

South Central Library System

Financial Statements and
Supplementary Information

December 31, 2021

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South Central Library System

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INDEPENDENT AUDITORS REPORT

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Independent Auditors' Report

To the Board of Trustees of
South Central Library System

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Central Library System, (the System), as of and for the year ended December 31, 2021 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the System as of December 31, 2021 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (GAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 3 to the financial statements, net position and fund balance as of December 31, 2020 has been restated to correct a material misstatement due to classification change of a component unit. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2022 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Milwaukee, Wisconsin
April 27, 2022

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2021

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, 2021. 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.

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.
- 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.

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South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2021

- 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 Unit

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. The component unit is shown as a blended component unit, special revenue fund, for the South Central Library System's portion of the Foundation. The portion of the Foundation that is for other libraries or Friends groups is shown as a custodial fiduciary fund.

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 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 Statement of Fiduciary Net Position and Statement of 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.

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South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2021

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 48.

Restatement of Beginning Net Position and Fund Balance

The System restated beginning net position and fund balance for a classification change in reporting type of a component unit. The restatement related to balances noted as beginning balances in the 2021 information. For comparison purposes in this management discussion & analysis prior year data has not been restated. For further details on the restatement please see Note 3 in the System's footnotes.

The System as a Whole

The System's net position increased by \$442,227 from a year ago—from \$3,349,752 to \$3,791,979, an increase of 13.2 percent. In contrast, last year's net position decreased by \$186,257. Net position at December 31, 2021 and 2020 consists of the following elements:

Net Position

Governmental Activities

	<u>2021</u>	<u>2020</u>
Current assets	\$ 10,046,258	\$ 4,075,681
Long-term assets	1,069,862	550,174
Capital assets	<u>1,454,427</u>	<u>1,516,330</u>
Total assets	<u>12,570,547</u>	<u>6,142,185</u>
Deferred outflows of resources	<u>2,095,230</u>	<u>376,378</u>
Current liabilities	384,082	326,299
Long-term liabilities	<u>6,160,389</u>	<u>597,756</u>
Total liabilities	<u>6,544,471</u>	<u>924,055</u>
Deferred inflows of resources	<u>4,329,327</u>	<u>2,244,756</u>
Net position:		
Net investment in capital assets	1,378,236	1,516,330
Restricted	1,366,425	-
Unrestricted	<u>1,047,318</u>	<u>1,833,422</u>
Total net position	<u>\$ 3,791,979</u>	<u>\$ 3,349,752</u>

Unrestricted net position—the part of net position that can be used to finance day-to-day operations—decreased from \$1,833,422 at December 31, 2020 to \$1,047,318 at December 31, 2021. This decrease is primarily attributed to the valuation Wisconsin Retirement System's net pension asset and increase in the restricted balance. As discussed in Note 3, the measurement date of the net pension asset was December 31, 2020.

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South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2021

Changes in Wisconsin Retirement System (WRS)

<u>Changes in Wisconsin Retirement System (WRS)</u>	
	(in millions)
Plan Fiduciary Net Position—WRS Total	
Plan year end 2020	\$ 124,966.4
Plan year end 2019	<u>112,092.7</u>
Change in net position	<u>12,873.7</u> (a)
Total Pension Liability—WRS Total	
Plan year end 2020	118,723.3
Plan year end 2019	<u>108,868.3</u>
Change in total pension asset (TPA)	<u>9,855.0</u> (b)
WRS change in net pension asset (NPA)	3,018.7 (a-b)
Multiplied by the System's allocation %	<u>0.01714%</u>
The System's share of WRS' change in NPA	0.5
The System's 2020 net pension asset	<u>0.6</u>
The System's 2021 net pension asset	<u>\$ 1.1</u>

The System's net investment in capital assets decreased from \$1,516,330 at December 31, 2020 to \$1,378,236 at December 31, 2021, primarily due to depreciation expense of \$233,067 exceeding capital assets additions of \$171,164. Additional information regarding capital assets is available on page 10 as well as in the notes to the basic financial statements.

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South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2021

For the years ended December 31, 2021 and 2020, the System's net position changed as follows:

Changes in Net Position

Governmental Activities

	<u>2021</u>	<u>2020</u>
Revenues		
Program revenues:		
Charges for services	\$ 3,816,411	\$ 3,821,817
Operating grants and contributions	1,122,151	609,687
General revenues:		
State aid to public library systems	2,199,966	2,199,966
Investment earnings	14,395	83,286
Miscellaneous	15,078	-
Gain on sale of capital assets	11,808	8,179
Total revenues	<u>7,179,809</u>	<u>6,722,935</u>
Expenses		
Library services	5,998,257	5,870,727
System contract expenditures	969,431	1,006,372
Payments to member libraries	34,793	32,093
Total expenses	<u>7,002,481</u>	<u>6,909,192</u>
Change in net position	177,328	(186,257)
Net Position, Beginning	<u>3,614,651</u>	<u>3,536,009</u>
Net Position, Ending	<u>\$ 3,791,979</u>	<u>\$ 3,349,752</u>

Revenues for the System's governmental activities increased by 6.8 percent (\$456,874), while total expenses increased by 1.3 percent (\$93,289). The increase in net position for governmental activities was \$177,328 for the year ended December 31, 2021 compared to a \$186,257 decrease in net position for the year ended December 31, 2020. The increase in operating grants and contributions is the primary reason for the increase in program revenues.

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.

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South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2021

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 \$7,545,546, which consists of \$2,034,232 in the general fund, \$296,563 in the special revenue foundation fund and \$5,423,809 in the capital project fund. The grant fund had a deficit of \$209,058 due to timing of grant receipts. The overall governmental fund balance increased by \$5,263,822 from a year ago.

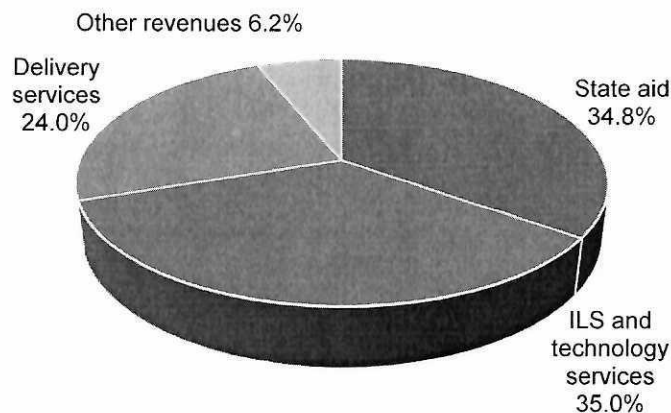
For the year ended December 31, 2021, the System's state aid remained the same as the previous year at \$2,199,966. State aid comprised 34.8 percent of the System's general fund revenues for the year ended December 31, 2021.

Revenues related to the ILS and technology services—which consist primarily of annual service fees paid by member libraries—increased \$39,581, or 1.8 percent, 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 staff salaries and central server hardware. Contracts for ILS and technology services comprised 35.0 percent of the System's general fund revenues for the year ended December 31, 2021.

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 \$68,883 from the previous year due to LSTA grant funds paying the statewide systems' delivery fees for the 2nd half of 2021. Contracts for delivery services comprised 24.0 percent of the System's general fund revenues for the year ended December 31, 2021.

Revenues by Source

General Fund



For the year ended December 31, 2021, general fund expenditures totaled \$6,318,621, a decrease of 3.9 percent from the previous year.

