

South Central Library System

Financial Statements and
Supplementary Information

December 31, 2022

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INDEPENDENT AUDITORS' REPORT

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, 2022 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, 2022 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 1, the System adopted the provisions of GASB Statement No. 87, *Leases*, effective January 1, 2022. 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.

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 basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2023 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, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2022

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, 2022. 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.

South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2022

- 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.

South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2022

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 47.

Implementation of GASB Statement No 87, Leases

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about the System's leasing activities. This standard was implemented January 1, 2022. For purposes of this Management's Discussion and Analysis no prior year numbers were adjusted.

The System as a Whole

The System's net position decreased by \$191,869 from a year ago—from \$3,791,979 to \$3,600,110, a decrease of 5.1 percent. In contrast, last year's net position increased by \$177,328. Net position at December 31, 2022 and 2021 consists of the following elements:

Net Position

Governmental Activities

	2022	2021
Current assets	\$ 8,351,823	\$ 10,046,258
Long-term assets	1,330,260	1,069,862
Capital assets	4,202,359	1,454,427
Total assets	13,884,442	12,570,547
Deferred outflows of resources	2,928,364	2,095,230
Current liabilities	1,029,423	384,082
Long-term liabilities	6,909,419	6,160,389
Total liabilities	7,938,842	6,544,471
Deferred inflows of resources	5,273,854	4,329,327
Net position:		
Net investment in capital assets	1,176,669	1,378,236
Restricted	1,544,397	1,366,425
Unrestricted	879,044	1,047,318
Total net position	\$ 3,600,110	\$ 3,791,979

Unrestricted net position—the part of net position that can be used to finance day-to-day operations—decreased from \$1,047,318 at December 31, 2021 to \$879,044 at December 31, 2022. 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, 2021.

South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2022

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 2021	\$ 141,847.7
Plan year end 2020	<u>124,966.4</u>
Change in net position	<u>16,881.3</u> (a)
Total Pension Liability—WRS Total	
Plan year end 2021	133,787.5
Plan year end 2020	<u>118,723.3</u>
Change in total pension asset (TPA)	<u>15,064.2</u> (b)
WRS change in net pension asset (NPA)	1,817.1 (a-b)
Multiplied by the System's allocation %	<u>0.01650%</u>
The System's share of WRS' change in NPA	0.3
The System's 2021 net pension asset	<u>1.1</u>
The System's 2022 net pension asset	<u>\$ 1.4</u>

The System's net investment in capital assets decreased from \$1,378,236 at December 31, 2021 to \$1,176,669 at December 31, 2022, primarily due to a decrease in unspent bond proceeds to \$3,111,528 at December 31, 2022 from \$5,423,809 at December 31, 2021, which offset any increases in capital assets. Additional information regarding capital assets is available on page 10 as well as in the notes to the basic financial statements.

South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2022

For the years ended December 31, 2022 and 2021, the System's net position changed as follows:

Changes in Net Position

Governmental Activities

	<u>2022</u>	<u>2021</u>
Revenues		
Program revenues:		
Charges for services	\$ 3,869,070	\$ 3,816,411
Operating grants and contributions	826,098	1,122,151
General revenues:		
State aid to public library systems	2,653,774	2,199,966
Investment earnings (loss)	(99,053)	14,395
Miscellaneous	13,865	15,078
Gain (loss) on sale of capital assets	-	11,808
	<u>7,263,754</u>	<u>7,179,809</u>
Expenses		
Library services	6,102,875	5,998,257
System contract expenditures	1,076,758	969,431
Payments to member libraries	53,663	34,793
Interest and fiscal charges	222,327	-
	<u>7,455,623</u>	<u>7,002,481</u>
Total expenses	<u>7,455,623</u>	<u>7,002,481</u>
Change in net position	(191,869)	177,328
Net Position, Beginning	<u>3,791,979</u>	<u>3,614,651</u>
Net Position, Ending	<u>\$ 3,600,110</u>	<u>\$ 3,791,979</u>

Revenues for the System's governmental activities increased by 1.1 percent (\$83,945), while total expenses increased by 6.5 percent (\$453,142). The decrease in net position for governmental activities was \$191,869 for the year ended December 31, 2022 compared to a \$177,328 increase in net position for the year ended December 31, 2021. The decrease in operating grants and contributions is the primary reason for the decrease 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.

South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2022

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 \$5,502,385, which consists of \$2,176,720 in the general fund, \$214,137 in the special revenue foundation fund and \$3,111,528 in the capital project fund. The overall governmental fund balance decreased by \$2,043,161 from a year ago.

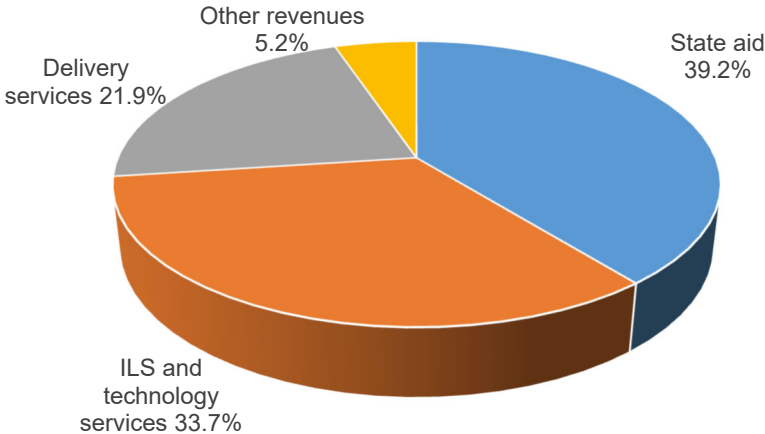
For the year ended December 31, 2022, the System's state aid increased by \$453,808 from \$2,199,966 in the prior year to \$2,653,774. State aid comprised 39.2 percent of the System's general fund revenues for the year ended December 31, 2022.

