

SOUTH CENTRAL LIBRARY SYSTEM

FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION

December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, the general fund, and the remaining fund information of South Central Library System as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise South Central Library System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, the general fund, and the remaining fund information of South Central Library System, as of December 31, 2015, 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.

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Emphasis of Matters

Change in Accounting Principle

As described in Note 1 to the financial statements, South Central Library System changed accounting policies by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68., *Accounting and Financial Reporting For Pensions—An Amendment of GASB Statement No.27*, in 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of net position.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-11, the schedule of net pension asset on page 36, and the schedule of contributions on page 37, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2016 on our consideration of South Central Library System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Central Library System's internal control over financial reporting and compliance.

Wegner CPAs LLP

Wegner CPAs, LLP
Madison, Wisconsin
March 30, 2016

SOUTH CENTRAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

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, 2015. Please read it in conjunction with the System's financial statements, which begin on page 12.

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 12 and 13) 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 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the System's operations in more detail than the government-wide statements by providing information about the System's most significant funds. The remaining statements provide financial information about activities for which the System acts solely as a trustee or agent for the benefit of others.

Reporting the System as a Whole

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

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

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

Governmental activities

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

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

SOUTH CENTRAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

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

Component units

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

Reporting the System's Most Significant Funds

Our analysis of the System's major funds begins on page 7. The fund financial statements begin on page 14 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

SOUTH CENTRAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

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 an agent, or fiduciary, for several libraries within the System. All of the System's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities on page 18. We exclude these activities from the System's other financial statements because the System cannot use these assets to finance its operations. The System is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 through 34.

THE SYSTEM AS A WHOLE

The System's net position increased by \$1,469 from a year ago—from \$4,091,551 to \$4,093,020. In contrast, last year net position increased by \$78,236, or 2.6%. Net position at December 31, 2015 and 2014 consists of the following elements:

	Net Position	
	Governmental Activities	
	2015	2014
Current assets	\$ 4,266,186	\$ 4,623,876
Capital assets	1,120,717	1,169,185
Total assets	5,386,903	5,793,061
Deferred outflows of resources	623,860	339,480
Long-term liabilities	33,436	33,463
Other liabilities	337,371	464,502
Total liabilities	370,807	497,965
Deferred inflows of resources	1,546,936	1,543,025
Net position		
Net investment in capital assets	1,120,717	1,169,185
Unrestricted	2,972,303	2,922,366
Total net position	\$ 4,093,020	\$ 4,091,551

SOUTH CENTRAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

Unrestricted net position—the part of net position that can be used to finance day-to-day operations—increased from \$2,922,366 at the end of 2014 to \$2,972,303 at the end of 2015. This increase is partially due to the WRS retirement plan employee and employer contributions exceeding the WRS pension expense requirements (GASB 68 adjustments). The remainder of the increase of our net position is from the net income (profit) for the fiscal year 2015, which can be primarily attributed to additional delivery income above the amount budgeted, and savings in staff benefits with an unfilled position.

The System's net investment in capital assets decreased from \$1,169,185 at the end of 2014 to \$1,120,717 at the end of 2015, primarily due to depreciation expense of \$273,697. Additional information regarding capital assets is available on page 9 as well as in the notes to the basic financial statements.

For the years ended December 31, 2015 and 2014, the System's net position changed as follows:

Changes in Net Position		
Governmental Activities		
	2015	2014
Revenues		
Program revenues		
Charges for services	\$ 3,648,629	\$ 3,592,212
Operating grants and contributions	1,716,504	1,635,670
Capital grants and contributions	20,900	-
General revenues		
State aid to public library systems	2,057,367	2,057,367
Investment earnings	52,010	91,883
Gain on sale of capital assets	11,366	8,941
Total revenues	7,506,776	7,386,073
Expenses		
Library services	5,121,109	4,992,329
System contract expenditures	2,359,728	2,285,554
Payments to member libraries	24,470	29,954
Total expenses	7,505,307	7,307,837
Change in net position	1,469	78,236
Net position—beginning	4,091,551	2,988,366
Prior period adjustment	-	1,024,949
Net position—ending	\$ 4,093,020	\$ 4,091,551

Revenues for the System's governmental activities increased by 1.6% (\$120,703), while total expenses increased by 2.6% (\$197,469). The increase in net position for governmental activities was \$1,469 for 2015 compared to a \$78,236 increase in net position for 2014.

