciary net position. GASBS No. 84 indicates a liability to the beneficiaries of a fiduciary activity should be recognized in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Under the guidance in GASBS No. 84, custodial funds report a fiduciary net position for amounts that are held for future benefits or disbursement. Accordingly, the System made an adjustment to restate amounts previously reported as liabilities as fiduciary net position as of the beginning of the year. The restatement had no effect on the change in net position of the previous year.

During the course of operations the System has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due to/from other funds or advances to/from other funds. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

**Measurement Focus and Basis of Accounting**

Measurement focus describes "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

*Measurement Focus*

The government-wide financial statements and the fiduciary fund financial statement are reported using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported.

Governmental fund financial statements are reported using the current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

*Basis of Accounting*

Both governmental activities in the government-wide financial statements and the fiduciary fund financial statements are presented on the accrual basis of accounting. Under the accrual basis of

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred.

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or within 60 days after year end to pay liabilities of the current period. Expenditures are generally recorded when the related liability is incurred, as under the accrual basis of accounting. However, expenditures related to compensated absences are recorded only when due and payable.

**Cash**

The System's cash includes cash on hand, checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts at financial institutions and short-term investments with original maturities of three months or less from date of acquisition.

**Investments**

Investments are reported at fair value, generally based on quoted market prices, except for the position in the Local Government Investment Pool, which is reported at amortized cost.

**Receivables**

The System considers all receivables to be fully collectible. Accordingly, no allowance for doubtful amounts have been established. If amounts become uncollectible, they will be charged to operations when that determination is made.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**Capital Assets**

The accounting treatment of property and equipment depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Financial Statements*

In the government-wide financial statements, acquisitions of property and equipment in excess of \$1,000 are accounted for as capital assets. Capital assets purchased are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated fair value at the date of donation.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of all exhaustible assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net position. Depreciation is provided using the straight-line method over the following estimated useful lives.

	<u>Estimated Useful Lives (Years)</u>
Vehicles	5-7
ILS and technology equipment	5-10
Leasehold improvements	4-10
Furniture and equipment	3-10

*Fund Financial Statements*

In the fund financial statements, property and equipment used in governmental fund operations are accounted for as expenditures of the governmental fund upon acquisition.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the balance sheet will report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The System has deferred outflows as of December 31, 2020 related to pension activity and other postemployment benefits.

In addition to liabilities, the balance sheet will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The System has deferred inflows as of December 31, 2020 related to pension activity, other postemployment benefits, and the advance receipt of state aid to public library systems.

**Equity Classifications**

*Government-wide Financial Statements*

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

*Net investment in capital assets*—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.

*Restricted*—Consists of net position with constraints placed on their 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.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Unrestricted*—All other net position that do not meet the definition of “net investment in capital assets” or “restricted”.

*Fund Financial Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

*Nonspendable*—Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

*Restricted*—Amounts that can be spent only for specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed*—Resources that can only be used for specific purposes as the result of a formal action of the System’s highest level of decision-making authority, the board of trustees. Any changes in the constraints imposed require the same formal action of the System that originally created the commitment.

*Assigned*—Resources that are neither restricted nor committed, but are constrained by the System’s intent to be used for specific purposes as established by the board of trustees.

*Unassigned*—All amounts not included in other spendable classifications.

**Use of Restricted Resources**

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the System’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the System’s policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

**Compensated Absences**

The System’s employees may accumulate earned but unused vacation benefits, which are eligible for payment upon termination. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related payments, where applicable. Accumulated sick leave lapses when employees leave the System for any reason other than retirement. Upon retirement, accumulated sick leave is used to extend an employee’s health insurance coverage.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Pension**

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

**Other Postemployment Benefits Other than Pensions (OPEB)**

*Local Retiree Life Insurance Fund*

The fiduciary net position of the Local Retiree Life Insurance Fund (LRLIF) has been determined using the flow of economic resources measurement focus and the accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about the fiduciary net position of the LRLIF and additions to/deductions from LRLIFs fiduciary net position have been determined on the same basis as they are reported by LRLIF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Use of Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

NOTE 2—STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

In compliance with Chapter 43 of the Wisconsin Statutes, less than 20% of the state aid received by the System was used for administrative purposes.