Revenues related to the ILS and technology services—which consist primarily of annual service fees paid by member libraries—increased \$70,065, or 3.2 percent, from the previous year. The increase in revenue is due primarily to increases in costs for ILS contracted support, third party maintenance and startup, salary/benefits, and central server hardware. Contracts for ILS and technology services comprised 33.7 percent of the System's general fund revenues for the year ended December 31, 2022.

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 \$30,241 from the previous year due to a combination of a decrease in the UW System Administration's contracted price for delivery services and an increase in proceeds from the sale of a delivery vehicle. Contracts for delivery services comprised 21.9 percent of the System's general fund revenues for the year ended December 31, 2022.

Revenues by Source

General Fund



For the year ended December 31, 2022, general fund expenditures totaled \$7,304,957, an increase of 15.6 percent from the previous year.

The System's personnel costs—salaries and wages, payroll taxes and benefits, including retirement contributions—totaled \$3,788,272 for the year ended December 31, 2022 which is a decrease of \$86,710 from the year ended December 31, 2021, which was \$3,874,982. Total costs of health, life and dental insurance decreased \$25,819, from the previous year. For the year ended December 31, 2022, 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 \$9,883, or 5.4 percent, from the previous year due to a decrease in salaries and wages.

South Central Library System

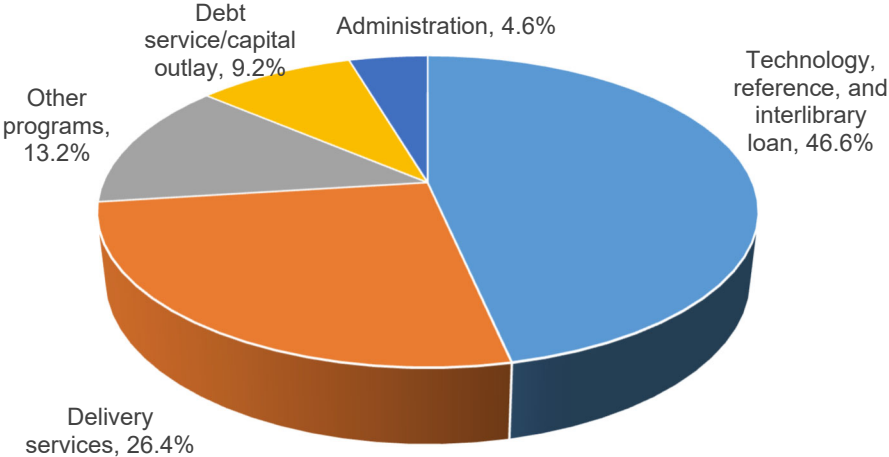
Management's Discussion and Analysis (unaudited)
December 31, 2022

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—increased \$130,502, from the previous year. This increase from 2021 to 2022 is primarily in the areas of ILS cataloging, Technology Contingency used to purchase data center HVAC equipment and library equipment purchased with the Direct Benefit to Member Libraries account. Technology, reference and interlibrary loan expenditures comprised 46.6 percent of the System's general fund expenditures for the year ended December 31, 2022.

Expenditures related to delivery services increased \$57,778, from the previous year. This increase is due to an increase in fleet expenses, fleet replacement costs, and insurance, offset by decreases in salaries and supplies. The System also received \$175,000 in grant funds, a decrease of \$23,930 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 26.4 percent of the System's general fund expenditures for the year ended December 31, 2022.

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, 2022, the System received 6 LSTA grants,—a \$175,000 grant to provide additional support for the statewide portion of the System's delivery services, a \$10,143 Tech Sparsity LSTA grant for outdoor library book lockers and solar charging poles, a \$40,552 Professional Learning LSTA grant to provide training for member libraries, a \$155,104 ARPA Hybrid Library Service grant for SmartAccess Systems for libraries, a \$107 IDEA project grant for WLA expenses, and a \$81,171 ARPA IT Hardware Improvement grant to provide access points to libraries for exterior wifi access.

South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2022

Capital Assets

At December 31, 2022, the System had \$4,202,359 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 an increase of \$2,747,932, or 188.9 percent, from last year, primarily attributable to purchase of a new building.

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

Governmental Activities

	2022	2021
Work in progress	\$ 839,350	\$ 915,525
Vehicles	200,064	208,723
ILS and technology equipment	237,094	159,421
Leasehold improvements	-	547
Furniture and equipment	310,990	24,807
Intangibles	121,861	145,404
Right-to-use asset	580,400	-
Buildings	1,912,600	-
Total	\$ 4,202,359	\$ 1,454,427

This year's major capital assets additions included:

- New building purchase at a total cost of \$1,945,017
- New ground lease asset at a total cost of \$580,780
- New HVAC System for Server Room at a total cost of \$131,004
- Furniture and equipment at a total cost of \$341,538

In 2021, the System received \$5.5 million of state trust fund loans to finance the purchase, remodel and expansion of an existing 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 December 2023. The newly remodeled and expanded building will house both the headquarters and delivery staff and will replace the 2 facilities in which it currently operates. In December 2022 the System purchased the building located at 1650 Pankratz Street in Madison, WI. Plans were drawn up for the remodel and expansion, which went out for public bid in February 2023. The SCLS Board of Trustees approved the bid package in March 2023 and construction is planned to commence in April 2023. This purchase and construction has been 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.

Additional information on the System's capital assets can be found in Note 3 on page 32.

South Central Library System

Management's Discussion and Analysis (unaudited)
December 31, 2022

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 December of 2023.

Additional information on the System's long term debt can be found in Note 3 on page 33.

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 2020-2022 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. In 2022, with rising federal interest rates, the market value of the portfolio has been volatile. Yields remain stable, however the overall market value of the portfolio decreased for the first time in 2022. The investment strategy is being evaluated quarterly and adjusted as the markets evolve.