The System's personnel costs—salaries and wages, payroll taxes and benefits, including retirement contributions—totaled \$3,874,982 for the year ended December 31, 2021 which is a decrease of \$16,043 from the year ended December 31, 2020, which was \$3,891,025. Total costs of health, life and dental insurance increased \$65,139, from the previous year. For the year ended December 31, 2021, the Wisconsin Department of Employee Trust Funds continued a premium holiday for income continuation insurance that began in March 2012. Total retirement contributions decreased by \$1,942, or 1 percent, from the previous year due to a decrease in salaries and wages.

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South Central Library System

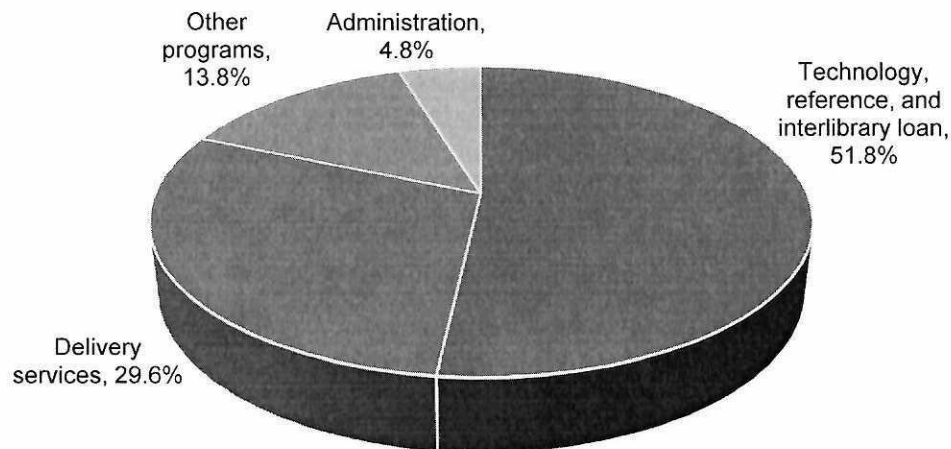
Management's Discussion and Analysis (unaudited)
December 31, 2021

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 \$175,624, from the previous year. This decrease from 2020 to 2021 is primarily in the areas of ILS contracted development and cataloging. Part of the cataloging decrease was due to a credit with OCLC that was applied to the 2021 cataloging fees. Technology, reference and interlibrary loan expenditures comprised 51.8 percent of the System's general fund expenditures for the year ended December 31, 2021.

Expenditures related to delivery services decreased \$158,318, from the previous year. Delivery salaries, supplies and fleet replacement expenses decreased in 2021 due to the elimination of Saturday delivery and the inability to order a new vehicle with supply shortages. The System also received \$198,930 in grant funds, an increase of \$123,930 over 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 29.6 percent of the System's general fund expenditures for the year ended December 31, 2021.

Expenditures by Program

General Fund



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, 2021, the System received 9 LSTA grants,—a \$198,930 grant to provide additional support for the statewide portion of the System's delivery services, a \$328,125 LSTA grant to enhance the WPLC Digital Media Buying Pool, a \$5,356 CARES grant to fund virtual equipment for libraries, a \$8,578 Tech Sparsity LSTA grant for digitization and additional delivery bins, a \$12,458 Leadership Capacity Streamline grant to provide Streamline for Success workshops for member libraries, a \$2,000 inclusive services LSTA grant, a \$101,227 ILS migration grant to bring the Rio and Marshfield libraries onto the SCLS integrated library system, a \$10,128 Professional Learning LSTA grant to provide training opportunities for library staff and a \$133,475 Infrastructure and Backup Digitization LSTA grant to fund the statewide backup collaboration project.

South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2021

Capital Assets

At December 31, 2021, the System had \$1,454,427 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 \$61,903, or 4.1 percent, from last year, primarily attributable to depreciation expense.

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

Governmental Activities

	<u>2021</u>	<u>2020</u>
Work in progress	\$ 915,525	\$ 839,350
Vehicles	208,723	249,463
ILS and technology equipment	159,421	189,263
Leasehold improvements	547	1,094
Furniture and equipment	24,807	30,827
Intangibles	145,404	206,333
Total	<u>\$ 1,454,427</u>	<u>\$ 1,516,330</u>

This year's major capital assets additions included:

- New delivery vehicles at a total cost of \$25,349
- ILS and technology equipment at a total cost of \$59,436
- Furniture and equipment at a total cost of \$10,204
- Building Design work at a total cost of \$76,175

In 2021, the System received \$5.5 million of state trust fund loans to finance the construction of a new building. Payments of principal and interest begin March 15, 2023 and continue annually until March 15, 2041. The building project is scheduled to be completed in the spring of 2023. The new building will house both the headquarters and delivery staff and will replace the 2 facilities in which it currently operates. It is planned that in 2022 the System will finalize the purchase of a parcel upon which to build a new facility. This purchase and construction will be financed through the Board of Commissioners of Public Land (BCPL) general obligation loan program and SCLS contingency, with a total budget of \$7,000,000.00.

In 2022, the System will continue to add library systems to begin full use of the back-up collaboration equipment purchased in 2019. Currently it is listed at \$915,525 of work in progress.

Additional information on the System's capital assets can be found in Note 3 on page 33.

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South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2021

Long Term Debt

On December 28, 2021, the System received \$5.5 million of state trust fund loans to finance the construction of a new building at 4% interest. Payments of principal and interest begin March 15, 2023 and continue annually until March 15, 2041. The building project is scheduled to be completed in the spring of 2023.

Additional information on the System's long term debt can be found in Note 5 on page 34.

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 pandemic of 2020-2021 will have lasting impacts on SCLS 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 systems for 2022 & 2023 will increase. The System's budget for 2022 includes a wage grid adjustment of 1%. Delivery services will return to 5 days per week, January 2022. In 2022 the System, in partnership with its members, will review its cost formula for 2023 ILS and Technology member fees. It will also review its cost formula for 2023 Delivery services.

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. In 2019, the PLSR Steering Committee released its final report with recommendations for the Wisconsin Department of Public Instruction and the 16 public library systems. The report is less prescriptive as originally envisioned, but outlines 7 recommendations with suggested implementation processes. Delivery service is one of the 7 targeted recommendations. In 2022-2024 the Department of Public Instruction will implement the new PLSR model of statewide delivery. SCLS delivery may or may not be the purveyor of the service, or of the UW delivery agreement, and this may have a significant financial impact on SCLS. The System is already working on collaborating with other systems to implement the other recommendations. The System's Technology Services staff has been working with all of the systems and various subsets on projects to: share computer vendor discounts; create and maintain 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>.