NOTE 3—DEPOSITS

*Custodial Credit Risk—Deposits*

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System has an investment policy that states that all funds are to be insured unless approved otherwise by the System Board; the System Board has voted to allow some uninsured funds in order to gain higher interest rates. As of December 31, 2020, the System's bank balance was \$2,105,257 and \$1,855,257 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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NOTE 4—INVESTMENTS

Chapter 66 of the Wisconsin Statutes authorizes the System to invest in:

1. Time deposits in any credit union, bank, savings bank, trust company or savings and loan association which is authorized to transact business in the state if the time deposits mature in not more than three years.
2. Bonds or securities issued or guaranteed as to principal and interest by the federal government or by a commission, board, or other instrumentality of the federal government.
3. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state; bonds issued by a local exposition district; bonds issued by a local professional baseball park district; bonds issued by a local professional football stadium district; bonds issued by the University of Wisconsin Hospitals and Clinics Authority; bonds issued by a local cultural arts district; or bonds issued by the Wisconsin Aerospace Authority.
4. Any security which matures or which may be tendered for purchase at the option of the holder within not more than seven years of the date on which it is acquired, if that security has a rating which is the highest or second highest rating category assigned by Standard & Poor's, Moody's Investors Service, or other similar nationally recognized rating agency or if that security is senior to, or on a parity with, a security of the same issuer which has such a rating.
5. Securities of an open-end management investment company or investment trust, if the investment company or investment trust does not charge a sales load, if the investment company or investment trust is registered under the Investment Company Act of 1940, and if the portfolio of the investment company or investment trust is limited to:
  - a. Bonds and securities issued by the federal government or by a commission, board, or other instrumentality of the federal government.
  - b. Bonds that are guaranteed as to principal and interest by the federal government or by a commission, board, or other instrumentality of the federal government.
  - c. Repurchase agreements that are fully collateralized by bonds or securities issued or guaranteed as to principal and interest by the federal government or by a commission, board, or other instrumentality of the federal government.

The System also meets the definition of a local government under Chapter 25 of the Wisconsin Statutes and may voluntarily invest in the Local Government Investment Pool (LGIP), an external investment pool for various local government units. Funds from the LGIP are combined with funds from the State of Wisconsin and its agencies and the excess cash of the retirement funds invested by the State of Wisconsin and its agencies and the excess cash of the retirement funds invested by the State of Wisconsin Investment Board (SWIB) and are managed by the SWIB as one fund called the State Investment Fund (SIF). The SIF is invested primarily in obligations of the U.S. government and its agencies and high-quality commercial bank and corporate debt obligations. The SWIB is not registered with the Securities and Exchange Commission as an investment company. The fair value of the System's position in the LGIP is the same as the value of pool shares.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

NOTE 4—INVESTMENTS (continued)

As of December 31, 2020, the System had the following investments:

Investment Type	Credit Quality Ratings	Weighted Average Maturity (Years)	Fair Value
U.S. agencies	AAA	4.93	\$ 416,045
U.S. Treasuries	AAA	3.28	106,847
Municipal obligations	AAA	5.20	108,954
Municipal obligations	AA1/AA2/AA3	4.24	311,965
Corporate bonds	AAA	1.87	26,039
Corporate bonds	AA1/AA2/AA3	1.13	25,518
Corporate bonds	A1/A2/A3	2.72	324,003
Foreign bonds	A1	0.24	25,220
Local Government Investment Pool	Not rated		118,713
			<u>\$ 1,463,304</u>

The System has the following recurring fair value measurements as of December 31, 2020:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds	\$ 375,560	\$ 375,560	\$ -	\$ -
Foreign bonds	25,220	25,220	-	-
U.S. government securities	522,892	522,892	-	-
Municipal obligations	420,919	420,919	-	-
Local Government Investment Pool	118,713	-	-	118,713
Total investments	<u>\$ 1,463,304</u>	<u>\$ 1,344,591</u>	<u>\$ -</u>	<u>\$ 118,713</u>

*Interest Rate Risk*

The System's investment policy does not further limit the investment maturities authorized by Chapter 66 of the Wisconsin Statutes.