The level of state aid to systems increased in 2022 and will increase again in 2023. The System's budget for 2023 includes one-time costs associated with the new building project, as well as new ongoing costs associated with the loan and other regular maintenance. Delivery services returned to 5 days per week in January 2022, while simultaneously reducing the contracted price for services to the UW System. In 2022 SCLS reviewed its cost formula for 2023 Delivery services with the plan to use the additional state aid to further lower delivery fees to members.

The level of state aid to systems for 2024 and 2025 is in the hands of the state legislature. Systems across the state are asking for an increase in state aid for 2024 and 2025.

Over the last 2 years, the Assistant Superintendent position within the Wisconsin Department of Public Instruction which oversees library systems in Wisconsin has had turnover and continues to have unfilled positions. This has impacted the projects under the Public Library System Redesign umbrella. The System is still the lead on coordinating an improved model of delivery for Wisconsin libraries.

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>.

BASIC FINANCIAL STATEMENTS

South Central Library System

Statement of Net Position

December 31, 2022

	Governmental Activities
Assets	
Cash and investments	\$ 8,105,281
Accounts receivable	128,823
Prepaid items	117,719
Restricted asset, net pension asset	1,330,260
Construction in progress	839,350
Capital assets net of accumulated depreciation and amortization	<u>3,363,009</u>
Total assets	<u>13,884,442</u>
Deferred Outflows of Resources	
Pension related items	2,573,239
OPEB related items	<u>355,125</u>
Total deferred outflows of resources	<u>2,928,364</u>
Liabilities	
Accounts payable	471,842
Accrued expenses	360,004
Unearned revenues	175,939
Current portion of long-term obligations	21,638
Noncurrent liabilities:	
Due in more than one year	<u>6,909,419</u>
Total liabilities	<u>7,938,842</u>
Deferred Inflows of Resources	
Advance receipt of state aid to public library systems	2,062,131
Pension related items	3,132,863
OPEB related items	<u>78,860</u>
Total deferred inflows of resources	<u>5,273,854</u>
Net Position	
Net investment in capital assets	1,176,669
Restricted	1,544,397
Unrestricted	<u>879,044</u>
Total net position	<u>\$ 3,600,110</u>

See notes to financial statements

South Central Library System

Statement of Activities
Year Ended December 31, 2022

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes</u> <u>in Net Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
South Central Library System:				
Governmental activities:				
Library services	\$ 6,102,875	\$ 3,166,720	\$ 826,098	\$ (2,110,057)
System contract expenditures	1,076,758	702,350	-	(374,408)
Payments to member libraries	53,663	-	-	(53,663)
Interest and fiscal charges	222,327	-	-	(222,327)
Total governmental activities	<u>\$ 7,455,623</u>	<u>\$ 3,869,070</u>	<u>\$ 826,098</u>	<u>(2,760,455)</u>
General revenues:				
State aid to public library systems				2,653,774
Investment earnings (loss)				(99,053)
Miscellaneous				13,865
Total general revenues				<u>2,568,586</u>
Change in net position				(191,869)
Net Position, Beginning				<u>3,791,979</u>
Net Position, Ending				<u>\$ 3,600,110</u>

South Central Library System

Balance Sheet
Governmental Funds
December 31, 2022

	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	\$ 4,717,997	\$ -	\$ 275,756	\$ 3,111,528	\$ 8,105,281
Accounts receivable	128,823	-	-	-	128,823
Prepaid items	117,719	-	-	-	117,719
Due from other funds	61,619	-	-	-	61,619
Total assets	<u>\$ 5,026,158</u>	<u>\$ -</u>	<u>\$ 275,756</u>	<u>\$ 3,111,528</u>	<u>\$ 8,413,442</u>
Liabilities					
Accounts payable	\$ 471,842	\$ -	\$ -	\$ -	\$ 471,842
Accrued expenditures	139,526	-	-	-	139,526
Unearned revenues	175,939	-	-	-	175,939
Due to other funds	-	-	61,619	-	61,619
Total liabilities	<u>787,307</u>	<u>-</u>	<u>61,619</u>	<u>-</u>	<u>848,926</u>
Deferred Inflows of Resources					
Advance receipt of state aid to public library systems	2,062,131	-	-	-	2,062,131
Fund Balances					
Nonspendable:					
Prepaid items	117,719	-	-	-	117,719
Restricted:					
Building project	-	-	-	3,111,528	3,111,528
Foundation	-	-	214,137	-	214,137
Assigned:					
Integrated library system (ILS)	387,250	-	-	-	387,250
Technology services	1,047,801	-	-	-	1,047,801
Delivery/general	623,950	-	-	-	623,950
Total fund balances	<u>2,176,720</u>	<u>-</u>	<u>214,137</u>	<u>3,111,528</u>	<u>5,502,385</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,026,158</u>	<u>\$ -</u>	<u>\$ 275,756</u>	<u>\$ 3,111,528</u>	<u>\$ 8,413,442</u>

See notes to financial statements

South Central Library System

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2022

Total Fund Balances, Governmental Funds \$ 5,502,385

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. 4,202,359

The net pension asset is not an available resource and, therefore, is not reported in the funds. 1,330,260

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:

Accrued interest	(220,478)
Lease liability	(580,400)
Financed purchase liability	(56,818)
Outstanding loan payable	(5,500,000)
Deferred outflows related to pension	2,573,239
Deferred inflows related to pension	(3,132,863)
Net OPEB liability	(793,839)
Deferred outflows related to OPEB	355,125
Deferred inflows related to OPEB	(78,860)

Net Position of Governmental Activities \$ 3,600,110

South Central Library System

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 Year Ended December 31, 2022