SOUTH CENTRAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

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

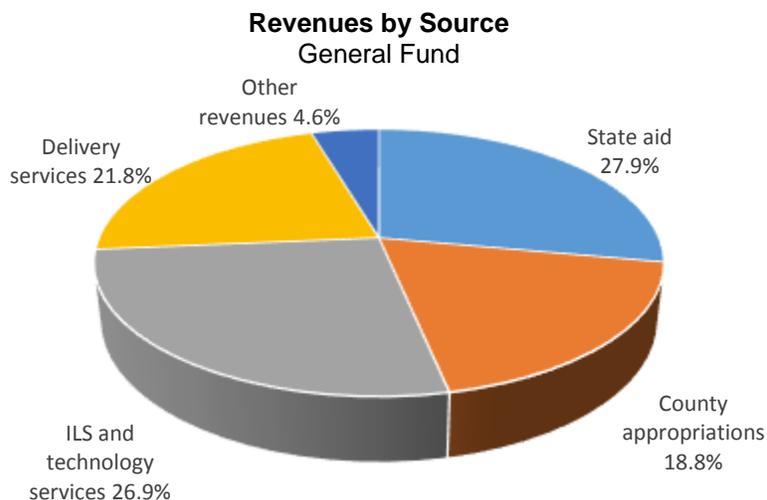
THE SYSTEM'S FUNDS

As the System completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$1,954,816, which consists entirely of the fund balance of the System's general fund. This fund balance increased by \$23,936, or 1.2%, from a year ago.

In 2015, the System's state aid remained at \$2,057,367. Library appropriations from Green (\$421,568) and Sauk (\$962,998) counties, totaling \$1,384,566, were paid to member libraries in each of these respective counties to provide library services. In addition to these appropriations, funds were received from Green (\$28,103) and Sauk (\$29,742) counties for delivery services. These funds are included in contracts for delivery services. State aid and county appropriations comprised 46.7% of the System's general fund revenues for 2015.

Revenues related to the ILS and technology services—which consist primarily of annual membership fees paid by member libraries—increased \$49,162, or 2.5%, from the previous year. This increase is primarily due to the addition of PCs by member libraries throughout the year, increasing PC support fees, increases in staff salaries due to a 1% cost of living increase, and the 2015 Cost Formula included Enterprise Wireless, Library Online and PC Support fees, which had been billed separately in previous years. Contracts for ILS and technology services comprised 26.9% of the System's general fund revenues for 2015.

In addition to its basic delivery services, the System operates multi-type and intersystem delivery services that link public and nonpublic libraries within and outside the System area. Costs for the internal delivery services are split between the System and the member counties or libraries. Revenues from delivery services increased \$48,680, or 3.0%, from the previous year due to increases in special request deliveries and contract increases for the multi-type and statewide delivery customers. Contracts for delivery services comprised 21.8% of the System's general fund revenues for 2015.



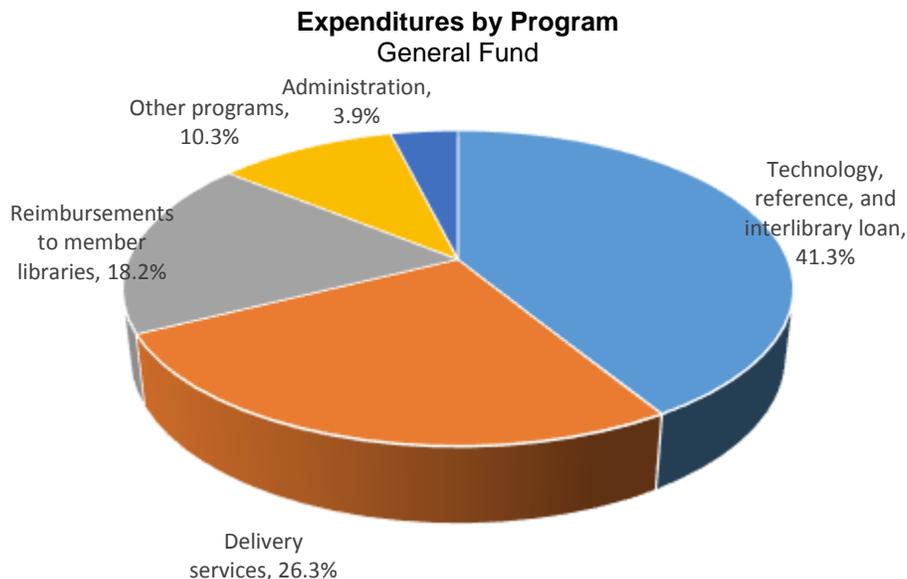
SOUTH CENTRAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