*Credit Risk*

The System's investment policy does not further limit the investment types authorized by Chapter 66 of the Wisconsin Statutes.

*Concentration of Credit Risk*

The System places no limits on the amount the System may invest in any one issuer.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

NOTE 4—INVESTMENTS (continued)

*Custodial Credit Risk—Investments*

In the case of investments, 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. The System does not have an investment policy for custodial credit risk.

South Central Library System Foundation, Inc. is not subject to Chapter 66 of the Wisconsin Statutes and is generally only limited to the types of investments authorized by its investment policy.

NOTE 5—CAPITAL ASSETS

Capital assets activity for governmental activities was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets				
Work in progress	\$ 839,350	\$ -	\$ -	\$ 839,350
Vehicles	744,003	73,739	(72,862)	744,880
ILS and technology equipment	1,874,258	91,527	(11,722)	1,954,063
Leasehold improvements	65,264	-	-	65,264
Furniture and equipment	210,348	18,646	(5,455)	223,539
Total capital assets	<u>3,733,223</u>	<u>183,912</u>	<u>(90,039)</u>	<u>3,827,096</u>
Less accumulated depreciation				
Vehicles	505,862	62,417	(72,862)	495,417
ILS and technology equipment	1,364,583	205,606	(11,722)	1,558,467
Leasehold improvements	63,623	547	-	64,170
Furniture and equipment	181,166	17,001	(5,455)	192,712
Total accumulated depreciation	<u>2,115,234</u>	<u>285,571</u>	<u>(90,039)</u>	<u>2,310,766</u>
Capital assets—net	<u>\$ 1,617,989</u>	<u>\$ (101,659)</u>	<u>\$ -</u>	<u>\$ 1,516,330</u>

Depreciation expense was \$285,571 and was charged entirely to governmental activities as an expense for library services.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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NOTE 6—INTERFUND BALANCES

Interfund balances at December 31, 2020 consist of \$57,218 due to the general fund from the special revenue fund. The outstanding balance is the result of a time lag between the date expenditures for LSTA grants were paid from the general fund and the date the System received reimbursement for those expenditures from the grantor agency, at which time payments between funds are made.

NOTE 7—EMPLOYEE'S RETIREMENT SYSTEM

**General Information about the Pension Plan**

*Plan description.* The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1,200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

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

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

*Benefits provided.* Employees who retire at or after age 65 (54 for protective occupations and 62 for elected officials and executive service retirement plan participants, if hired on or before December 31, 2016) are entitled to a retirement benefit based on a formula factor, their final average earnings, and creditable service.

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

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

The WRS also provides death and disability benefits for employees.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

NOTE 7—EMPLOYEE'S RETIREMENT SYSTEM (continued)

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

The Core and Variable annuity adjustments granted during recent years are as follows:

Year	Core Fund Adjustment %	Variable Fund Adjustment %
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)
2017	2.0	4
2018	2.4	17
2019	0.0	(10)

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

During the reporting period, the WRS recognized \$177,609 in contributions from the employer.

Contribution rates as of December 31, 2019 are:

Employee Category	Employee	Employer
General (including teachers, executives, and elected officials)	6.55%	6.55%
Protective with Social Security	6.55%	10.55%
Protective without Social Security	6.55%	14.95%

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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NOTE 7—EMPLOYEE'S RETIREMENT SYSTEM (continued)

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

At December 31, 2020, the System reported an asset of \$550,174 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2019, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2018 rolled forward to December 31, 2019. The System reported a deferred outflow of \$42,873 for a change in assumption between the actuarial valuation date and the measurement date. The System's proportion of the net pension asset was based on the System's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2019, the System's proportion was 0.01681796%, which was an increase of 0.00027754% from its proportion measured as of December 31, 2018. For the year ended December 31, 2020, the System recognized pension expense of \$213,191.