	General Fund	Special Revenue Funds		Capital Projects Fund	Total Governmental Funds
		Grants Fund	Nonmajor Fund South Central Library System Foundation, Inc.		
Revenues					
State aid to public library systems	\$ 2,653,774	\$ -	\$ -	\$ -	\$ 2,653,774
Library Services and Technology Act (LSTA) grants	-	671,135	-	-	671,135
Contracts for ILS and technology services	2,285,903	-	-	-	2,285,903
Contracts for delivery services	1,485,266	-	-	-	1,485,266
Investment earnings (loss)	(110,961)	-	(50,736)	62,644	(99,053)
Other revenues	461,922	-	13,865	-	475,787
Total revenues	6,775,904	671,135	(36,871)	62,644	7,472,812
Expenditures					
Current:					
Technology, reference and interlibrary loan services	3,404,471	246,525	-	-	3,650,996
Continuing education and consulting services	523,695	40,552	-	-	564,247
Delivery services	1,928,506	175,000	-	-	2,103,506
Library services to special users	55,959	-	-	-	55,959
Library collection development	4,783	-	45,555	-	50,338
Library services to youth	79,229	-	-	-	79,229
Public information	183,424	-	-	-	183,424
Administration	338,454	-	-	-	338,454
Other system programs	114,309	-	-	-	114,309
Capital outlay	654,644	-	-	2,373,133	3,027,777
Debt service					-
Principal	17,046	-	-	380	17,426
Interest	437	-	-	1,412	1,849
Total expenditures	7,304,957	462,077	45,555	2,374,925	10,187,514
Excess (deficiency) of revenues over expenditures	(529,053)	209,058	(82,426)	(2,312,281)	(2,714,702)
Other Financing Sources					
Proceeds from sale of capital assets	16,897	-	-	-	16,897
Proceeds from financed purchase	73,864	-	-	-	73,864
Proceeds from capital leases	580,780	-	-	-	580,780
Total other financing sources	671,541	-	-	-	671,541
Net change in fund balances	142,488	209,058	(82,426)	(2,312,281)	(2,043,161)
Fund Balances (Deficit), Beginning	2,034,232	(209,058)	296,563	5,423,809	7,545,546
Fund Balances, Ending	\$ 2,176,720	\$ -	\$ 214,137	\$ 3,111,528	\$ 5,502,385

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, 2022

Net Change in Fund Balances, Total Governmental Funds \$ (2,043,161)

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	3,027,777
Capital addition not recorded in capital outlay	391,867
Less certain items reported as capital outlay not capitalized	(347,440)
Depreciation/amortization is reported in the government-wide statements	(247,961)
Net book value of assets disposed of	(76,311)

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.	
Financed purchase issued	(73,864)
Lease issued	(580,780)
Principal payments	17,426

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:

Accrued interest	(220,478)
Net pension asset	260,398
Net OPEB liability	(133,450)
Deferred outflows of resources related to pension and OPEB	833,134
Deferred inflows of resources related to pension and OPEB	(789,968)

Change in Net Position of Governmental Activities \$ (191,869)

South Central Library System

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2022

	Custodial Funds	
	Deposits Fund	South Central Library System Foundation, Inc.
Assets		
Cash and investments	\$ 288,149	\$ 4,878,468
Liabilities		
	-	-
Net Position		
Restricted for member libraries	288,149	2,846,639
Restricted for others	-	2,031,829
Total net position	\$ 288,149	\$ 4,878,468

South Central Library System

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

Year Ended December 31, 2022

	Custodial Funds	
	Deposits Fund	South Central Library System Foundation, Inc.
Additions		
Deposits by member libraries and others	\$ 94,364	\$ 282,491
E-commerce payments received from library patrons	73,145	-
E-rate payments received	20,271	-
Investment earnings:		
Interest and dividends	3,623	110,355
Net realized and unrealized gains (loss) on investments	-	(1,106,709)
Investment costs:		
Investment management fees	-	(25,928)
Administrative fees	-	(43,778)
Net investment earnings (loss)	3,623	(1,066,060)
Total additions	191,403	(783,569)
Deductions		
Withdrawals by member libraries and others	53,376	304,413
E-commerce payments to member libraries	73,551	-
E-rate rebates paid to member libraries	40,449	-
Total deductions	167,376	304,413
Change in fiduciary net position	24,027	(1,087,982)
Net Position, Beginning	264,122	5,966,450
Net Position, Ending	\$ 288,149	\$ 4,878,468

South Central Library System

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December 31, 2022

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South Central Library System

Notes to Financial Statements
December 31, 2022

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. It's 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, Wisconsin (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.

South Central Library System

Notes to Financial Statements
December 31, 2022

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, nonmember libraries and other related organizations. The Foundation does not issue separate financial statements.

System-Wide and Fund Financial Statements

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about the System’s leasing activities. This standard was implemented January 1, 2022.

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 taxes, 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. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Fund Financial Statements

Financial statements of the 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% 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% test is at least 5% 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 government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The System reports the following major governmental funds:

General Fund

The 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 and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes (other than debt service or capital projects).

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 government-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 government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the System considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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.
- 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 2. 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, 2022, 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 2 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.

Capital Assets

System-Wide Financial Statements

Capital assets, which include property, plant and equipment (including right-to-use lease assets), 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
Buildings	30 Years
Right-to-use asset	50 Years

Lease assets are typically amortized over the lease term.

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 assets 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 primarily 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.