For 2015, general fund expenditures totaled \$7,362,940, an increase of 3.2% from the previous year. As mentioned previously, \$1,384,566 of this amount represents reimbursements to member libraries paid from county appropriations—an increase of 5.2% from the previous year, comparable to the increase in county appropriations. Overall, other program expenditures increased by 1.2%, compared to an increase of 2.8% in revenues other than county appropriations, over the previous year.

The System's personnel costs—salaries and wages, payroll taxes, and benefits, including retirement contributions—totaled \$3,427,497 for 2015, an increase of 5.6% from the previous year. Total costs of health, life, and dental insurance increased \$32,062, or 6.0%, from the previous year. For 2015, the Wisconsin Department of Employee Trust Funds continued a premium holiday for income continuation insurance that began in March 2012. Total retirement contributions decreased \$7,301, or 4.3%, from the previous year due to one unfilled position during 2015 and a decrease in the required employer contribution rate (from 7% for 2014 to 6.8% for 2015).

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 \$148,507, or 5.1%, from the previous year. This increase is primarily due the replacement of central server hardware, an increase in technology hardware and maintenance expenses, an increase in salaries and benefits and an increase in ILS contracted support expenses. Technology, reference, and interlibrary loan expenditures comprised 41.3% of the System's general fund expenditures for 2015.

Expenditures related to delivery services decreased \$4,078, or 0.2%, from the previous year. This decrease is primarily attributable to the reduction in gas prices, and the replacement of only 1 delivery vehicle instead of 2 vehicles that were replaced in 2014. The System also received \$75,000 in grant funds in 2015, the same amount as in 2014, 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 26.3% of the System's general fund expenditures for 2015.



SOUTH CENTRAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

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) grants received from the Wisconsin Department of Public Instruction. In 2015, the System received three LSTA grants—a \$75,000 grant to provide additional support for the statewide portion of the System's delivery services, a \$1,000 grant to support activities for the homeless, and a \$43,900 grant to assist with a variety of technology projects.

CAPITAL ASSETS

At the end of 2015, the System had \$1,120,717 net investment in capital assets, which includes vehicles used in the System's delivery operations, the central equipment and software of the ILS, improvements to the System's leased facilities, and other furniture and equipment used in the System's activities (see table below). This investment represents a decrease of \$48,468, or 4.3%, from last year, primarily attributable to depreciation expense.

Capital Assets at Year-end (Net of Accumulated Depreciation)		
Governmental Activities		
	2015	2014
Vehicles	\$ 279,598	\$ 328,838
ILS and technology equipment	835,566	819,612
Leasehold improvements	3,832	4,380
Furniture and equipment	1,721	16,355
	<hr/>	<hr/>
Totals	<u><u>\$ 1,120,717</u></u>	<u><u>\$ 1,169,185</u></u>

The year's major capital assets additions included:

- The purchase of a vehicle at a total cost of \$33,226
- The purchase of new equipment at a total cost of \$186,857
- The purchase of furniture and equipment at a total cost of \$5,146

There is no outstanding balance of any bonds, mortgages, or other borrowings that are attributable to the acquisition, construction, or improvement of the System's capital assets.

Additional information on the System's capital assets can be found in Note 5 on page 28.