At December 31, 2020, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,044,357	\$ (522,630)
Changes in assumptions	42,873	-
Net differences between projected and actual earnings on pension plan investments	(1,124,752)	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,323	-
Employer contributions subsequent to the measurement date	<u>177,583</u>	<u>-</u>
Total	<u>\$ 144,384</u>	<u>\$ (522,630)</u>

\$177,583 reported as deferred outflows related to pension resulting from the System's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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NOTE 7—EMPLOYEE'S RETIREMENT SYSTEM (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended December 31:		
2020	\$	(163,047)
2021		(123,306)
2022		19,970
2023		(289,446)
2024		-
		<hr/>
	\$	<u>(555,829)</u>

**Actuarial assumptions.** The total pension liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2018
Measurement Date of Net Pension Liability (Asset)	December 31, 2019
Actuarial Cost Method:	Entry age normal
Asset Valuation Method:	Fair value
Long-Term Expected Rate of Return:	7.0%
Discount Rate:	7.0%
Salary Increases:	
Inflation	3.0%
Seniority/Merit	0.1% - 5.6%
Mortality:	Wisconsin 2018 Mortality Table
Post-retirement Adjustments*	1.9%

*\*No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 1.9% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. Based on this experience study, actuarial assumptions used to measure the total pension liability changed from prior year, including the discount rate, long-term expected rate of return, post-employment adjustment, wage inflation rate, mortality, and separation rates. The total pension liability for December 31, 2019 is based upon a roll-forward of the liability calculated from the December 31, 2018 actuarial valuation.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

NOTE 7—EMPLOYEE'S RETIREMENT SYSTEM (continued)

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

<u>Core Fund Asset Class</u>	<u>Asset Allocation %</u>	<u>Long-Term Expected Nominal Rate of Return %</u>	<u>Long-Term Expected Real Rate of Return %</u>
Global equities	49	8.0	5.1
Fixed income	24.5	4.9	2.1
Inflation sensitive assets	15.5	4.0	1.2
Real estate	9	6.3	3.5
Private equity/debt	8	10.6	7.6
Multi-asset	4	6.9	4.0
Total core fund	110	7.5	4.6
<u>Variable Fund Asset Class</u>			
U.S. equities	70	7.5	4.6
International equities	30	8.2	5.3
Total variable fund	100	7.8	4.9

*Single discount rate.* A single discount rate of 7.00% was used to measure the total pension liability for the current and prior year. This single discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 2.75%. Because of the unique structure of WRS, the 7.00% expected rate of return implies that a dividend of approximately 1.9% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the municipal bond rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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NOTE 7—EMPLOYEE'S RETIREMENT SYSTEM (continued)

*Sensitivity of South Central Library System's proportionate share of the net pension asset to changes in the discount rate.* The following presents South Central Library System's proportionate share of the net pension asset calculated using the discount rate of 7.00%, as well as what South Central Library System's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease to Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase to Discount Rate (8.0%)
The System's proportionate share of net pension (asset) liability	\$ 1,416,798	\$ (550,174)	\$ (2,020,713)

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

NOTE 8—OTHER POST-EMPLOYMENT BENEFITS

*Local Retiree Life Insurance Fund*

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

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

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

**Contributions**

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

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

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

NOTE 8—OTHER POST-EMPLOYMENT BENEFITS (continued)

Contribution rates as of December 31, 2019 are:

<u>Coverage Type</u>	<u>Employer Contribution</u>
50% Post Retirement Coverage	40% of employee contribution
25% Post Retirement Coverage	20% of employee contribution

Employee contributions are based upon nine age bands through age 69 and an additional eight age bands for those age 70 and over. Participating employees must pay monthly contribution rates per \$1,000 of coverage until the age of 65 (age 70 if active). The employee contribution rates in effect for the year ended December 31, 2019 are as listed below:

**Life Insurance**  
**Employee Contribution Rates**  
**For the year ended December 31, 2019**

<u>Attained Age</u>	<u>Basic</u>	<u>Supplemental</u>
Under 30	\$0.05	\$0.05
30-34	0.06	0.06
35-39	0.07	0.07
40-44	0.08	0.08
45-49	0.12	0.12
50-54	0.22	0.22
55-59	0.39	0.39
60-64	0.49	0.49
65-69	0.57	0.57

During the reporting period, the LRLIF recognized \$1,796 in contributions from the System.

