

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

As management of Winnebago County, Wisconsin, we offer readers of the County's financial statements this narrative overview and analysis of the financial statements of Winnebago County, Wisconsin for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 8-11 of this report.

Financial Highlights

- The assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources at the close of the most recent year by \$309,720,266 (*net position*). Of this amount, \$91,140,125 (*unrestricted net position*) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net position increased by \$2,245,452. Several factors contributed to the overall increase as follows:

| Description | Amount |
|---|--------------|
| Long term debt repaid and long term debt issued are reflected on the fund financial statements as revenues and expenses. They are not revenues or expenses in the statement of net assets. | |
| Long term debt repaid. | \$ 6,045,445 |
| Long term debt issued. | (9,550,000) |
| Depreciation of capital assets is an expense in the statement of activities, yet there is no tax or other revenue to offset this expense because it is not a cash outflow. The effect of this is a reduction of net position. | (5,451,762) |
| Capital asset acquisitions are reported as expenditures in governmental funds however they are not expensed in the statement of activities. 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 of capital acquisitions recorded in governmental funds, which is recorded as expense in the fund statements but capitalized and depreciated in the statement of net activities. | 9,644,120 |
| Revenues that are not available within 60 days after year end are not recorded in the fund statements, however they are in the statement of activities. This amount represents the amount by which deferred revenue at the end of the year exceeded deferred revenue at the beginning of the year. | (745,488) |
| Governmental funds do not recognize expenses that do not require the use of current financial resources. These are generally long-term liabilities. The statement of activities does include these expenses. | (311,193) |
| Change in deferred pension liability - is an expense in the statement of activities but is not reflected on the fund statements because it is a long term liability | (3,249,123) |
| Change in deferred OPEB liability- is an expense in the statement of activities but is not reflected on the fund statements because it is a long term liability | (282,871) |
| Prior period adjustment to record the actuarial determined OPEB cost for Winnebago County | (2,366,664) |
| Governmental funds surplus generated during 2017 represents an increase in net position on the statement of net position. | 6,793,832 |
| Net surplus generated in proprietary activities during 2017 represent an increase in net position on the statement of net position. | 1,736,185 |

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

- As of the close of the current year, the County's governmental activities reported combined ending net position of \$196,382,983. Approximately 24.2% of this total amount, \$47,606,931, is available for spending at the County's discretion (*unrestricted net position*).
- At the end of the current year, unassigned fund balance for the general fund was \$25,089,820, or approximately 44.1% of total general fund expenditures.
- The County's total general-obligation debt increased by \$2,205,789, or 6.9%, during the current year. There were no refinancing transactions done during 2017.
- There were new general obligation notes of \$9,860,000 issued on November 7, 2017 to finance capital projects including building improvements, remodeling, card access system, department relocation, snow removal equipment, and road resurfacing projects.

Overview of the Financial Statements

This discussion and analysis is designed to be an introduction to the Winnebago County, Wisconsin's basic financial statements. The County's basic financial statements comprise three components: 1) the government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. The government-wide statements are made up of the statement of net position and the statement of activities.

The statement of net position presents information on all of the County's assets, liabilities and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position will serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This means, some revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused vacation leave and unused sick leave that is paid out upon termination or retirement).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues from those functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities (those supported by taxes and intergovernmental revenues) of the County include general government; public safety; health and human services; culture, education, and recreation; and conservation and development. The business-type activities (those supported by user fees) of the County include an airport, a solid waste facility, a nursing home, and a highway operation.

The government-wide financial statements include not only the County itself (known as the primary government), but also a legally separate component unit known as the Housing Authority. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 38-40 of this report.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

Fund financial statements. 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 County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions as governmental activities in the government-wide financial statements; however, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison may help readers better understand the long-term impact of a government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and human services fund, both of which are considered major funds. Data from the other two funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major funds is provided in the combining statements found elsewhere in this report.

The County adopts annual appropriation budgets for all of its governmental type funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 41-46 of this report.