Leases

The System is a lessee because it leases capital assets from other entities. As a lessee, the System reports a lease liability and an intangible right-to-use capital asset (known as the lease asset) on the government-wide financial statements and proprietary fund statements. In the governmental fund financial statements, the System recognizes lease proceeds and capital outlay at initiation of the lease, and the outflow of resources for the lease liability as a debt service payment.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net assets 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/amortization 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.
- 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 2 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. 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	\$ 6,116,726	\$ 6,145,927	Custodial credit
U.S. agencies	542,979	542,979	Concentration of credit, credit, custodial credit, interest rate
Certificates of deposit - negotiable	323,194	323,194	Concentration of credit, credit, custodial credit, interest rate
U.S. treasuries	115,543	115,543	Custodial credit, interest rate
LGIP	437,669	437,669	Credit
Corporate bonds	1,128,253	1,128,253	Concentration of credit, credit, custodial credit, interest rate
State and local bonds	1,012,930	1,012,930	Concentration of credit, credit, custodial credit, interest rate
Mutual funds - bond funds	374,647	374,647	Credit, interest rate
Mutual funds - other than bonds	<u>3,219,957</u>	<u>3,219,957</u>	n/a
Total deposits and investments	<u>\$ 13,271,898</u>	<u>\$ 13,301,099</u>	
Reconciliation to financial statements			
Per statement of net position:			
Unrestricted cash and investments		\$ 8,105,281	
Per statement of fiduciary net position:			
Deposits fund		288,149	
South Central Library System Foundation, Inc		<u>4,878,468</u>	
Total deposits and investments		<u>\$ 13,271,898</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.

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, 2022			Total
	Level 1	Level 2	Level 3	
U.S. agencies	\$ 300,109	\$ 242,870	\$ -	\$ 542,979
Certificates of deposit, negotiable	323,194	-	-	323,194
U.S. treasuries	115,543	-	-	115,543
Corporate bonds	926,735	201,518	-	1,128,253
State and local bonds	-	1,012,930	-	1,012,930
Mutual funds - bond funds	374,647	-	-	374,647
Mutual funds - other than bonds	<u>3,219,957</u>	<u>-</u>	<u>-</u>	<u>3,219,957</u>
Total	<u>\$ 5,260,185</u>	<u>\$ 1,457,318</u>	<u>\$ -</u>	<u>\$ 6,717,503</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, 2022, \$5,645,927 of the System's total bank balances were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 5,645,927</u>
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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.

South Central Library System

Notes to Financial Statements
December 31, 2022

As of December 31, 2022, 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 AAA with some not rated, corporate bonds had ratings ranging from A1 to BAAa, certificates of deposits had ratings of AAA and the mutual funds were invested in portfolios that had bond ratings ranging from AAA to BB or not rated. The System's investments in the Wisconsin Local Government Investment Pool which are not rated

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. 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, 2022, the System's investments were as follows:

Investment Type	Fair Value	Maturity (In Years)			
		Less than 1 year	1-5 years	6-10 years	More than 10
U.S. agencies	\$ 542,979	\$ 49,782	\$ 421,801	\$ 71,396	\$ -
Certificates of deposit, negotiable	323,194	79,238	243,956	-	-
U.S. treasuries	115,543	-	115,543	-	-
Corporate bonds	1,128,253	74,882	900,676	152,695	-
State and local bonds	1,012,930	73,976	636,009	229,145	73,800
Mutual funds - bond funds	<u>374,647</u>	<u>374,647</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,497,546</u>	<u>\$ 652,525</u>	<u>\$ 2,317,985</u>	<u>\$ 453,236</u>	<u>\$ 73,800</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. Property taxes levied 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:

	<u>Unearned</u>
State aid received for subsequent year	\$ 2,062,131
Member library payments for subsequent year	<u>175,939</u>
Total unearned/unavailable revenue for governmental funds	<u>\$ 2,238,070</u>
Unearned revenue included in liabilities	\$ 175,939
Unearned revenue included in deferred inflows	<u>2,062,131</u>
Total unearned revenue for governmental funds	<u>\$ 2,238,070</u>

Notes to Financial Statements
December 31, 2022

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, 2022 were \$1,330,260.

Capital Assets

Capital asset activity for the year ended December 31, 2022, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital assets not being depreciated / amortized:				
Construction in progress	\$ 915,525	\$ -	\$ 76,175	\$ 839,350
Total capital assets not being depreciated / amortized	<u>915,525</u>	<u>-</u>	<u>76,175</u>	<u>839,350</u>
Capital assets being depreciated / amortized:				
Vehicles	682,848	49,358	29,052	703,154
ILS and technology equipment	875,837	147,703	72,664	950,876
Leasehold improvements	65,264	-	-	65,264
Furniture and equipment	227,866	330,971	5,258	553,579
Intangibles	1,137,662	18,375	-	1,156,037
Right-of-use asset	-	580,780	-	580,780
Buildings	-	1,945,017	-	1,945,017
Total capital assets being depreciated / amortized	<u>2,989,477</u>	<u>3,072,204</u>	<u>106,974</u>	<u>5,954,707</u>
Total capital assets	<u>3,905,002</u>	<u>3,072,204</u>	<u>183,149</u>	<u>6,794,057</u>
Less accumulated depreciation / amortization for:				
Vehicles	\$ (474,125)	\$ (58,017)	\$ 29,052	\$ (503,090)
ILS and technology equipment	(716,416)	(69,894)	72,528	(713,782)
Leasehold improvements	(64,717)	(547)	-	(65,264)
Furniture and equipment	(203,059)	(44,788)	5,258	(242,589)
Intangibles	(992,258)	(41,918)	-	(1,034,176)
Right-to-use asset	-	(380)	-	(380)
Buildings	-	(32,417)	-	(32,417)
Total accumulated depreciation / amortization	<u>(2,450,575)</u>	<u>(247,961)</u>	<u>106,838</u>	<u>(2,591,698)</u>
Net capital assets being depreciated / amortized	<u>538,902</u>	<u>2,824,243</u>	<u>136</u>	<u>3,363,009</u>
Total governmental activities capital assets, net of accumulated depreciation / amortization	<u>\$ 1,454,427</u>	<u>\$ 2,824,243</u>	<u>\$ 76,311</u>	<u>\$ 4,202,359</u>

Additional disclosures of the lease assets are included in the Lease Disclosure note.