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

At December 31, 2020, the System reported a liability of \$466,119 or its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2019 rolled forward to December 31, 2019. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The District's proportion of the net OPEB liability was based on the System's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2019, the System's proportion was 0.10946400%, which was an increase of 0.00691700% from its proportion measured as of December 31, 2018. For the year ended December 31, 2019, the System recognized OPEB expense of \$42,517.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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NOTE 8—OTHER POST-EMPLOYMENT BENEFITS (continued)

At December 31, 2019, the System reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ -	\$ (20,881)
Net differences between projected and investment earnings on plan investments	8,793	-
Changes in actuarial assumptions	171,953	(51,270)
Changes in proportion and differences between employer contributions and proportionate share of contributions	49,295	-
Employer contributions subsequent to the measurement date	1,953	-
Total	\$ 231,994	\$ (72,151)

\$1,953 reported as deferred outflows related to OPEB resulting from the LRLIF Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019.

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

Year ended December 31:	
2020	\$ 28,030
2021	28,030
2022	27,082
2023	26,106
2024	21,547
2025	26,833
2026	262
	\$ 157,890

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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NOTE 8—OTHER POST-EMPLOYMENT BENEFITS (continued)

**Actuarial assumptions.** The total OPEB liability in the January 1, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	January 1, 2019
Measurement Date of Net OPEB Liability	December 31, 2019
Actuarial Cost Method:	Entry age normal
20 Year Tax-Exempt Municipal Bond Yield	2.7%
Long-Term Expected Rate of Return:	4.25%
Discount Rate:	2.87%
Salary Increases:	
Inflation	3.00%
Seniority/Merit	0.1% - 5.6%
Mortality:	Wisconsin 2018 Mortality Table

Actuarial assumptions are based upon an experience study conducted in 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. Based on this experience study, actuarial assumptions used to measure to total OPEB liability changed from prior year, including the discount rate, wage inflation rate, mortality and separation rates. The total OPEB liability for December 31, 2019 is based upon a roll-forward of the liability calculated from the January 1, 2019 actuarial valuation.

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

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

NOTE 8—OTHER POST-EMPLOYMENT BENEFITS (continued)

**Local OPEB Life Insurance**  
**Asset Allocation Targets and Expected Returns**  
**As of December 31, 2019**

<u>Asset Class</u>	<u>Index</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
US Credit Bonds	Barclays Credit	45%	2.12%
US Long Credit Bonds	Barclays Long Credit	5%	2.90%
US Mortgages	Barclays MBS	50%	1.53%
Inflation			2.20%
Long-Term Expected Rate of Return			4.25%

The long-term expected rate of return decreased slightly from 5.00% in the prior year to 4.25% in the current year. This change was primarily based on the target asset allocation and capital market expectations. The expected inflation rate also decreased slightly from 2.30% in the prior year to 2.20% in the current year. The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation.

**Single Discount rate.** A single discount rate of 2.87% was used to measure the total OPEB liability for the current year, as opposed to a discount rate of 4.22% for the prior year. The Plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total OPEB Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payment to the extent that the plan's fiduciary net position is projected to be insufficient. The plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through December 31, 2036.

**Sensitivity of the System's proportionate share of the net OPEB liability to changes in the discount rate.** The following presents the System's proportionate share of the net OPEB liability calculated using the discount rate of 2.87 percent, as well as what the System's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.87 percent) or 1-percentage-point higher (3.87 percent) than the current rate:

	1% Decrease to Discount Rate 1.87%	Current Discount Rate 2.87%	1% Increase to Discount Rate 3.87%
The System's proportionate share of net OPEB liability	\$ 643,632	\$ 466,119	\$ 331,066

**SOUTH CENTRAL LIBRARY SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2020

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NOTE 8—OTHER POST-EMPLOYMENT BENEFITS (continued)

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

NOTE 9—LEASES

The System leases facilities for administrative space and delivery operations under noncancelable operating leases that expire at various dates through May 31, 2023. Those leases generally require the System to pay all executory costs such as taxes, maintenance, and insurance. Rental expenses for those leases totaled \$411,430 for the year. Future minimum rental payments under operating leases that have remaining terms in excess of one year as of December 31, 2020, are:

2021	\$ 390,618
2022	242,296
2023	<u>102,692</u>
	<u>\$ 735,606</u>

The System also leases a portion of its administrative space to the Wisconsin Library Association. Sublease rental income was \$18,521 for the year.