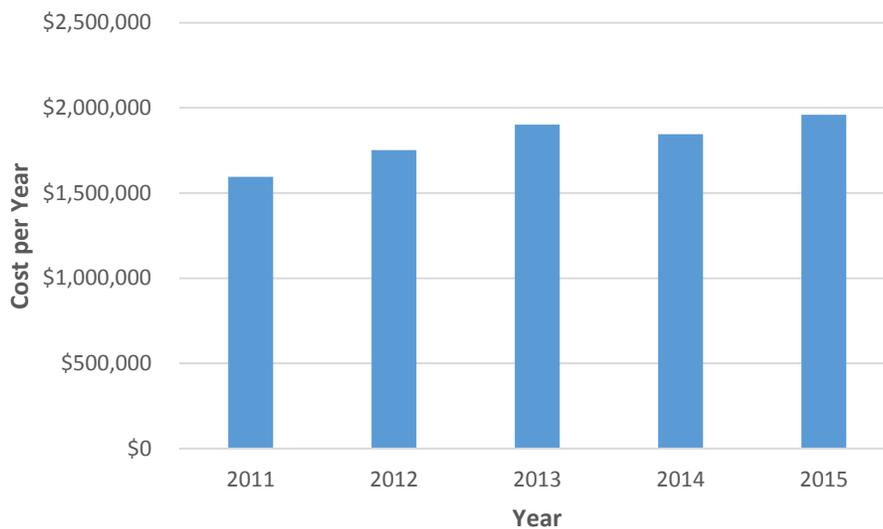
FACTORS BEARING ON THE SYSTEM'S FUTURE

The System is facing the same difficulties that are facing individual libraries and many other units of government. Basically, the ability to fund services is not keeping pace with the public demand for those services. The demand for library services continues to grow and the cost to provide those services continues to increase. A tight economy and the fiscal challenges facing the state and local governments present an uncertain future. Significant additional funding from these agencies will most likely not be forthcoming, forcing the System to operate as efficiently as possible. State aid remained flat for 2015 and will also remain flat for 2016.

SOUTH CENTRAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

The System's annual budget for 2016 does not include a cost of living increase, however, it does include a salary grid revision (increase) for the delivery staff salaries. The year 2015 included a 1% cost of living increase for all employees as well as year-end bonuses for all staff, compared to the 2% increase in 2014 and no increase in 2013.

Technology and ILS Annual Expenses



In an effort to operate with a balanced budget and to minimize any increases in fees to member libraries, the System's annual budget for 2016 includes the addition of the Hutchinson Memorial Public Library in Randolph. This will increase our system aid allocation from the state, as well as help mitigate costs for our other system members with the addition of a new shareholder. In addition to this, delivery costs will remain stable by continuing a reduced delivery schedule on Saturdays, as well as budgeting a reduction in fleet expenses and supplies that will balance the increased cost of staff salaries.

The System overhauled its cost formula to provide an ala carte menu of services for its members, which provides them greater control over their budgetary costs. This was well-received by the system members and will continue into 2016.

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 recoup declining 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.

Preparing for 2016 and beyond remains a challenge. The 2015-2017 biennial state budget is maintaining flat funding for 2016. As the System evolves to meet future challenges, it continues reviewing and researching all parts of its budget to see what changes can be made that reduce expenditures, while maintaining a high level of service for its member libraries.

SOUTH CENTRAL LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

REQUESTS FOR INFORMATION

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

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

SOUTH CENTRAL LIBRARY SYSTEM
STATEMENT OF NET POSITION
December 31, 2015

	South Central Library System	South Central Library System Foundation, Inc
	Governmental Activities	Component Unit
ASSETS		
Cash	\$ 1,893,606	\$ 11,428
Investments	1,588,931	163,387
Receivables	175,720	-
Prepaid items	180,865	-
Net pension asset	427,064	-
Capital assets net of accumulated depreciation	1,120,717	-
Total assets	<u>5,386,903</u>	<u>174,815</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension-expected vs. actual experience	61,911	-
Pension-expected vs. actual investment income	206,805	-
Pension-contributions after measurement date	355,144	-
Total deferred outflows of resources	<u>623,860</u>	<u>-</u>
LIABILITIES		
Accounts payable	93,316	6,506
Accrued expenses	159,535	-
Unearned revenues	117,956	-
Total liabilities	<u>370,807</u>	<u>6,506</u>
DEFERRED INFLOWS OF RESOURCES		
Advance receipt of state aid to public library systems	1,546,936	-
NET POSITION		
Net investment in capital assets	1,120,717	-
Unrestricted	2,972,303	168,309
Total net position	<u>\$ 4,093,020</u>	<u>\$ 168,309</u>

See accompanying notes.