South Central Library System

Notes to Financial Statements
December 31, 2022

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	South Central Library System Foundation, Inc. Special Revenue Fund	\$ <u>61,619</u>
Less fund eliminations		<u>(61,619)</u>
Total internal balances, government-wide statement of net position		<u>\$ -</u>

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, 2022, 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:					
Leases	-	580,780	380	580,400	4,592
Net OPEB liability	660,389	133,450	-	793,839	-
Financed purchase	-	73,864	17,046	56,818	17,046
Total governmental activities long-term liabilities	<u>\$ 6,160,389</u>	<u>\$ 788,094</u>	<u>\$ 17,426</u>	<u>\$ 6,931,057</u>	<u>\$ 21,638</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, 2022</u>
General Obligation Debt					
State Trust Fund Loan	12/28/2021	03/15/2041	4.00%	\$ 5,500,000	<u>\$ 5,500,000</u>
Total governmental activities, general obligation debt					<u>\$ 5,500,000</u>

Debt service requirements to maturity are as follows:

<u>Years</u>	Governmental Activities Notes from Direct Borrowings and Direct Placements	
	<u>Principal</u>	<u>Interest</u>
2023	\$ -	\$ 266,411
2024	213,976	220,603
2025	223,138	211,441
2026	232,063	202,515
2027	241,346	193,233
2028-2032	1,358,520	814,373
2033-2037	1,653,562	519,331
2038-2041	1,577,395	160,919
Total	<u>\$ 5,500,000</u>	<u>\$ 2,588,826</u>

Financed Purchases

The System purchased a copier under a financed purchase arrangement

Financed purchases at December 31, 2022 consist of the following:

<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, 2022</u>
Financed Purchases					
Copier	1/1/22	4/19/26	2.5%	\$ 73,864	\$ 56,818
Total governmental activities financed purchases					<u>\$ 56,818</u>

Debt service requirements to maturity are as follows:

<u>Years</u>	Governmental Activities Financed Purchases	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 17,046	\$ 437
2024	17,046	437
2025	17,046	437
2026	5,680	146
Total	<u>\$ 56,818</u>	<u>\$ 1,457</u>

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.

South Central Library System

Notes to Financial Statements
December 31, 2022

Lease Disclosures

Lessee - Lease Liabilities

<u>Governmental Activities</u>					Balance
<u>Lease Liabilities Description</u>	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>December 31, 2022</u>
Ground lease	11/28/2022	06/30/2050	2.5 %	\$ 580,780	<u>\$ 580,400</u>
Total governmental activities lease liabilities					<u><u>\$ 580,400</u></u>

Debt service requirements to maturity are as follows:

<u>Years</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 4,592	\$ 16,911	\$ 21,503
2024	5,022	16,481	21,503
2025	10,400	16,051	26,451
2026	8,512	15,522	24,034
2027	8,992	15,042	24,034
2028-2032	63,636	67,720	131,356
2033-2037	92,827	53,986	146,813
2038-2042	125,453	38,637	164,090
2043-2046	161,919	21,481	183,400
2047-2050	<u>99,047</u>	<u>3,346</u>	<u>102,393</u>
Total	<u>\$ 580,400</u>	<u>\$ 265,177</u>	<u>\$ 845,577</u>

Net Position/Fund Balances

Net position reported on the government-wide statement of net position at December 31, 2022, includes the following:

Governmental Activities

Invested in capital assets:	
Construction in progress	\$ 839,350
Other capital assets, net of accumulated depreciation/amortization	3,363,009
Less long-term debt outstanding	(5,500,000)
Plus unspent capital related debt proceeds	3,111,528
Less lease liability	(580,400)
Less financed purchase	<u>(56,818)</u>
Total invested in capital assets	<u>1,176,669</u>
Restricted:	
Net pension asset	1,330,260
Foundation	<u>214,137</u>
Total restricted	<u>1,544,397</u>
Unrestricted	<u>879,044</u>
Total governmental activities net position	<u><u>\$ 3,600,110</u></u>

3. 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>.

Additionally, ETF issued a standalone Wisconsin Retirement System Financial Report, which can also be found using the link above.

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>
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
2021	5.1	13.0

South Central Library System

Notes to Financial Statements
December 31, 2022

Contributions

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

During the reporting period, the WRS recognized \$182,740 in contributions from the System.

Contribution rates for the plan year reported as of December 31, 2022 are:

Employee Category	Employee	Employer
General (Executives & Elected Officials)	6.75 %	6.75 %

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

At December 31, 2022, the System reported an asset of \$1,330,260 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2021, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2020 rolled forward to December 31, 2021. 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, 2021, the System's proportion was 0.01650409%, which was a decrease of 0.00063252% from its proportion measured as of December 31, 2020.

For the year ended December 31, 2022, the System recognized pension revenue of \$105,928.

At December 31, 2022, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual experience	\$ 2,148,967	\$ 154,963
Changes in assumptions	248,181	-
Net differences between projected and actual earnings on pension plan investments	-	2,975,902
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,212	1,998
Employer contributions subsequent to the measurement date	173,879	-
Total	\$ 2,573,239	\$ 3,132,863

South Central Library System

Notes to Financial Statements
December 31, 2022

\$173,879 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Years Ending December 31:	Deferred Outflows of Resources and Deferred Inflows of Resources (Net)
2023	\$ (61,793)
2024	(361,105)
2025	(158,692)
2026	(151,913)

Actuarial Assumptions

The total pension liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2020
Measurement Date of Net Pension Liability (Asset):	December 31, 2021
Experience Study:	January 1, 2018 - December 31, 2020 Published November 19, 2021
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	Fair Value
Long-Term Expected Rate of Return:	6.8%
Discount Rate:	6.8%
Salary Increases:	
Wage Inflation	3.0%
Seniority/Merit	0.1% - 5.6%
Mortality:	2020 WRS Experience Mortality Table
Post-Retirement Adjustments*:	1.7%

** No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 1.7% 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 2021 that covered a three-year period from January 1, 2018 to December 31, 2020. Based on this experience study, actuarial assumptions used to measure the Total Pension Liability changed from prior year, including the discount rate, long-term expected rate of return, post-retirement adjustment, price inflation, mortality and separation rates. The Total Pension Liability for December 31, 2021 is based upon a roll-forward of the liability calculated from the December 31, 2020 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:

Asset Allocation Targets and Expected Returns* As of December 31, 2021			
Core Fund Asset Class	Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %**
Global Equities	52	6.8	4.2
Fixed Income	25	4.3	1.8
Inflation Sensitive	19	2.7	0.2
Real Estate	7	5.6	3
Private Equity/Debt	12	9.7	7
Total Core Fund***	115	6.6	4
Variable Fund Asset			
U.S Equities	70	6.3	3.7
International Equities	30	7.2	4.6
Total Variable Fund	100	6.8	4.2

* Asset Allocations are managed within established ranges; target percentages may differ from actual monthly allocations

** New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.5%

*** The investment policy used for the Core Fund involves reducing equity exposure by leveraging lower-volatility assets, such as fixed income securities. This results in an asset allocation beyond 100%. Currently, an asset allocation target of 15% policy leverage is used subject to an allowable range of up to 20%.

Single Discount Rate

A single discount rate of 6.8% was used to measure the total pension liability, as opposed to a discount rate of 7.0% for the prior year. This single discount rate is based on the expected rate of return on pension plan investments of 6.8% and a municipal bond rate of 1.84% (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, 2021. 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 6.8% expected rate of return implies that a dividend of approximately 1.7% 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 investment rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the System’s proportionate share of the net pension liability (asset) calculated using the discount rate of 6.80%, 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 (5.80%) or 1-percentage-point higher (7.80%) than the current rate:

	1% Decrease to Discount Rate (5.8%)	Current Discount Rate (6.8%)	1% Increase to Discount Rate (7.8%)
System’s proportionate share of the net pension liability (asset)	\$ 943,913	\$ (1,330,260)	\$ (2,967,242)

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, 2022, the System reported a payable to the pension plan of \$38,971, 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 and proprietary funds as expenses when the related liabilities are incurred.

The System has active construction projects as of December 31, 2022. Work that has been completed on these projects but not yet paid for (including contract retainages) is reflected as accounts payable and expenditures.

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.

OPEB Plan Fiduciary Net Position

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 the link above.

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 member 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, 2022 are:

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

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
35-39	0.07	0.07
40-44	0.08	0.08
45-49	0.12	0.12
50-54	0.22	0.22
55-59	0.39	0.39
60-64	0.49	0.49
65-69	0.57	0.57

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

During the reporting period, the LRLIF recognized \$2,749 in contributions from the employer.

OPEB Liabilities, OPEB Expense (Revenue) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At December 31, 2022, the System reported a liability of \$793,839 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2021 rolled forward to December 31, 2021. 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, 2021, the System's proportion was 0.13431300%, which was an increase of 0.01425800% from its proportion measured as of December 31, 2020.

For the year ended December 31, 2022, the System recognized OPEB expense of \$118,554.

At December 31, 2022, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 40,382
Net differences between projected and investment earnings on plan investments	239,846	38,478
Changes in actuarial assumptions	10,329	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	103,029	-
Employer contributions subsequent to the measurement date	<u>1,921</u>	<u>-</u>
Total	<u>\$ 355,125</u>	<u>\$ 78,860</u>

\$1,921 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, 2023. 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>Years Ending December 31:</u>	<u>Deferred Outflows of Resources and Deferred Inflows of Resources (net)</u>
2023	\$ 61,307
2024	60,109
2025	54,882
2026	58,946
2027	31,146
Thereafter	7,954

Actuarial Assumptions

The total OPEB liability in the January 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	January 1, 2021
Measurement Date of Net OPEB Liability (Asset)	December 31, 2021
Experience Study:	January 1, 2018 - December 31, 2020. Published November 19, 2021
Actuarial Cost Method:	Entry Age Normal
20 Year Tax-Exempt Municipal Bond Yield	2.06%
Long-Term Expected Rate of Return:	4.25%
Discount Rate:	2.17%
Salary Increases:	
Wage Inflation	3.00%
Seniority/Merit	0.10% - 5.6%
Mortality:	2020 WRS Experience Mortality Table

Actuarial assumptions are based upon an experience study conducted in 2021 that covered a three-year period from January 1, 2018 to December 31, 2020. Based on this experience study, actuarial assumptions used to measure the Total OPEB Liability changed from the prior year, including the price inflation, mortality and separation rates. The Total OPEB Liability for December 31, 2021 is based upon a roll-forward of the liability calculated from the January 1, 2021 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.

**State OPEB Life Insurance
Asset Allocation Targets and Expected Returns
As of December 31, 2021**

<u>Asset Class</u>	<u>Index</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
US Intermediate Credit Bonds	Bloomberg US Interm Credit	45.00%	1.68%
US Long Credit Bonds	Bloomberg US Long Credit	5.00%	1.82%
US Mortgages	Bloomberg US MBS	50.00%	1.94%
Inflation			2.30%
Long-Term Expected Rate of Return			4.25%

The long-term expected rate of return remained unchanged from the prior year at 4.25%. 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. The expected inflation rate increased from 2.20% as of December 31, 2020 to 2.30% as of December 31, 2021.

Single Discount Rate

A single discount rate of 2.17% was used to measure the total OPEB liability for the current year, as opposed to a discount rate of 2.25% for the prior year. The significant change in the discount rate was primarily caused by the decrease in the municipal bond rate from 2.12% as of December 31, 2020 to 2.06% as of December 31, 2021. The Plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive members. 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 (Asset) to Changes in the Discount Rate

The following presents the System’s proportionate share of the net OPEB liability (asset) calculated using the discount rate of 2.17%, as well as what the System’s proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (1.17%) or 1-percentage-point higher (3.17%) than the current rate:

	<u>1% Decrease to Discount Rate (1.17%)</u>	<u>Current Discount Rate (2.17%)</u>	<u>1% Increase to Discount Rate (3.17%)</u>
System’s proportionate share of the net OPEB liability (asset)	\$ <u>1,076,954</u>	\$ <u>793,839</u>	\$ <u>580,807</u>

Subsequent Events

On February 17, 2023 the System issued State Trust Fund Loans in the amount of \$1,000,000 with an interest rate of 4.75%. This amount will be used to finance costs related to the new building project.