Proprietary funds. The County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County maintains enterprise funds for its airport, solid waste facility, nursing home, and highway operations. Internal service funds are used to accumulate and allocate costs internally among various functions. The County uses internal service funds to account for its general services operations and its self-funded insurance for worker's compensation, property and liability, and health and dental insurance. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. All internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 47-52 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the County's own programs. The accounting used in fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 53 of this report.

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 54-106 of this report.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding budget to actual data. Required supplementary information can be found on pages 107-116 of this report.

The combining statements referred to in connection with non-major governmental funds; individual enterprise funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 117-186 of this report.

Government-wide Financial Analysis

As discussed earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of resources of the County exceeded liabilities and deferred inflows of resources by \$309,720,266 at the close of 2017. See table on next page.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

Winnebago County's Net Position

(Amounts Expressed in \$1,000's)

| | Governmental | Business-Type | | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Activities | Activities | Total | Total |
| | 2017 | 2017 | 2017 | 2016 |
| Current and other assets | \$ 132,053 | \$ 66,283 | \$ 198,336 | \$ 193,218 |
| Capital assets | 175,994 | 70,469 | 246,463 | 241,005 |
| Total assets | 308,047 | 136,752 | 444,799 | 434,223 |
| Deferred outflow related to pensions | 19,168 | 5,776 | 24,944 | - |
| Deferred outflow related to OPEB | 271 | 263 | 534 | 35,608 |
| | 19,439 | 6,039 | 25,478 | 35,608 |
| Total assets and deferred outflows of resources | 327,486 | 142,791 | 470,277 | 469,831 |
| Long-term liabilities outstanding | 34,054 | 21,827 | 55,881 | 55,544 |
| Current liabilities | 21,951 | 5,253 | 27,204 | 27,484 |
| Total liabilities | 56,005 | 27,080 | 83,085 | 83,028 |
| Deferred inflow of resources: | | | | |
| Deferred outflow related to pensions | 7,755 | 2,374 | 10,129 | 13,421 |
| Deferred property tax revenue | 67,343 | - | 67,343 | 65,907 |
| | 75,098 | 2,374 | 77,472 | 79,328 |
| Net position: | | | | |
| Net investment in capital assets | 145,559 | 69,233 | 214,792 | 213,420 |
| Restricted | 3,217 | 571 | 3,788 | 2,843 |
| Unrestricted | 47,607 | 43,533 | 91,140 | 91,212 |
| Total net position | \$ 196,383 | \$ 113,337 | \$ 309,720 | \$ 307,475 |

By far, the largest portion of the County's net position, 69.4%, reflects its investment in capital assets (E.g., land, buildings, improvements, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net position, 1.2%, represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$91,140,125, may be used to meet the government's ongoing obligations to citizens and creditors.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

Winnebago County's Changes in Net Position

(Amounts Expressed in \$1,000)