SOUTH CENTRAL LIBRARY SYSTEM
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	South Central	South Central
					Library System	Library System Foundation, Inc
					Governmental Activities	Component Unit
South Central Library System						
Governmental activities						
Library services	\$ 5,121,109	\$ 2,988,031	\$ 331,938	\$ 20,900	\$ (1,780,240)	
System contract expenditures	2,359,728	660,598	1,384,566	-	(314,564)	
Payments to member libraries	24,470	-	-	-	(24,470)	
Total governmental activities	<u>\$ 7,505,307</u>	<u>\$ 3,648,629</u>	<u>\$ 1,716,504</u>	<u>\$ 20,900</u>	(2,119,274)	
Component unit						
South Central Library System Foundation, Inc.	<u>\$ 26,626</u>	<u>\$ 8,544</u>	<u>\$ 18,481</u>	<u>\$ -</u>		\$ 399
General revenues						
State aid to public library systems					2,057,367	-
Investment earnings					52,010	271
Gain on sale of capital assets					11,366	-
Total general revenues					<u>2,120,743</u>	<u>271</u>
Change in net position					1,469	670
Net position—beginning					<u>4,091,551</u>	<u>167,639</u>
Net position—ending					<u>\$ 4,093,020</u>	<u>\$ 168,309</u>

See accompanying notes.

SOUTH CENTRAL LIBRARY SYSTEM
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2015

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 1,893,606	\$ -	\$ 1,893,606
Investments	1,588,931	-	1,588,931
Receivables	149,422	26,298	175,720
Prepaid items	180,865	-	180,865
Due from other governmental fund	26,298	-	26,298
	<u>3,839,122</u>	<u>26,298</u>	<u>3,865,420</u>
Total assets	<u>\$ 3,839,122</u>	<u>\$ 26,298</u>	<u>\$ 3,865,420</u>
LIABILITIES			
Accounts payable	\$ 93,316	\$ -	\$ 93,316
Accrued expenditures	126,098	-	126,098
Unearned revenues	117,956	-	117,956
Due to general fund	-	26,298	26,298
	<u>337,370</u>	<u>26,298</u>	<u>363,668</u>
Total liabilities	<u>337,370</u>	<u>26,298</u>	<u>363,668</u>
DEFERRED INFLOWS OF RESOURCES			
Advance receipt of state aid to public library systems	1,546,936	-	1,546,936
	<u>1,546,936</u>	<u>-</u>	<u>1,546,936</u>
FUND BALANCES			
Nonspendable			
Prepaid items	180,865	-	180,865
Assigned			
Integrated library system (ILS)	503,317	-	503,317
Technology services	398,163	-	398,163
Unassigned	872,471	-	872,471
	<u>1,954,816</u>	<u>-</u>	<u>1,954,816</u>
Total fund balances	<u>1,954,816</u>	<u>-</u>	<u>1,954,816</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,839,122</u>	<u>\$ 26,298</u>	<u>\$ 3,865,420</u>

See accompanying notes.

SOUTH CENTRAL LIBRARY SYSTEM
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2015

Total fund balances—governmental funds	\$ 1,954,816
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,120,717
The net pension asset is not an available resource and, therefore, is not reported in the funds.	427,064
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds. Those liabilities at year-end consist of:	
Compensated absences	(33,437)
Deferred outflows related to pension	<u>623,860</u>
Net position of governmental activities	<u>\$ 4,093,020</u>

See accompanying notes.

SOUTH CENTRAL LIBRARY SYSTEM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
State aid to public library systems	\$ 2,057,367	\$ -	\$ 2,057,367
County appropriations for public library systems	1,384,566	-	1,384,566
Library Services and Technology Act (LSTA) grants	-	119,900	119,900
Contracts for ILS and technology services	1,986,091	-	1,986,091
Contracts for delivery services	1,608,406	-	1,608,406
Investment earnings	52,010	-	52,010
Other revenues	287,070	-	287,070
	<u>7,375,510</u>	<u>119,900</u>	<u>7,495,410</u>
Total revenues			
EXPENDITURES			
Current			
Technology, reference, and interlibrary loan services	3,040,792	43,900	3,084,692
Continuing education and consulting services	231,533	-	231,533
Delivery services	1,936,083	75,000	2,011,083
Library services to special users	51,053	1,000	52,053
Library collection development	4,478	-	4,478
Direct payments to member libraries for nonresident access	1,342,272	-	1,342,272
Direct payments for services provided across system borders	42,294	-	42,294
Library services to youth	86,753	-	86,753
Public information	301,018	-	301,018
Administration	286,234	-	286,234
Other system programs	40,430	-	40,430
	<u>7,362,940</u>	<u>119,900</u>	<u>7,482,840</u>
Total expenditures			
Excess of revenues over expenditures	12,570	-	12,570
OTHER FINANCING SOURCES			
Sale of capital assets	11,366	-	11,366
Net change in fund balances	23,936	-	23,936
Fund balances—beginning	1,930,880	-	1,930,880
Fund balances—ending	<u>\$ 1,954,816</u>	<u>\$ -</u>	<u>\$ 1,954,816</u>

See accompanying notes.