NOTE 10—RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters for which the System purchases commercial insurance with minimal deductibles. There have been no significant reductions in coverage and settled claims have not exceeded insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH CENTRAL LIBRARY SYSTEM**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)**  
**WISCONSIN RETIREMENT SYSTEM**  
**LAST 10 FISCAL YEARS\***

	2020	2019	2018	2017	2016
The System's proportion of the net pension liability (asset)	0.017063%	0.016818%	0.016540%	0.016513%	0.017020%
The System's proportionate share of the net pension liability (asset)	\$ (550,174)	\$ 598,330	\$ (491,104)	\$ 136,104	\$ 276,566
The System's covered-employee payroll	\$ 2,711,586	\$ 2,698,464	\$ 2,479,112	\$ 2,335,514	\$ 2,381,009
The System's proportionate share as a percentage of covered payroll	20.29%	22.17%	-19.81%	5.83%	-11.62%
Plan fiduciary net position as a percentage of the total pension liability (asset)	102.96%	96.45%	102.93%	99.12%	98.20%

\*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**SCHEDULE OF CONTRIBUTIONS—WISCONSIN RETIREMENT SYSTEM**  
**LAST 10 FISCAL YEARS\***

	2020	2019	2018	2017	2016
Contractually required contributions	\$ 177,609	\$ 180,797	\$ 168,580	\$ 154,145	\$ 161,907
Contributions in relation to the contractually required contributions	\$ 177,609	\$ 180,797	\$ 168,580	\$ 154,145	\$ 161,907
The System's covered-employee payroll	\$ 2,711,586	\$ 2,698,464	\$ 2,479,112	\$ 2,335,514	\$ 2,381,009
Contributions as a percentage of covered-employee payroll	6.55%	6.70%	6.80%	6.60%	6.80%

\*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

See accompanying notes to required supplementary information.

**SOUTH CENTRAL LIBRARY SYSTEM**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY**  
**LOCAL RETIREE LIFE INSURANCE FUND**  
**LAST 10 FISCAL YEARS\***

	2020	2019
The System's proportion of the net OPEB liability	0.109464%	0.102547%
The System's proportionate share of the net OPEB liability	\$ 466,119	\$ 264,606
The System's covered-employee payroll	\$ 2,617,000	\$ 2,393,000
Plan fiduciary net position as a percentage of the total OPEB liability	37.58%	48.69%

\*The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

See accompanying notes to required supplementary information.

**SOUTH CENTRAL LIBRARY SYSTEM**  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2020

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NOTE 1—SCHEDULE OF CONTRIBUTIONS—WISCONSIN RETIREMENT SYSTEM

*Changes of benefit terms.* There were no changes of benefit terms for any participating employer in WRS.

*Changes of assumptions.* Actuarial assumptions are based upon an experience study conducted in 2018 using experience from 2015-2017. Based on the experience study conducted in 2018, actuarial assumptions used to develop total pension liability changed, including the discount rate, long-term expected rate of return, post-retirement adjustment, wage inflation rate, mortality, and separation rates.

NOTE 2—SCHEDULE OF CONTRIBUTIONS—LOCAL RETIREE LIFE INSURANCE FUND

*Changes of benefit terms.* There were no changes of benefit terms for any participating employer in LRLIF.

*Changes of Assumptions.* Actuarial assumptions are based upon an experience study conducted in 2018 using experience from 2015-2017. Based on the experience study conducted in 2018, actuarial assumptions used to develop total OPEB liability changed, including the discount rate, wage inflation rate, and mortality and separation rates.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees  
South Central Library System  
Madison, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, the general fund, and the remaining fund information of South Central Library System as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise South Central Library System's basic financial statements, and have issued our report thereon dated March 25, 2021.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Central Library System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Central Library System's internal control. Accordingly, we do not express an opinion on the effectiveness of South Central Library System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

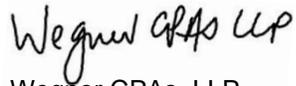
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Central Library System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Wegner CPAs LLP". The signature is written in a cursive, slightly slanted style.

Wegner CPAs, LLP  
Madison, Wisconsin  
March 25, 2021