Effect of New Accounting Standards on Current-Period Financial Statements

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

- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- Statement No. 96, *Subscription-Based Information Technology Arrangements*
- Statement No. 99, Omnibus 2022
- Statement No. 100, *Accounting Changes and Error Corrections - an Amendment of GASB Statement No. 62*
- Statement No. 101, *Compensated Absences*

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

REQUIRED SUPPLEMENTARY INFORMATION

South Central Library System

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund
 Year Ended December 31, 2022

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
State aid to public library systems	\$ 2,543,429	\$ 2,543,429	\$ 2,653,774	\$ 110,345
Contracts for ILS and technology services	2,999,827	3,098,190	2,285,903	(812,287)
Contracts for delivery services	1,506,587	1,506,587	1,485,266	(21,321)
Investment earnings (loss)	44,479	44,480	(110,961)	(155,441)
Other revenues	416,809	458,900	461,922	3,022
Total revenues	<u>7,511,131</u>	<u>7,651,586</u>	<u>6,775,904</u>	<u>(875,682)</u>
Expenditures				
Current:				
Technology, reference and interlibrary loan services	4,198,909	4,332,585	3,404,471	(928,114)
Continuing education and consulting services	507,227	508,171	523,695	15,524
Delivery services	1,942,115	1,939,847	1,928,506	(11,341)
Library services to special users	51,545	51,642	55,959	4,317
Library collection development	5,930	5,941	4,783	(1,158)
Library services to youth	80,659	80,820	79,229	(1,591)
Public information	257,439	257,799	183,424	(74,375)
Administration	330,761	336,413	338,454	2,041
Other system programs	93,373	95,195	114,309	19,114
Capital outlay	53,673	53,673	654,644	600,971
Debt service				
Principal	-	-	17,046	17,046
Interest	-	-	437	437
Total expenditures	<u>7,521,631</u>	<u>7,662,086</u>	<u>7,304,957</u>	<u>(374,612)</u>
Excess (deficiency) of revenues over expenditures	<u>(10,500)</u>	<u>(10,500)</u>	<u>(529,053)</u>	<u>(518,553)</u>
Other Financing Sources				
Proceeds from sale of capital assets	10,500	10,500	16,897	6,397
Proceeds from financed purchase	-	-	73,864	73,864
Proceeds from capital leases	-	-	580,780	580,780
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>142,488</u>	<u>\$ 142,488</u>
Fund Balance, Beginning			<u>2,034,232</u>	
Fund Balance, Ending			<u>\$ 2,176,720</u>	

See notes to required supplementary information

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, 2022

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 175,000	\$ 467,065	\$ 671,135	\$ 204,070
Expenditures				
Current:				
Technology, reference and interlibrary loan services	-	256,418	246,525	(9,893)
Continuing education and consulting services	-	35,647	40,552	4,905
Delivery services	175,000	175,000	175,000	-
Total expenditures	175,000	467,065	462,077	(4,988)
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	209,058	\$ 209,058
Fund Balance (Deficit), Beginning			(209,058)	
Fund Balance, Ending			\$ -	

South Central Library System

Schedule of Proportionate Share of Net Pension Liability (Asset)

Wisconsin Retirement System

Year Ended December 31, 2022

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%
12/31/21	0.016504%	(1,330,260)	2,707,258	49.14%	106.02%

Schedule of Employer Contributions - Wisconsin Retirement System

Year Ended December 31, 2022

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%
12/31/22	173,879	173,879	-	2,675,067	6.50%

See notes to required supplementary information

South Central Library System

Schedule of Proportionate Share of the Net OPEB Liability
 Local Retiree Life Insurance Fund
 Year Ended December 31, 2022

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%
12/31/21	0.13431300%	793,839	2,827,000	28.08%	29.57%

Schedule of Employer Contributions - Local Retiree Life Insurance Fund
 Year Ended December 31, 2022

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	-	2,827,000	0.08%
12/31/22	1,921	1,921	-	2,675,067	0.07%

South Central Library System

Notes to Required Supplementary Information
December 31, 2022

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 years of data; however, accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

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

Changes in assumptions. Based on a three-year experience study conducted in 2021 covering January 1, 2018 through December 31, 2020, the ETF Board adopted assumption changes that were used to measure the total pension liability beginning with the year-end December 31, 2021, including the following:

- Lowering the long-term expected rate of return from 7.0% to 6.8%
- Lowering the discount rate from 7.0% to 6.8%
- Lowering the price inflation rate from 2.5% to 2.4%
- Lowering the post-retirement adjustments from 1.9% to 1.7%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2018 Mortality Table to the 2020 WRS Experience Mortality Table

Local Retiree Life 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 years of data; however, accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

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

Changes in assumptions. In addition to the rate changes detailed in the footnotes, the State of Wisconsin Employee Trust Fund Board adopted economic and demographic assumption changes based on a three year experience study performed for the Wisconsin Retirement System. These assumptions are used in the actuarial valuations of OPEB liabilities (assets) for the retiree life insurance programs and are summarized below.

The assumption changes that were used to measure the December 31, 2021 total OPEB liabilities, including the following:

- Lowering the price inflation rate from 2.5% to 2.4%
- Mortality assumptions were changed to reflect updated trends by transitioning from the Wisconsin 2018 Mortality Table to the 2020 WRS Experience Mortality Table

OTHER AUDITORS' REPORT

**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***

Independent Auditors' Report

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, 2022, 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, 2023.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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*.

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, 2023