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BASIC FINANCIAL STATEMENTS

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South Central Library System

Statement of Net Position
December 31, 2021

	Governmental Activities
Assets	
Cash and investments	\$ 9,691,684
Accounts receivable	37,678
Grants receivable	209,058
Prepaid items	107,838
Restricted asset - net pension asset	1,069,862
Construction in progress	915,525
Capital assets net of accumulated depreciation	538,902
Total assets	<u>12,570,547</u>
Deferred Outflows of Resources	
Pension related items	1,757,038
OPEB related items	338,192
Total deferred outflows of resources	<u>2,095,230</u>
Liabilities	
Accounts payable	81,637
Accrued expenses	142,581
Unearned revenues	159,864
Noncurrent liabilities:	
Due in more than one year	6,160,389
Total liabilities	<u>6,544,471</u>
Deferred Inflows of Resources	
Advance receipt of state aid to public library systems	1,907,572
Pension related items	2,344,932
OPEB related items	76,823
Total deferred inflows of resources	<u>4,329,327</u>
Net Position	
Net investment in capital assets	1,378,236
Restricted	1,366,425
Unrestricted	1,047,318
Total net position	<u><u>\$ 3,791,979</u></u>

See notes to financial statements
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South Central Library System

Statement of Activities
Year Ended December 31, 2021

	Functions/Programs			Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	
South Central Library System:						
Governmental activities:						
Library services	\$ 5,998,257	\$ 3,188,330	\$ 1,122,151		\$ (1,687,776)	
System contract expenditures	969,431	628,081	-		(341,350)	
Payments to member libraries	34,793	-	-		(34,793)	
Total governmental activities	\$ 7,002,481	\$ 3,816,411	\$ 1,122,151		(2,063,919)	
General revenues:						
State aid to public library systems					2,199,966	
Investment earnings					14,395	
Miscellaneous					15,078	
Gain on sale of capital assets					11,808	
Total general revenues					2,241,247	
Change in net position					177,328	
Net Position, Beginning (as restated)					<u>3,614,651</u>	
Net Position, Ending					<u>\$ 3,791,979</u>	

See notes to financial statements

South Central Library System

Balance Sheet
 Governmental Funds
 December 31, 2021

	Special Revenue Funds				Total Governmental Funds
	General Fund	Grants Fund	Nonmajor Fund South Central Library System Foundation, Inc.	Capital Projects Fund	
Assets					
Cash and investments	\$ 3,945,235	\$ -	\$ 322,640	\$ 5,423,809	\$ 9,691,684
Accounts receivable	37,678	-	-	-	37,678
Grants receivable	-	209,058	-	-	209,058
Prepaid items	107,838	-	-	-	107,838
Due from other funds	235,135	-	-	-	235,135
Total assets	\$ 4,325,886	\$ 209,058	\$ 322,640	\$ 5,423,809	\$ 10,281,393
Liabilities					
Accounts payable	\$ 81,637	\$ -	\$ -	\$ -	\$ 81,637
Accrued expenditures	142,581	-	-	-	142,581
Unearned revenues	159,864	-	-	-	159,864
Due to other funds	-	209,058	26,077	-	235,135
Total liabilities	384,082	209,058	26,077	-	619,217
Deferred Inflows of Resources					
Advance receipt of state aid to public library systems	1,907,572	-	-	-	1,907,572
Unavailable revenues	-	209,058	-	-	209,058
Total deferred inflows of resources	1,907,572	209,058	-	-	2,116,630
Fund Balances (Deficit)					
Nonspendable:					
Prepaid items	107,838	-	-	-	107,838
Restricted:					
Building Project Foundation	-	-	-	5,423,809	5,423,809
	-	-	296,563	-	296,563
Assigned:					
Integrated library system (ILS)	395,107	-	-	-	395,107
Technology services	794,734	-	-	-	794,734
Delivery/general	736,553	-	-	-	736,553
Unassigned (deficit):	-	(209,058)	-	-	(209,058)
Total fund balances (deficit)	2,034,232	(209,058)	296,563	5,423,809	7,545,546
Total liabilities, deferred inflows of resources and fund balances (deficit)	\$ 4,325,886	\$ 209,058	\$ 322,640	\$ 5,423,809	\$ 10,281,393

South Central Library System

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2021

Total Fund Balances, Governmental Funds \$ 7,545,546

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. 1,454,427

Some receivables that are not currently available are reported unavailable revenue in the fund financial statements but recognized as revenue when earned in the district-wide statements. 209,058

The net pension asset is not an available resource and, therefore, is not reported in the funds. 1,069,862

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:

Outstanding loan payable	(5,500,000)
Deferred outflows related to pension	1,757,038
Deferred inflows related to pension	(2,344,932)
Net OPEB liability	(660,389)
Deferred outflows related to OPEB	338,192
Deferred inflows related to OPEB	(76,823)

Net Position of Governmental Activities \$ 3,791,979

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See notes to financial statements

South Central Library System

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 Year Ended December 31, 2021

	Special Revenue Funds				Total Governmental Funds
	General Fund	Grants Fund	Nonmajor Fund South Central Library System Foundation, Inc.	Capital Projects Fund	
Revenues					
State aid to public library systems	\$ 2,199,966	\$ -	\$ -	\$ -	\$ 2,199,966
Library Services and Technology Act (LSTA) grants	-	591,219	-	-	591,219
Contracts for ILS and technology services	2,215,838	-	-	-	2,215,838
Contracts for delivery services	1,515,507	-	-	-	1,515,507
Investment earnings (loss)	(14,031)	-	28,317	109	14,395
Other revenues	406,940	-	15,078	-	422,018
Total revenues	6,324,220	591,219	43,395	109	6,958,943
Expenditures					
Current:					
Technology, reference and interlibrary loan services	3,273,969	576,761	-	-	3,850,730
Continuing education and consulting services	366,952	24,586	-	-	391,538
Delivery services	1,870,728	198,930	-	-	2,069,658
Library services to special users	54,624	-	-	-	54,624
Library collection development	4,650	-	11,731	-	16,381
Library services to youth	88,087	-	-	-	88,087
Public information	328,308	-	-	-	328,308
Administration	303,536	-	-	-	303,536
Other system programs	27,767	-	-	-	27,767
Capital Outlay	-	-	-	76,300	76,300
Total expenditures	6,318,621	800,277	11,731	76,300	7,206,929
Excess (deficiency) of revenues over expenditures	5,599	(209,058)	31,664	(76,191)	(247,986)
Other Financing Sources					
Proceeds from sale of capital assets	11,808	-	-	-	11,808
Debt issued	-	-	-	5,500,000	5,500,000
Total other financing sources	11,808	-	-	5,500,000	5,511,808
Net change in fund balances	17,407	(209,058)	31,664	5,423,809	5,263,822
Fund Balances, Beginning (as restated)	2,016,825	-	264,899	-	2,281,724
Fund Balances, Ending	\$ 2,034,232	\$ (209,058)	\$ 296,563	\$ 5,423,809	\$ 7,545,546

See notes to financial statements
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South Central Library System

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended December 31, 2021

Net Change in Fund Balances, Total Governmental Funds \$ 5,263,822

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

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

Capital outlay is reported as an expenditure in the fund financial statements but is capitalized in the government-wide statements	76,300
Capital addition not recorded in capital outlay	94,864
Depreciation/amortization is reported in the government-wide statements	(233,067)

Receivables not currently available are reported as revenue when collected or currently available in the fund financial statements but are recognized as revenue when earned in the district-wide statements.	209,058
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Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Debt issued	(5,500,000)
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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:

Compensated absences	49,055
Net pension asset	519,688
Net OPEB liability	(194,270)
Deferred outflows of resources related to pension and OPEB	1,718,852
Deferred inflows of resources related to pension and OPEB	(1,826,974)

Change in Net Position of Governmental Activities \$ 177,328

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See notes to financial statements

South Central Library System

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2021

	<u>Custodial Funds</u>	
	<u>Deposits Fund</u>	<u>South Central Library System Foundation, Inc.</u>
Assets		
Cash and investments	\$ 264,122	\$ 5,966,450
Liabilities		
	-	-
Net Position		
Restricted for member libraries	264,122	3,530,670
Restricted for others	-	2,435,780
Total net position	<u>\$ 264,122</u>	<u>\$ 5,966,450</u>