SOUTH CENTRAL LIBRARY SYSTEM
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

Net change in fund balances—total governmental funds \$ 23,936

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

Governmental funds report capital assets additions as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$273,697) exceeded capital assets additions (\$225,229) in the current period. (48,468)

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

Net increase in compensated absences	27
Net increase in pension expense	25,974
	25,974

Change in net position of governmental activities \$ 1,469

SOUTH CENTRAL LIBRARY SYSTEM
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
December 31, 2015

	<u>Agency Funds</u>	
	<u>South Central Library System</u>	<u>South Central Library System Foundation, Inc</u>
ASSETS		
Cash	\$ 223,519	\$ -
Investments	-	683,269
	<u>\$ 223,519</u>	<u>\$ 683,269</u>
Total assets	<u>\$ 223,519</u>	<u>\$ 683,269</u>
LIABILITIES		
Deposits held for member libraries	\$ 220,892	\$ 683,269
Funds held for others	2,627	-
	<u>\$ 223,519</u>	<u>\$ 683,269</u>
Total liabilities	<u>\$ 223,519</u>	<u>\$ 683,269</u>

See accompanying notes.

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

South Central Library System (“System”) was established on January 1, 1975, as a federated public library system under Chapter 43 of the Wisconsin Statutes. The System serves over 800,000 people in Adams, Columbia, Dane, Green, Portage, Sauk, and Wood counties. Its membership is comprised of 53 public libraries consisting of 64 library sites, including the central library and eight branches of the Madison Public Library, the central library and three branches of the Portage County Public Library, and the Dane County Library Service. More than 200 libraries of all types participate with the System in multitype planning and to further cooperative activities among all types of libraries. The System is governed by a board of trustees comprised of twenty statutory voting members representing the participating counties.

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

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

Reporting Entity

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

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

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation

Government-wide Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or program and (2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

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

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

The System reports the following major governmental fund:

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

Additionally, the System reports the following fund type:

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

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

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

of the System, these funds are not incorporated into the government-wide financial statements. The System's fiduciary funds include the following:

Agency funds—The agency funds account for assets held by the System in a purely custodial capacity. Since agency funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations.

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

Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

Both governmental activities in the government-wide financial statements and the fiduciary fund financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred.

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash

The System’s cash includes cash on hand, checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts at financial institutions and short-term investments with original maturities of 3 months or less from date of acquisition.

Investments

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

Accounts Receivable

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

Prepaid Items

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

Capital Assets

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

Government-wide Financial Statements

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

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

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The System has three items that meet this criterion, expected vs. actual experience of the pension plan, expected vs. actual investment income of the pension plan and contributions after measurement date. All of the deferred outflows relate to the allocation of the pension activity that resulted from the implementation of GASB Statement 68.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The System has deferred inflows of resources for the advance receipt of state aid to public library systems as of December 31, 2015.

Equity Classifications

Government-wide Financial Statements

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

Net investment in capital assets—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted—Consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements

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

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

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

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

Assigned—Resources that are neither restricted not committed, but are constrained by the System’s intent to be used for specific purposes as established by the Board.

Unassigned—All amounts not included in other spendable classifications.

Use of Restricted Resources

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

Compensated Absences

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

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension

For purposes of measuring the net pension liability (asset), deferred outflows or 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.

NOTE 2—STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

NOTE 3—DEPOSITS

Custodial Credit Risk—Deposits

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. As of December 31, 2015, the System's bank balance was \$2,073,964 and \$1,573,964 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 4—INVESTMENTS

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

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

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4—INVESTMENTS (continued)

5. Securities of an open-end management investment company or investment trust, if the investment company or investment trust does not charge a sales load, if the investment company or investment trust is registered under the Investment Company Act of 1940, and if the portfolio of the investment company or investment trust is limited to:
 - a. Bonds and securities issued by the federal government or by a commission, board, or other instrumentality of the federal government.
 - b. Bonds that are guaranteed as to principal and interest by the federal government or by a commission, board, or other instrumentality of the federal government.
 - c. Repurchase agreements that are fully collateralized by bonds or securities issued or guaranteed as to principal and interest by the federal government or by a commission, board, or other instrumentality of the federal government.