| | Governmental | Business-type | | |
|---|--------------|---------------|------------|------------|
| | Activities | Activities | Total | Total |
| | 2017 | 2017 | 2017 | 2016 |
| Revenues: | | | | |
| Program revenues: | | | | |
| Charges for services | \$ 11,156 | \$ 40,759 | \$ 51,915 | \$ 49,501 |
| Operating grants and contributions | 25,070 | 19 | 25,089 | 24,395 |
| Capital grants and contributions | 35 | - | 35 | 32 |
| General revenues: | | | | |
| Property taxes | 65,982 | - | 65,982 | 65,065 |
| Other taxes | 1,347 | - | 1,347 | 1,186 |
| Grants and contributions not restricted to specific programs | 10,910 | 1,752 | 12,662 | 11,719 |
| Unrestricted investment earnings | 965 | 436 | 1,401 | 684 |
| Miscellaneous | 347 | 268 | 615 | 839 |
| Total revenues | 115,812 | 43,234 | 159,046 | 153,421 |
| Expenses: | | | | |
| General Government | 17,468 | - | 17,468 | 14,804 |
| Public Safety | 31,893 | - | 31,893 | 31,691 |
| Public Works | 3,911 | - | 3,911 | 3,748 |
| Health and Human Services | 49,652 | - | 49,652 | 49,095 |
| Culture, Education, and Recreation | 3,211 | - | 3,211 | 2,989 |
| Conservation and Development | 3,006 | - | 3,006 | 2,859 |
| Interest on Long Term Debt | 505 | - | 505 | 507 |
| Airport | - | 3,265 | 3,265 | 3,246 |
| Solid Waste Management | - | 10,551 | 10,551 | 11,290 |
| Park View | - | 17,674 | 17,674 | 18,043 |
| Highway | - | 13,297 | 13,297 | 13,044 |
| Total expenses | 109,646 | 44,787 | 154,433 | 151,316 |
| Increase (decrease) in net position before transfers and special item | 6,166 | (1,553) | 4,613 | 2,105 |
| Transfers | (2,863) | 2,863 | - | - |
| Increase (decrease) in net position | 3,303 | 1,310 | 4,613 | 2,105 |
| Net position - Beginning of Year | 194,222 | 113,252 | 307,474 | 305,370 |
| Cumulative effect of change in accounting principle | (1,142) | (1,225) | (2,367) | - |
| Net position - Beginning of Year, restated | 193,080 | 112,027 | 305,107 | 305,370 |
| Net position - End of Year | \$ 196,383 | \$ 113,337 | \$ 309,720 | \$ 307,475 |

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities increased the County's net position by \$2,160,524. Key elements of the increase exclusive of the prior period adjustment are as follows:

| | |
|---|----------------|
| The amount levied for principal payment on governmental activity debt reflected in property tax revenue is reflected in the statement of activities as a revenue. The funds were used for payment of principal on debt which would not appear on the statement of activities. This would have the effect of increasing net position on the statement of activities. | \$ (9,550,000) |
|---|----------------|

| | |
|---|-------------|
| Depreciation expense for governmental activities is reflected on the statement of activities. This is an expense without a cash outflow so there is not offsetting revenue (tax levy) reflected on the statement of activities. This would have the effect of reducing net position on the statement of activities. | (5,451,762) |
|---|-------------|

| | |
|--|-----------|
| Governmental funds do not recognize expenses that do not require the use of current financial resources. These are generally long-term liabilities. The statement of activities does include these expenses. | (311,193) |
|--|-----------|

| | |
|--|-------------|
| Reduction in pension liability and deferred expenditures reflected in the statement of activities are not reflected in the fund statements | (3,249,123) |
|--|-------------|

| | |
|--|-----------|
| Reduction in OPEB assets and deferred expenditures reflected in the statement of activities are not reflected in the fund statements | (282,871) |
|--|-----------|

| | |
|---|-----------|
| Capital outlay reported in governmental funds is capitalized in governmental activities | 9,644,120 |
|---|-----------|