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See notes to financial statements

South Central Library System

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

Year Ended December 31, 2021

	Custodial Funds	
	Deposits Fund	South Central Library System Foundation, Inc.
Additions		
Deposits by member libraries and others	\$ 71,006	\$ 2,685,810
E-commerce payments received from library patrons	65,431	-
E-rate payments received	47,344	-
Investment earnings:		
Interest and dividends	-	79,851
Net realized and unrealized gains on investments	-	344,516
Investment costs:		
Investment management fees	-	(21,069)
Administrative fees	-	(35,572)
Net investment earnings	-	367,726
Total additions	183,781	3,053,536
Deductions		
Withdrawals by member libraries and others	38,126	56,000
E-commerce payments to member libraries	65,060	-
E-rate rebates paid to member libraries	22,484	-
Total deductions	125,670	56,000
Change in fiduciary net position	58,111	2,997,536
Net Position, Beginning	206,011	2,968,914
Net Position, Ending	\$ 264,122	\$ 5,966,450

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See notes to financial statements

South Central Library System

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December 31, 2021

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1. Summary of Significant Accounting Policies

The South Central Library System (the System) was established on January 1, 1975, as a federated public library system under Chapter 43 of the Wisconsin Statutes. The System serves over 820,000 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 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 accounting policies of the South Central Library System, (the System) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

Reporting Entity

This report includes all of the funds of the System. The reporting entity for the System consists of the primary government and its component unit. Component units are legally separate organizations for which the primary government is financially accountable or 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. The primary government is financially accountable if (1) it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization, (2) it appoints a voting majority of the organization's governing body and there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the primary government, (3) the organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the primary government. Certain legally separate, tax exempt organizations should also be reported as a component unit if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units or its constituents; (2) the primary government or its component units, is entitled to or has the ability to access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the primary government or its component units, is entitled to or has the ability to otherwise access, are significant to the primary government.

Component units are reported using one of three methods, discrete presentation, blended or fiduciary. Generally, component units should be discretely presented in a separate column in the financial statements. A component unit should be reported as part of the primary government using the blending method if it meets any one of the following criteria: (1) the primary government and the component unit have substantively the same governing body and a financial benefit or burden relationship exists, (2) the primary government and the component unit have substantively the same governing body and management of the primary government has operational responsibility for the component unit, (3) the component unit serves or benefits, exclusively or almost exclusively, the primary government rather than its citizens or (4) the total debt of the component unit will be paid entirely or almost entirely from resources of the primary government.

Blended Component Unit

The South Central Library System Foundation, Inc. was created as a separate legal entity to provide financial support for the System and its member libraries. The Foundation is reported both as a special revenue fund for the portion that directly relates to the System and as a fiduciary custodial fund for the portion that benefits member libraries, non-member libraries and other related organizations. The Foundation does not issue separate financial statements.

System-Wide and Fund Financial Statements

System-Wide Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through intergovernmental revenues and other nonexchange revenues. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The System does not allocate indirect expenses to functions in the statement of activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Fund Financial Statements

Financial statements of the System are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balance, revenues and expenditures/expenses.

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

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the system-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The System reports the following major governmental fund:

General Fund

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

Special Revenue Fund

The Grants 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..

Capital Projects Fund

The Capital Projects Fund is used to account for and report financial resources that are restricted to expenditures for capital outlays, including the acquisition or construction of capital facilities.

The System reports the following nonmajor governmental fund:

Special Revenue Fund

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 this special revenue fund to account for its activity related to the participation in the Foundation

South Central Library System Foundation,
Inc.

In addition, the System reports the following fund types:

Custodial Funds

Custodial Funds are used to account for and report assets controlled by the System and the assets are for the benefit of individuals, private organizations and/or other governmental units.

Deposits Fund

South Central Library System Foundation,
Inc.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

System-Wide Financial Statements

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the System considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Intergovernmental aids and grants are recognized as revenues in the period the System is entitled to the resources and the amounts are available. Amounts owed to the System which are not available are recorded as receivables and unavailable revenues. Amounts received before eligibility requirements (excluding time requirements) are met are recorded as liabilities. Amounts received in advance of meeting time requirements are recorded as deferred inflows.

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

Fiduciary Funds

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note.

All Financial Statements

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

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

Deposits and Investments

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

- a. Time deposits in any credit union, bank, savings bank or trust company.
- b. Bonds or securities of any county, city, drainage district, technical college district, village, town or school district of the state. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a local cultural arts district, the University of Wisconsin Hospitals and Clinics Authority or the Wisconsin Aerospace Authority.
- c. Bonds or securities issued or guaranteed by the federal government.
- d. The local government investment pool.

South Central Library System

Notes to Financial Statements
December 31, 2021

- e. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
- f. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
- g. Repurchase agreements with public depositories, with certain conditions.

The System has adopted an investment policy. That policy follows the state statute for allowable investments.

No policy exists for the following risks:

- Credit risk
- Custodial credit risk
- Interest rate risk
- Concentration of credit risk
- Investments highly sensitive to interest rate changes

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on methods and inputs as outlined in Note 3. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated to the general fund. The difference between the bank statement balance and carrying value is due to outstanding checks and/or deposits in transit.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF) and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2021, the fair value of the System's share of the LGIP's assets was substantially equal to the amount as reported in these statements.

See Note 3 for further information.

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.

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

Prepaid Items

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

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Capital Assets

System-Wide Statements

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$1,000 for general capital assets and an estimated useful life in excess of 1 year. All capital assets are valued at historical cost or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Depreciation and amortization of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation and amortization reflected in the statement of net position. Depreciation and amortization is provided over the assets' estimated useful lives using the straight-line method. The range of estimated useful lives by type of asset is as follows:

Vehicles	5-7 Years
ILS and technology equipment	5-10 Years
Leasehold improvements	4-10 Years
Furniture and equipment	3-10 Years
Intangibles	5-10 Years

Fund Financial Statements

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

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time.

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 considered current and reported in the general fund as it would be used prior to any new allocation in the subsequent year. 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 for a max of one year depending on the amount of accumulated hours. The System has not recorded as liability for accumulated sick leave as there has been no recent history of an employee meeting the requirements to qualify for conversion to health insurance premiums. Any future amounts that would be converted towards the cost of health insurance has been determined to be immaterial.

Long-Term Obligations

All long-term obligations to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term obligations consist of state trust fund loans.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debts (plus any premiums) are reported as other financing sources and payments of principal and interest are reported as expenditures.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position/fund balance that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

Equity Classifications

System-Wide Statements

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

- a. *Net investment in capital assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent debt proceeds) of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. *Restricted net position* - 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.
- c. *Unrestricted net position* - All other net positions that do not meet the definitions of restricted or net investment in capital assets.

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Statements

Governmental fund balances are displayed as follows:

- a. *Nonspendable* - Includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.
- b. *Restricted* - Consists of fund balances 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.
- c. *Committed* - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority. Fund balance amounts are committed through a formal action (resolution) of the System Board. This formal action must occur prior to the end of the reporting period, but the amount of the commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed require the same formal action of the System Board that originally created the commitment.
- d. *Assigned* - Includes spendable fund balance amounts that are intended to be used for specific purposes that do not meet the criteria to be classified as restricted or committed. The System Board has, by resolution, adopted a financial policy to assign amounts for a specific purpose. Assignments may take place after the end of the reporting period.