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

As of December 31, 2015, the System had the following investments:

Investment Type	Credit Quality Ratings	Weighted Average Maturity (Years)	Fair Value
U.S. Treasuries	Aaa/AA+	4.48	\$ 98,065
U.S. agencies	Aaa/AA+	9.33	545,283
Municipal obligations	Aaa/AA+	3.63	149,144
Municipal obligations	Aa2/AAA/AA	5.06	151,219
Municipal obligations	Aa3/AA-	4.39	129,603
Municipal obligations	A2	5.24	26,124
Corporate bonds	Aaa/AAA	4.32	50,051
Corporate bonds	Aa2/AA/AA-	4.08	127,877
Corporate bonds	Aa3/AA-	2.61	124,678
Corporate bonds	Aa1/AA-	5.04	181,207
Local Government Investment Pool	Not Rated		5,680
			<u>\$ 1,588,931</u>
Portfolio weighted average maturity		6.01	

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4—INVESTMENTS (continued)

Interest Rate Risk

The System does not have a formal policy limited investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk—Investments

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

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

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5—CAPITAL ASSETS

Capital assets activity for governmental activities was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets				
Vehicles	\$ 659,398	\$ 33,226	\$ (89,163)	\$ 603,461
ILS and technology equipment	1,278,369	186,857	-	1,465,226
Leasehold improvements	65,264	-	-	65,264
Furniture and equipment	111,948	5,146	-	117,094
Total capital assets	<u>2,114,979</u>	<u>225,229</u>	<u>(89,163)</u>	<u>2,251,045</u>
Less accumulated depreciation				
Vehicles	330,560	82,466	(89,163)	323,863
ILS and technology equipment	458,756	170,904	-	629,660
Leasehold improvements	60,885	547	-	61,432
Furniture and equipment	95,593	19,780	-	115,373
Total accumulated depreciation	<u>945,794</u>	<u>273,697</u>	<u>(89,163)</u>	<u>1,130,328</u>
Capital assets—net	<u>\$ 1,169,185</u>	<u>\$ (48,468)</u>	<u>\$ -</u>	<u>\$ 1,120,717</u>

Depreciation expense was \$273,697 and was charged entirely to governmental activities as an expense for library services.

NOTE 6—INTERFUND BALANCES

Interfund balances at December 31, 2015 consist of \$26,298 due to the general fund from the nonmajor governmental fund. The outstanding balance is the result of a time lag between the date expenditures for LSTA grants were paid from the general fund and the date the System received reimbursement for those expenditures from the grantor agency, at which time payments between funds are made.

NOTE 7—EMPLOYEE'S RETIREMENT SYSTEM

General Information about the Pension Plan

Plan description. The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 7—EMPLOYEE'S RETIREMENT SYSTEM (continued)

1200 hours a year and expected to be employed for at least one year from the employee's date of hire are eligible to participate in the WRS.

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 State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

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.

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 7—EMPLOYEE'S RETIREMENT SYSTEM (continued)

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

Year	Core Fund Adjustment	Variable Fund Adjustment
2005	2.6%	7%
2006	0.8	3
2007	3.0	10
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25

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, and Executives and Elected Officials. 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 \$162,801 in contributions from the employer.

Contribution rates as of December 31, 2015 are:

Employee Category	Employee	Employer
General (including teachers)	6.8%	6.8%
Executives & Elected Officials	7.7%	7.7%
Protective with Social Security	6.8%	9.5%
Protective without Social Security	6.8%	13.1%

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

At December 31, 2015, the System reported an asset of \$427,064 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013 rolled forward to December 31, 2014. 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

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 7—EMPLOYEE'S RETIREMENT SYSTEM (continued)

contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2014, the System's proportion was 0.01738666%, which was a decrease of 0.00045196% from its proportion measured as of December 31, 2013.

For the year ended December 31, 2015, the System recognized pension expense of \$169,582.