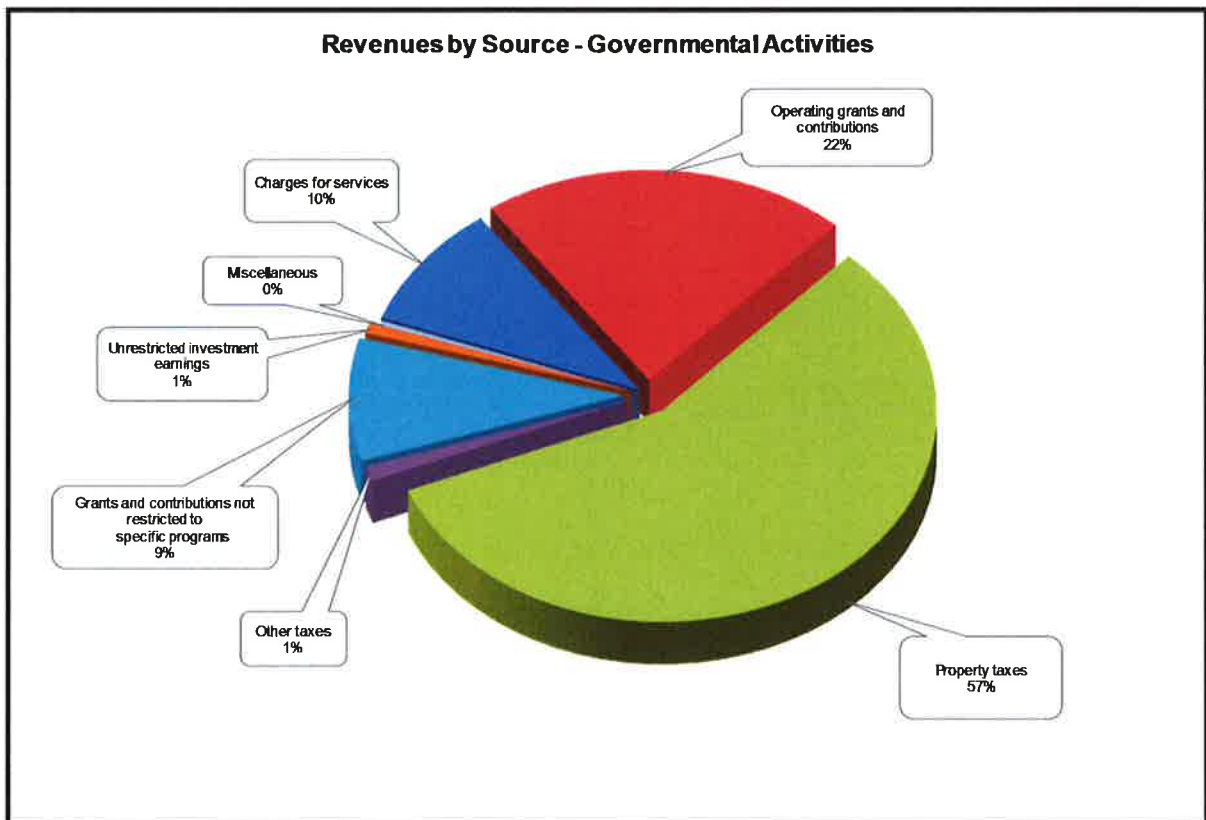
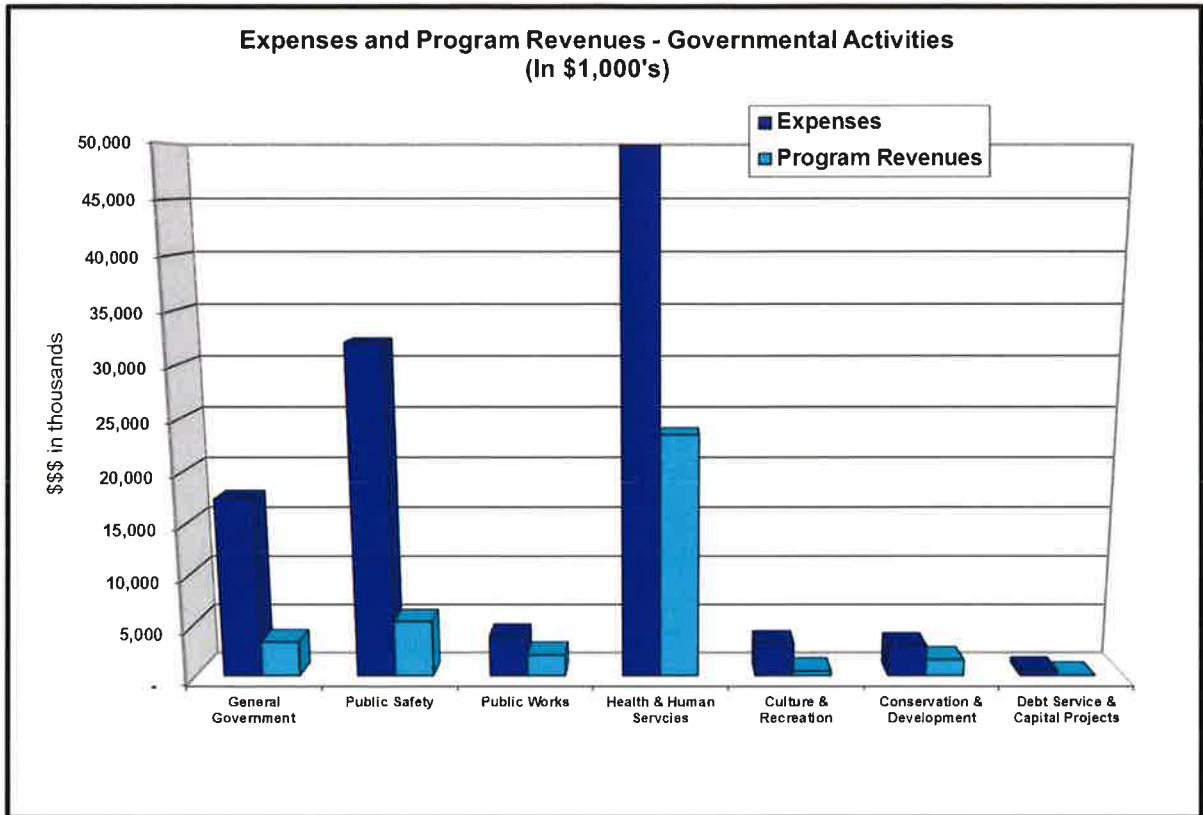
| | |
|---|-----------|
| Revenues that are currently not available are deferred in the fund statements. They are current period revenues in the statement of activities. | (745,488) |
|---|-----------|