South Central Library System

Notes to Financial Statements
December 31, 2021

- e. *Unassigned* - Includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those purposes.

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.

See Note 3 for further information.

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 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.

Postemployment Benefits Other Than Pensions (OPEB)

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.

2. Stewardship, Compliance and Accountability

Deficit Balances

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year end.

As of December 31, 2021, the following individual funds held a deficit balance:

<u>Fund</u>	<u>Amount</u>	<u>Reason</u>
Grant Fund	\$ (209,058)	Expenditures exceeded funding claimed to date

The deficit is anticipated to be funded with future grant revenues.

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South Central Library System

Notes to Financial Statements
December 31, 2021

3. Detailed Notes on All Funds

Deposits and Investments

The System maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and balance sheet as cash and investments.

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

	<u>Carrying Value</u>	<u>Statement Balances</u>	<u>Associated Risks</u>
Deposits	\$ 8,274,961	\$ 8,324,732	Custodial Credit
U.S agencies	512,905	512,905	Concentration of credit, Credit, Custodial Credit, Interest Rate
Certificates of deposit - negotiable	214,540	214,540	Concentration of credit, Credit, Custodial Credit, Interest Rate
U.S. treasuries	150,953	150,953	Custodial Credit, Interest Rate
LGIP	41,747	7,357	Credit
Corporate bonds	366,677	366,677	Concentration of credit, Credit, Custodial Credit, Interest Rate
State and local bonds	545,872	545,872	Concentration of credit, Credit, Custodial Credit, Interest Rate
Mutual funds	<u>5,814,601</u>	<u>5,814,601</u>	Credit, Interest Rate
Total deposits and investments	<u>\$ 15,922,256</u>	<u>\$ 15,937,637</u>	
Reconciliation to financial statements			
Per statement of net position			
Unrestricted cash and investments	\$ 9,691,684		
Per statement of fiduciary net position			
Deposits fund	264,122		
South Central Library System Foundation, Inc	<u>5,966,450</u>		
Total deposits and investments	<u>\$ 15,922,256</u>		

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

Bank accounts are also insured by the State Deposit Guarantee Fund in the amount of \$400,000. However, due to the nature of this fund, recovery of material principal losses may not be significant to individual municipalities. This coverage has not been considered in computing custodial credit risk.

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South Central Library System

Notes to Financial Statements
December 31, 2021

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements are as follows:

- Quoted market prices

Investment Type	December 31, 2021			
	Level 1	Level 2	Level 3	Total
U.S. agencies	\$ 512,905	\$ -	\$ -	\$ 512,905
Certificates of deposit - negotiable	214,540	-	-	214,540
U.S. treasuries	150,953	-	-	150,953
Corporate bonds	366,677	-	-	366,677
State and local bonds	545,872	-	-	545,872
Mutual funds	<u>5,814,601</u>	<u>-</u>	<u>-</u>	<u>5,814,601</u>
Total	<u>\$ 7,605,548</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,605,548</u>

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the System's deposits may not be returned to the System.

As of December 31, 2021, \$7,824,732 of the System's total bank balances were exposed to custodial credit risk as follows:

Uninsured and uncollateralized \$ 7,824,732

Investments

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

The System does not have any investments exposed to custodial credit risk.

Credit Risk

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

As of December 31, 2021, the System's investments had credit ratings as follows: U.S. Agencies had AAA ratings, state and local bonds had ratings ranging from AA2 to AA- with some not rated, corporate bonds had ratings ranging from AAA to BAA2, certificates of deposits had ratings of AAA and the mutual funds were invested in portfolios that had bond ratings ranging from AAA to B or not rated. The System's investments in the Wisconsin Local Government Investment Pool which are not rated

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South Central Library System

Notes to Financial Statements
December 31, 2021

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a system's investment in a single issuer. The System did not have any investments with a single issuer of significance to note.

Interest Rate Risk

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

As of December 31, 2021, the System's investments were as follows:

Investment Type	Fair Value	Maturity (In Years)		
		Less than 1 year	1-5 years	Over 5 years
U.S agencies	\$ 512,905	\$ -	\$ 368,333	\$ 144,572
Certificates of deposit, negotiable	214,540	50,107	164,433	-
U.S. treasuries	150,953	25,268	125,685	-
Corporate bonds	366,677	100,730	212,173	53,774
State and local bonds	545,872	65,760	257,782	222,330
Mutual funds	<u>5,814,601</u>	<u>5,814,601</u>	-	-
Total	<u>\$ 7,605,548</u>	<u>\$ 6,056,466</u>	<u>\$ 1,128,406</u>	<u>\$ 420,676</u>

See Note 1 for further information on deposit and investment policies.

Receivables

All of the receivables on the balance sheet are expected to be collected within one year.

Governmental funds report *unavailable* or *unearned revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. State aid for the subsequent year are not earned and cannot be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unavailable revenue* and *unearned revenue* reported in the governmental funds were as follows:

	Unearned	Unavailable
State aid received for subsequent year	\$ 1,907,572	\$ -
Grant receivable	-	<u>209,058</u>
Total unearned/unavailable revenue for governmental funds	<u>\$ 1,907,572</u>	<u>\$ 209,058</u>

Restricted Assets

The following represent the balances of the restricted assets:

Net Pension Asset

Restricted assets have been reported in connection with the net pension asset balance since this balance must be used to fund employee benefits.

Restricted assets at December 31, 2021 were \$1,069,862.

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Notes to Financial Statements
December 31, 2021

Capital Assets

Capital asset activity for the year ended December 31, 2021, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated / amortized:				
Construction in progress	\$ 839,350	\$ 76,175	\$ -	\$ 915,525
Total capital assets not being depreciated / amortized	<u>839,350</u>	<u>76,175</u>	<u>-</u>	<u>915,525</u>
Capital assets being depreciated / amortized:				
Vehicles	744,880	25,349	87,381	682,848
ILS and technology equipment	826,401	49,436	-	875,837
Leasehold improvements	65,264	-	-	65,264
Furniture and equipment	223,539	10,204	5,877	227,866
Intangibles	<u>1,127,662</u>	<u>10,000</u>	<u>-</u>	<u>1,137,662</u>
Total capital assets being depreciated / amortized	<u>2,987,746</u>	<u>94,989</u>	<u>93,258</u>	<u>2,989,477</u>
Total capital assets	<u>3,827,096</u>	<u>171,164</u>	<u>93,258</u>	<u>3,905,002</u>
Less accumulated depreciation / amortization for:				
Vehicles	(495,417)	(66,089)	87,381	(474,125)
ILS and technology equipment	(637,138)	(79,278)	-	(716,416)
Leasehold improvements	(64,170)	(547)	-	(64,717)
Furniture and equipment	(192,712)	(16,224)	5,877	(203,059)
Intangibles	<u>(921,329)</u>	<u>(70,929)</u>	<u>-</u>	<u>(992,258)</u>
Total accumulated depreciation / amortization	<u>(2,310,766)</u>	<u>(233,067)</u>	<u>93,258</u>	<u>(2,450,575)</u>
Net capital assets being depreciated / amortized	<u>676,980</u>	<u>(138,078)</u>	<u>-</u>	<u>538,902</u>
Total governmental activities capital assets, net of accumulated depreciation / amortization	<u>\$ 1,516,330</u>	<u>\$ (61,903)</u>	<u>\$ -</u>	<u>\$ 1,454,427</u>

Interfund Receivables/Payables

The following is a schedule of interfund receivables and payables including any overdrafts on pooled cash and investment accounts:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Grants Fund	\$ 209,058
	South Central Library System Foundation, Inc. Special Revenue Fund	<u>26,077</u>
Total, fund financial statements		235,135
Less fund eliminations		<u>(235,135)</u>
Total internal balances, government-wide statement of net position		<u>\$ -</u>

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Notes to Financial Statements

December 31, 2021

All amounts are due within one year.