At December 31, 2015, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 61,911	\$ -
Net differences between projected and actual earnings on pension plan investments	206,805	-
Employer contributions subsequent to the measurement date	<u>355,144</u>	<u>-</u>
Total	<u>\$ 623,860</u>	<u>\$ -</u>

\$355,144 reported as deferred outflows related to pension resulting from System's contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset in the year ended December 31, 2015.

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

Year ended December 31:	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2015	\$ 54,479	\$ -
2016	54,479	-
2017	54,479	-
2018	54,479	-
2019	54,479	-
Thereafter	5,066	-

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 7—EMPLOYEE'S RETIREMENT SYSTEM (continued)

Actuarial assumptions. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2013
Measurement Date of Net Pension Liability (Asset)	December 31, 2014
Actuarial Cost Method:	Entry age
Asset Valuation Method:	Fair Market Value
Long-Term Expected Rate of Return:	7.2%
Discount Rate:	7.2%
Salary Increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.8%
Mortality:	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*	2.1%

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009-2011. The total pension liability for December 31, 2014 is based upon a roll-forward of the liability calculated from the December 31, 2013 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 arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Real Rate of Return	Target Allocation
US Equities	5.3%	21%
International Equities	5.7	23
Fixed Income	1.7	36
Inflation Sensitive Assets	2.3	20
Real Estate	4.2	7
Private Equity/Debt	6.9	7
Multi-Asset	3.9	6
Cash	0.9	(20)

Single Discount Rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 7—EMPLOYEE'S RETIREMENT SYSTEM (continued)

investments of 7.20% and a long term bond rate of 3.56%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% 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 dates 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 long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of South Central Library System's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents South Central Library System's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20%, as well as what South Central Library System's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20%) or 1-percentage-point higher (8.20%) than the current rate:

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at <http://legis.wisconsin.gov/lab/> and reference report number 15-11.

NOTE 8—LEASES

The System leases facilities for administrative space and delivery operations under noncancelable operating leases that expire at various dates through May 31, 2023. Those leases generally require the System to pay all executory costs such as taxes, maintenance, and insurance. Rental expenses for those leases totaled \$386,122 for the year. Future minimum rental payments under operating leases that have remaining terms in excess of one year as of December 31, 2015, are:

2016	\$ 361,498
2017	370,069
2018	378,912
2019	374,053
2020	228,387
2021-2023	<u>580,227</u>
	<u>\$ 2,293,146</u>

The System also leases a portion of its administrative space to the Wisconsin Library Association under a noncancelable sublease that expires May 31, 2023. Sublease rental income was \$23,418 for the year. The total amount of minimum rentals to be received in the future under this sublease as of December 31, 2015 is \$205,712.

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 9—RISK MANAGEMENT

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

NOTE 10—PRIOR PERIOD ADJUSTMENT

The Government Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Under GASB 68, the System is required to disclose the net pension asset on the statement of net position. As a result, an adjustment of \$1,024,949 was made to increase the December 31, 2014 net position of the governmental activities on the statement of activities based on the net pension asset balance and the related deferred outflows of resources balances as of December 31, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH CENTRAL LIBRARY SYSTEM
SCHEDULE OF NET PENSION ASSET - WISCONSIN RETIREMENT SYSTEM
Last 10 Fiscal Years*

South Central Library System's proportion of the net pension asset		0.017387%
South Central Library System's proportionate share of the net pension asset	\$	(427,064)
South Central Library System's covered-employee payroll	\$	2,325,719
South Central Library System's proportionate share as a percentage of covered payroll		18.36%
Plan fiduciary net position as a percentage of the total pension asset		102.74%

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

SOUTH CENTRAL LIBRARY SYSTEM
SCHEDULE OF CONTRIBUTIONS - WISCONSIN RETIREMENT SYSTEM
Last 10 Fiscal Years*

Contractually required contributions	\$	162,801
Contributions in relation to the contractually required contributions	\$	162,801
South Central Library System's covered-employee payroll	\$	2,325,719
Contributions as a percentage of covered-employee payroll		7.00%

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

SOUTH CENTRAL LIBRARY SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2015

NOTE 1—EMPLOYEE'S RETIREMENT CONTRIBUTIONS

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

Changes of assumptions. There were no changes in the assumptions.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, the general fund, and the remaining fund information of South Central Library System, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise South Central Library System's basic financial statements, and have issued our report thereon dated March 30, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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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.

Wegner CPAs LLP

Wegner CPAs, LLP
Madison, Wisconsin
March 30, 2016