The principal purpose of these interfunds is the collection of grant receivables and the allocation of cash between funds. All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

Long-Term Obligations

Long-term obligations activity for the year ended December 31, 2021, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Bonds and notes payable:					
General obligation notes from direct borrowings and direct placements	\$ -	\$ 5,500,000	\$ -	\$ 5,500,000	\$ -
Other liabilities:					
Net OPEB liability	466,119	194,270	-	660,389	-
Total governmental activities long-term liabilities	<u>\$ 466,119</u>	<u>\$ 5,694,270</u>	<u>\$ -</u>	<u>\$ 6,160,389</u>	<u>\$ -</u>

General Obligation Debt

All general obligation debt payable is backed by the full faith and credit of the System. Debt in the governmental funds will be retired by future state aid.

<u>Governmental Activities</u>	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance December 31, 2021</u>
General Obligation Debt					
State Trust Fund Loan	12/28/2021	03/15/2041	4.00%	\$ 5,500,000	\$ 5,500,000
Total governmental activities, general obligation debt					<u>\$ 5,500,000</u>

Debt service requirements to maturity are as follows:

<u>Years</u>	<u>Governmental Activities Notes from Direct Borrowings and Direct Placements</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ -	\$ -
2023	155,853	266,411
2024	207,913	214,352
2025	216,815	205,449
2026	225,487	196,777
2027-2031	1,269,614	841,706
2032-2036	1,544,548	566,772
2037-2041	<u>1,879,770</u>	<u>231,550</u>
Total	<u>\$ 5,500,000</u>	<u>\$ 2,523,017</u>

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South Central Library System

Notes to Financial Statements
December 31, 2021

Other Debt Information

Estimated payments of net OPEB liability are not included in the debt service requirement schedules. The net OPEB liability attributable to governmental activities will be liquidated primarily by the general fund.

Lessee, Operating 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 expense for those leases totaled \$376,107 during 2021. Future minimum rental payments under these operating leases are as follows:

<u>Years</u>	<u>Governmental Activities Principal</u>
2022	\$ 368,499
2023	80,050
Total	<u>\$ 448,549</u>

Lessor, Operating Leases

The System leases a portion of its administrative space to the Wisconsin Library Association. Sublease income was \$22,998 for 2021. Future minimum rental payments under these operating leases are as follows:

<u>Years</u>	<u>Governmental Activities Principal</u>
2022	\$ 23,608
2023	10,097
Total	<u>\$ 33,705</u>

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Notes to Financial Statements
December 31, 2021

Net Position/Fund Balances

Net position reported on the system-wide statement of net position at December 31, 2021, includes the following:

Governmental Activities

Invested in capital assets:	
Construction in progress	\$ 915,525
Other capital assets, net of accumulated depreciation	538,902
Less long-term debt outstanding	(5,500,000)
Plus unspent capital related debt proceeds	<u>5,423,809</u>
Total invested in capital assets	<u>1,378,236</u>
Restricted:	
Net pension asset	1,069,862
Foundation	<u>296,563</u>
Total restricted	<u>1,366,425</u>
Unrestricted	<u>1,047,318</u>
Total governmental activities net position	<u>\$ 3,791,979</u>

Restatement of Fund Balance/Net Position

Fund balance/net position has been restated to correct an error in presentation of the South Central Library Foundation, Inc. In previous audit reports this component unit was presented as a discretely presented component unit and should have been treated as a blended component unit.

South Central Library System Foundation, Inc, Special Revenue Fund

South Central Library System Foundation, Inc, Special Revenue Fund fund balance, December 31, 2020 (as reported)	\$ -
Add fund balance to governmental fund that was previously reported as a discretely presented component unit	<u>264,899</u>
South Central Library System Foundation, Inc, Special Revenue Fund fund balance, December 31, 2020 (as restated)	<u>\$ 264,899</u>

Governmental Activities

Governmental activities net position, December 31, 2020 (as reported)	\$ 3,349,752
Add net position to governmental fund that was previously reported as a discretely presented component unit	<u>264,899</u>
Governmental activities net position, December 31, 2020 (as restated)	<u>\$ 3,614,651</u>

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4. Other Information

Employees' Retirement System

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, 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 Annual Comprehensive Financial Report (ACFR), which can be found at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.

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 occupation employees, 62 for elected officials and executive service retirement participants, if hired on or before 12/31/2016) are entitled to retirement benefit based on a formula factor, their average earnings and creditable service.

Final average earnings is the average of the participant's three highest annual earnings period. 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 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.

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:

<u>Year</u>	<u>Core Fund Adjustment %</u>	<u>Variable Fund Adjustment %</u>
2011	(1.2)%	11.0%
2012	(7.0)	(7.0)
2013	(9.6)	9.0
2014	4.7	25.0
2015	2.9	2.0
2016	0.5	(5.0)
2017	2.0	4.0
2018	2.4	17.0
2019	0.0	(10.0)
2020	1.7	21.0

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 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 \$190,950 in contributions from the System.

Contribution rates for the plan year reported as of December 31, 2021 are:

<u>Employee Category</u>	<u>Employee</u>	<u>Employer</u>
General (Executives & Elected Officials)	6.75 %	6.75 %

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

At December 31, 2021, the System reported an asset of \$1,069,862 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2020 and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2019 rolled forward to December 31, 2020. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The System's proportion of the net pension asset was based on the System's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2020, the System's proportion was 0.01713661 percent, which was an increase of 0.00007405 percent from its proportion measured as of December 31, 2019.

For the year ended December 31, 2021, the System recognized pension expense of \$(132,457).

At December 31, 2021, 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	\$ 1,548,419	\$ 333,526
Changes in assumptions	24,266	-
Net differences between projected and actual earnings on pension plan investments	-	2,008,580
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,613	2,826
Employer contributions subsequent to the measurement date	<u>182,740</u>	<u>-</u>
Total	<u>\$ 1,757,038</u>	<u>\$ 2,344,932</u>

\$182,740 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Deferred Outflows of Resources and Deferred Inflows of Resources (Net)</u>
2022	\$ (197,742)
2023	(53,843)
2024	(364,602)
2025	(154,447)

Actuarial Assumptions

The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2019
Measurement Date of Net Pension Liability (Asset):	December 31, 2020
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 percent 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. The Total Pension Liability for December 31, 2020 is based upon a roll-forward of the liability calculated from the December 31, 2019 actuarial valuation.

Long-Term Expected Return on Plan Assets

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

Core Fund Asset Class	Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Global Equities	51	7.2	4.7
Fixed Income	25	3.2	0.8
Inflation Sensitive Assets	16	2.0	(0.4)
Real Estate	8	5.6	3.3
Private Equity/Debt	11	10.2	7.6
Multi-Asset	4	5.8	3.3
Total Core Fund	115	6.6	4.1
Variable Fund Asset Class			
U.S Equities	70	6.6	4.1
International Equities	30	7.4	4.9
Total Variable Fund	100	7.1	4.6

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.4 percent
 Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations

Single Discount Rate

A single discount rate of 7.00 percent 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 percent and a municipal bond rate of 2.00 percent. (Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's 20-year Municipal GO AA Index as of December 31, 2020. In describing this index, Fidelity notes that the Municipal Curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.) Because of the unique structure of WRS, the 7.00 percent expected rate of return implies that a dividend of approximately 1.9 percent 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.

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Sensitivity of the System's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the System's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.00 percent, as well as what the System's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

	<u>1% Decrease to Discount Rate (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase to Discount Rate (8.00%)</u>
System's proportionate share of the net pension liability (asset)	\$ 1,018,360	\$ (1,069,862)	\$ (2,063,646)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.

At December 31, 2021, the System reported a payable to the pension plan of \$43,463, which represents contractually required contributions outstanding as of the end of the year.

Risk Management

The System is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; workers compensation; and health care of its employees. The System purchases commercial insurance to provide coverage for losses from (torts; theft of, damage to or destruction of assets; errors and omission; workers compensation; and health care of its employees). However, other risks, such as (torts; theft of, damage to or destruction of assets; errors and omission; workers compensation; and health care of its employees) are accounted for and financed by the System in the general fund.

Commitments and Contingencies

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments are only reported in governmental funds if it has matured. Claims and judgments are recorded in the government-wide statements as expenses when the related liabilities are incurred.

The System has active construction projects as of December 31, 2021. Work that has been completed on these projects but not yet paid for (including contract retainages) is reflected as accounts payable and expenditures.

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Other Postemployment Benefits

Local Retiree Life Insurance Fund (LRLIF)

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.

ETF issues a standalone Annual Comprehensive Financial Report (ACFR), which can be found at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.

Additionally, ETF issued a standalone Retiree Life Insurance Financial Report, which can be found at <https://etfonline.wi.gov/ETFGASBPublicWeb/gasb75Local.do>.

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

Contribution rates for the plan year reported as of December 31, 2021 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

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

Life Insurance Member Contribution Rates For the Plan Year

<u>Attained Age</u>	<u>Basic</u>	<u>Supplemental</u>
Under 30	\$0.05	\$0.05
30-34	0.06	0.06
34-39	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

Disabled members under age 70 receive a waiver-of-premium benefit

During the reporting period, the LRLIF recognized \$2,393 in contributions from the employer.

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

At December 31, 2021, the System reported a liability of 660,389 percent for 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, 2020 rolled forward to December 31, 2020. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The System's proportion of the net 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, 2020, the System's proportion was 0.12005500 percent, which was an increase of 0.01059100 percent from its proportion measured as of December 31, 2019.

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South Central Library System

Notes to Financial Statements
December 31, 2021

For the year ended December 31, 2021, the System recognized OPEB expense of \$92,744.

At December 31, 2021, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 31,511
Net differences between projected and actual earnings on OPEB plan investments	256,901	45,312
Changes in assumptions	9,615	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	69,523	-
Employer contributions subsequent to the measurement date	<u>2,153</u>	<u>-</u>
Total	<u>\$ 338,192</u>	<u>\$ 76,823</u>

\$2,153 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended December 31:</u>	<u>Deferred Outflows of Resources and Deferred Inflows of Resources (Net)</u>
2022	\$ 50,037
2023	48,997
2024	47,926
2025	43,083
2026	46,238
Thereafter	22,935

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Actuarial Assumptions

The total OPEB liability in the January 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	January 1, 2020
Measurement Date of Net OPEB Liability	December 31, 2020
Actuarial Cost Method:	Entry Age Normal
20 Year Tax-Exempt Municipal Bond Yield	2.12%
Long-Term Expected Rate of Return:	4.25%
Discount Rate:	2.25%
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. The Total OPEB Liability for December 31, 2020 is based upon a roll-forward of the liability calculated from the January 1, 2020 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.

**Local OPEB Life Insurance
Asset Allocation Targets and Expected Returns
As of December 31, 2020**

<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	50	1.47
US Mortgages	Barclays MBS	50	0.82
Inflation			2.20
Long-Term Expected Rate of Return			4.25

The long-term expected rate of return and expected inflation rate remained unchanged from the prior year at 4.25 percent and 2.20 percent, respectively. 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 2.25 percent was used to measure the total OPEB liability for the current year, as opposed to a discount rate of 2.87 percent for the prior year. The significant change in the discount rate was primarily caused by the decrease in the municipal bond rate from 2.74 percent as of December 31, 2019 to 2.12 percent as of December 31, 2020. 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.

The projection of cash flows used to determine the single discount rate assumed that employer contributions will be made according to the current employer contribution schedule and that contributions are made by plan members retiring prior to age 65.

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 2.25 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 (1.25 percent) or 1-percentage-point higher (3.25 percent) than the current rate:

	<u>1% Decrease to Discount Rate (1.25%)</u>	<u>Current Discount Rate (2.25%)</u>	<u>1% Increase to Discount Rate (3.25%)</u>
System's proportionate share of the net OPEB liability	\$ <u>898,318</u>	\$ <u>660,389</u>	\$ <u>480,450</u>

Effect of New Accounting Standards on Current-Period Financial Statements

The Governmental Accounting Standards Board (GASB) has approved the following:

- Statement No. 87, *Leases*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- Statement No. 96, *Subscription-Based Information Technology Arrangements*
- Statement No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84 and a supersession of GASB Statement No. 32*

When they become effective, application of these standards may restate portions of these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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South Central Library System

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2021

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
State aid to public library systems	\$ 2,199,966	\$ 2,199,966	\$ 2,199,966	\$ -
Contracts for ILS and technology services	2,203,936	2,203,936	2,215,838	11,902
Contracts for delivery services	1,643,925	1,643,925	1,515,507	(128,418)
Investment earnings (loss)	60,529	62,329	(14,031)	(76,360)
Other revenues	370,886	391,197	406,940	15,743
Total revenues	6,479,242	6,501,353	6,324,220	(177,133)
Expenditures				
Current:				
Technology, reference and interlibrary loan services	3,318,478	3,338,977	3,273,969	(65,008)
Continuing education and consulting services	389,176	370,299	366,952	(3,347)
Delivery services	1,962,708	1,978,617	1,870,728	(107,889)
Library services to special users	52,865	53,369	54,624	1,255
Library collection development	5,894	5,890	4,650	(1,240)
Library services to youth	95,408	95,889	88,087	(7,802)
Public information	323,687	326,465	328,308	1,843
Administration	299,419	299,987	303,536	3,549
Other system programs	26,847	27,100	27,767	667
Total expenditures	6,474,482	6,496,593	6,318,621	(177,972)
Excess (deficiency) of revenues over expenditures	4,760	4,760	5,599	839
Other Financing Sources				
Proceeds from sale of capital assets	8,000	8,000	11,808	3,808
Net change in fund balance	\$ 12,760	\$ 12,760	17,407	\$ 4,647
Fund Balance, Beginning			2,016,825	
Fund Balance, Ending			\$ 2,034,232	

South Central Library System

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - Special Revenue Fund - Grants Fund
Year Ended December 31, 2021

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Library Services and Technology Act (LSTA) grants	\$ 75,000	\$ 200,516	\$ 591,219	\$ 390,703
Expenditures				
Current:				
Technology, reference and interlibrary loan services	-	110,341	576,761	466,420
Continuing education and consulting services	-	15,175	24,586	9,411
Delivery services	75,000	75,000	198,930	123,930
Total expenditures	75,000	200,516	800,277	599,761
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	(209,058)	\$ (209,058)
Fund Balance, Beginning			-	
Fund Balance, Ending (Deficit)			\$ (209,058)	

See notes to required supplementary information

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South Central Library System

Schedule of Proportionate Share of Net Pension Liability (Asset),
Wisconsin Retirement System
Year Ended December 31, 2021

Plan Fiscal Year Ending	Proportion of the Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/14	0.017387%	\$ (427,064)	\$ 2,325,719	18.36%	102.74%
12/31/15	0.017020%	276,566	2,381,009	11.62%	98.20%
12/31/16	0.016513%	136,104	2,335,514	5.83%	99.12%
12/31/17	0.016540%	(491,104)	2,479,112	19.81%	102.93%
12/31/18	0.016818%	598,330	2,698,464	22.17%	96.45%
12/31/19	0.017063%	(550,174)	2,711,586	20.29%	102.96%
12/31/20	0.017137%	(1,069,862)	2,828,891	37.82%	105.26%

Schedule of Employer Contributions - Wisconsin Retirement System
Year Ended December 31, 2021

System Fiscal Year Ending	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/15	\$ 162,801	\$ 162,801	\$ -	\$ 2,381,009	7.00%
12/31/16	161,907	161,907	-	2,335,514	6.80%
12/31/17	154,145	154,145	-	2,479,112	6.60%
12/31/18	168,580	168,580	-	2,698,464	6.80%
12/31/19	180,797	180,797	-	2,711,586	6.70%
12/31/20	177,609	177,609	-	2,828,891	6.55%
12/31/21	182,740	182,740	-	2,707,259	6.75%

See notes to required supplementary information

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South Central Library System

Schedule of Proportionate Share of the Net OPEB Liability

Local Retiree Life Insurance Fund

Year Ended December 31, 2021

Plan Fiscal Year Ending	Proportion of the Net OPEB Liability	Proportionate Share of the Net OPEB Liability	Covered Payroll	Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
12/31/17	0.09431100%	\$ 283,742	\$ 3,966,047	7.15%	44.81%
12/31/18	0.10254700%	264,606	2,393,000	11.06%	48.69%
12/31/19	0.10946400%	466,119	2,617,000	17.81%	37.58%
12/31/20	0.12005500%	660,389	2,660,000	24.83%	31.36%

Schedule of Employer Contributions - Local Retiree Life Insurance Fund

Year Ended December 31, 2021

System Fiscal Year Ending	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/18	\$ 2,860	\$ 2,860	\$ -	\$ 2,393,000	0.12%
12/31/19	2,701	2,701	-	2,617,000	0.10%
12/31/20	1,953	1,953	-	2,660,000	0.07%
12/31/21	2,153	2,153	-	2,707,259	0.08%

See notes to required supplementary information

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South Central Library System

Notes to Required Supplementary Information
December 31, 2021

Budgetary Information

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

All annual appropriations lapse at year-end unless specifically carried over by the Board of Trustees. Budgetary control is exercised at the total fund level.

Wisconsin Retirement System

The amounts determined for each fiscal year were determined as of the calendar year-end and occurred within the fiscal year.

The System is required to present the last ten fiscal years data; however the standards allow the System to present as many years as are available until ten fiscal years are presented.

Changes of benefit terms. There were no changes of benefit terms for any participating employer in Wisconsin Retirement System.

Changes of assumptions. No significant change in assumptions were noted from the prior year.

Local Retiree Insurance Fund

The amounts determined for each fiscal year were determined as of the calendar year-end and occurred within the fiscal year.

The System is required to present the last ten fiscal years data; however the accounting standards allow the System to present as many years as are available until ten fiscal years are presented.

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

Changes of assumptions. The Single Discount Rate assumption used to develop the Total OPEB Liability changed from the prior year. Please refer to the Actuarial Assumptions section for additional details.

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OTHER AUDITORS' REPORT

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**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With Government Auditing Standards**

To the Board of Trustees of
South Central Library System

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, each major fund and the aggregate remaining fund information of the South Central Library System (the System), as of and for the year ended December 31, 2021 and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated April 27, 2022.

Report on Internal Control Over Financial Reporting

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002, that we consider to be material weaknesses.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

The System's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the System's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The System's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the 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.

Milwaukee, Wisconsin
April 27, 2022

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South Central Library System

Schedule of Findings and Responses
December 31, 2021

Finding Reference Number:	2021-001
Finding Title:	Internal control over financial reporting
Criteria:	Generally accepted auditing standards AU-C Section 265 requires the communication of significant deficiencies and material weaknesses in the year end reporting process.
Condition:	During the normal course of our audit, we identified material misstatements that required adjustment to the System's financial records.
Effect:	Information provided to governing body throughout the year may not be presented in accordance with generally accepted accounting principles.
Cause:	The System recognized revenue that did not meet the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the System considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Collection of the identified material misstatement was evaluated by management when a receivable was recorded as outstanding at year end. Based on prior reimbursements, management felt confident that collection would happen within 60 days. An unexpected situation related to the ability to request reimbursement (outside the control of management) existed which ultimately led to collection being after 60 days.
Recommendations:	Management should continue to evaluate the recognition of revenue throughout the 60 day period after year end and make necessary adjustments to revenue recognition when necessary.
Management's Response:	The \$209,058 in revenue recognized in 2021 was grant reimbursement income due to SCLS by the DPI. The grants were the Delivery LSTA grants and the Professional Learning LSTA grant. Both sets of grant funds were approved to use, and were spent by SCLS in 2021. The typical grant process SCLS usually follows with the DPI once grant funds are approved for use, is that SCLS spends the funds and applies for reimbursement by year-end. This year, the DPI was in the process of launching a new grant portal called WISEgrant. The portal was supposed to be functioning before year-end, but it was not. Therefore SCLS was unable to submit fiscal reports requesting reimbursement for the grant funds by year-end. In order to record the grant revenue due to SCLS to offset the expenditures incurred in 2021, SCLS recorded the grant revenue as a receivable due to SCLS in 2021. Per accounting standards, we are allowed to do this as long as the funds are received within 60 days of year-end. This requirement was communicated to the DPI. The DPI stated that the portal would be open and available to use and therefore SCLS' expectation was that we would be able to submit for reimbursement within the 60 day timeframe. The launch date of the portal has continued to be delayed and therefore SCLS was not able to submit for or receive reimbursement in time.

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South Central Library System

Schedule of Findings and Responses

December 31, 2021

Finding Reference Number:	2021-002
Finding Title:	Restatement of Financial Statements
Criteria:	Management is responsible for establishing and maintaining effective internal controls over financial reporting.
Condition/context:	During the normal course of the audit, we evaluated the relationship of the System and a related component unit. That evaluation led to a change in reporting of the related component unit (discretely presented to blended).
Effect:	Prior issued financial statements were not presented in accordance with accounting principles generally accepted in the United States of America.
Cause:	A restatement of the prior year financial statements was necessary for the proper reporting of a component unit of the System.
Recommendations:	Moving forward, management should report the activity of the component unit within their governmental funds in a Special Revenue Fund.
Management's Response:	In past years, SCLS' former auditing firm had categorized the SCLS Foundation as a "discretely reported component unit" of the South Central Library System and had reported it as such in the audited financial statements. SCLS' current auditing firm has re-classified the SCLS Foundation as a "blended component unit". Therefore SCLS' holdings of \$264,899 in the Foundation must also be re-stated on this year's audited financial statements. This amount is considered material and thus is recorded as a material misstatement.

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