| | |
|--|-----------|
| Governmental funds operating surplus generated | 6,793,832 |
|--|-----------|

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017



WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

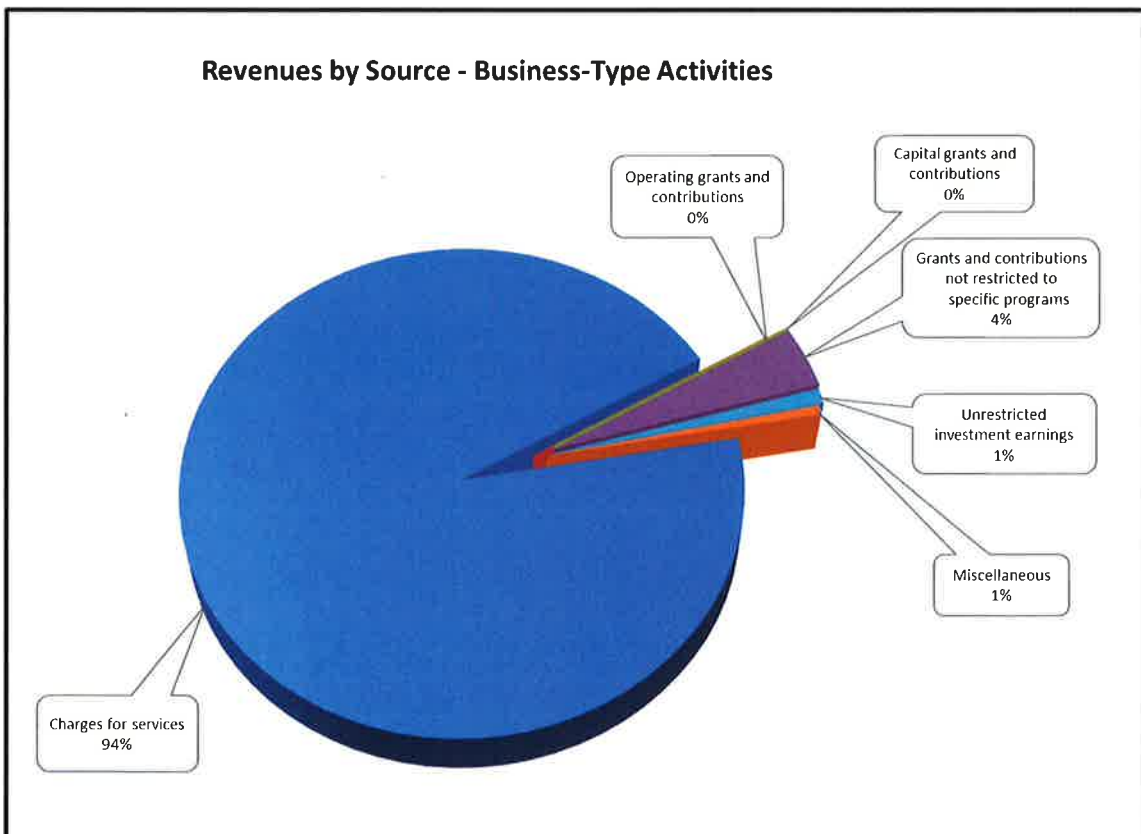
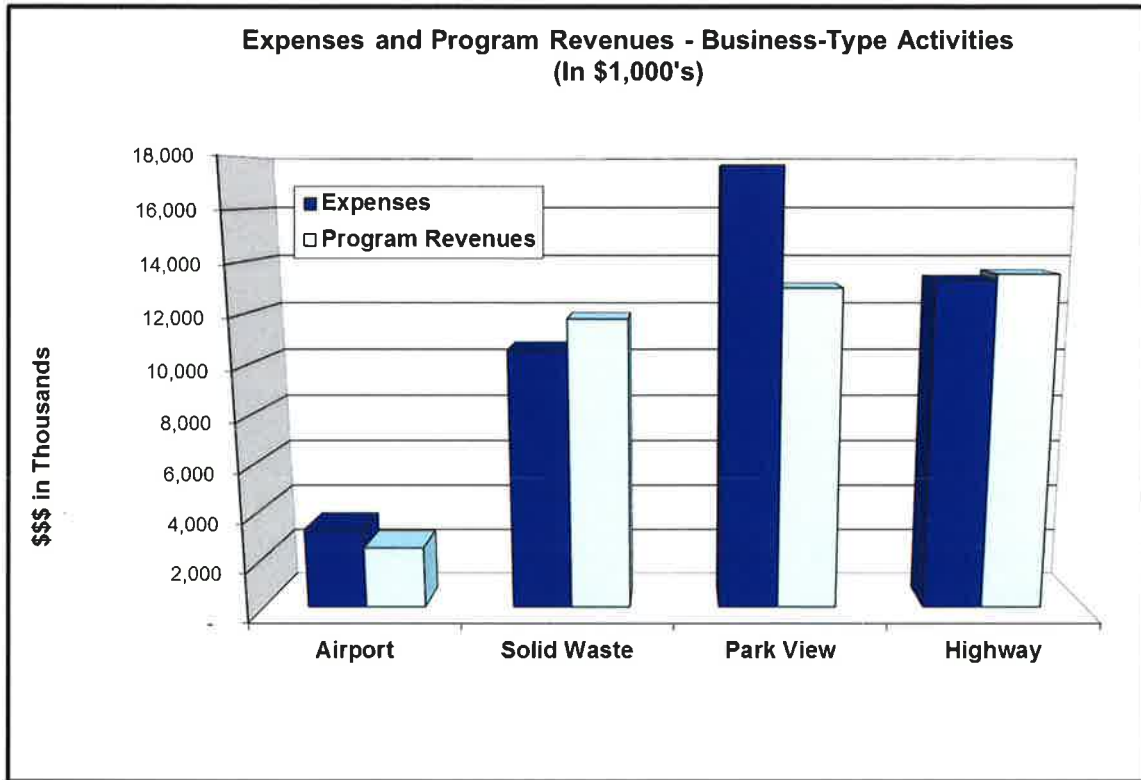
Business-type activities. Business-type activities increased the County's net position by \$84,928. Key elements of this increase are as follows:

- The Airport Fund's net position decreased by \$83,699. The adopted budget called for the fund to run a deficit of \$1,647,746. The facility requires a tax levy to operate. The majority of this difference is due to \$1,549,366 received from the City of Oshkosh for the Taxiway B reconstruction that was unexpected.
- The Solid Waste Fund net position increased by \$1,601,510. A deficit of \$112,123 was budgeted. The large difference is due to revenues far exceeding budget for the year. Increased gas production from the closed landfills resulted in electric sales exceeding budget. There was less down time to the electricity converting engines resulting in more power generation. The ash tonnage put into the landfill far exceeded budget resulting in revenue exceeding budget. Revenues alone were approximately \$1.7 million over a budget of \$10.6million.
- Park View Health Center's net position decreased by \$1,546,707. A decrease to net position of \$2,134,800 was budgeted for the year. Revenues exceeded budget by approximately \$571,000. There were fewer Medicaid and Medicare patient days and more Medicare Advantage and Private Pay days than expected. These categories are billed at higher rates and as a result, revenue has exceeded budget. In addition, labor expenses were down approximately \$612,000 due to staff vacancies throughout the year.
- The Highway Department's net position increased \$28,990. A surplus of \$16,859 was budgeted. The fund performed very close to budget.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017



WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

Financial Analysis of the Government's Funds

As indicated earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus on the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financial requirements. Note how unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2017, the County's governmental funds reported combined ending fund balances of \$45,059,238, an increase of \$6,739,832 in comparison with the prior year. More than half of this total - \$23,978,918 - constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed as follows:

- 1) Non-liquid delinquent property taxes and special assessments: \$3,798,002,
- 2) Prepayments that benefit periods beyond the end of the current year: \$413,099,
- 3) Non-liquid industrial development loans receivable: \$166,362,
- 4) Unspent bond proceeds: \$4,045,159,
- 5) For other restricted purposes: \$245,874,
- 6) Construction of capital projects: \$1,612,200
- 7) For prior year commitments: \$220,597,
- 8) For Economic Development: \$652,937,
- 9) To pay debt service: \$476,638,
- 10) Assigned to special projects, economic development, subsequent year's expenditures and prior years appropriations: \$9,449,228.

General Fund:

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the general fund was \$25,089,820, while total fund balance is \$39,419,866. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to expenditures. Unassigned fund balance represents 44.1% of total general fund expenditures, while total fund balance represents 69.3% of that same amount. The fund balance of the county's general fund increased by \$4,699,568 during the current fiscal year. This represents an increase of 13.5%. Reasons for the net increase in fund balance are as follows:

The Human Services Fund needed \$3.1 million less of tax levy than was budgeted. As a result, these funds remained in the General Fund at the end of the year. This accounts for most of the change to the General Fund balance.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

Some departments spending was significantly under budget in 2017 helping to contribute to the surplus:

- Facilities - \$723,718 under budget. Labor costs were under budget by approximately \$200,000 primarily due to several vacancies for an extended period of time and seasonal employees working fewer hours than estimated. Capital outlay was under budget by approximately \$176,000 due to the razing of the Work Release Center bids coming in significantly under budget, and the deferral of tuck-pointing project at the Orin King building. Several other operating expenses including building, equipment and grounds maintenance, building repairs, professional services, and snow removal were considerably under budget by approximately \$244,000. In some cases projects were not completed by the end of the year. In others, the costs came in lower than expected.
- Sheriff - \$880,189 under budget. Some of the line items which came in significantly under budget include: telephone, small equipment, motor fuel, equipment and vehicle repairs, professional services and other contract services. Some explanations are as follows: the 911 system upgrades created a consolidation of network, which resulted in a savings of \$38,792. Homeland Security grants offset budgeted costs for small equipment, and the Forensic cell phone software that was budgeted was not purchased in 2017. Motor fuel prices were less than budgeted and the department uses a considerable amount of fuel for its vehicle fleet. Equipment and vehicle repair costs were down by over \$79,000 due to lower than anticipated repair costs no major squad crashes needing major repairs. Professional services were under budget by approximately \$113,000 because there was a fee reduction with the electronic monitoring program due to a vendor change. Other contractual services was under budget by approximately \$122,000 due to the elimination of FoxComm expenses.
- Clerk of Courts and Court System - \$500,196 under budget. Revenues exceeded budget for the year by \$69,301 or 3.7%. In 2017 the Clerk began using the State Debt Collection programs (SDC) to collect delinquent fines, fees and forfeitures. SDC is able to access collection actions the County does not have ability or authority to access, thus collections on delinquent accounts are increasing substantially. Labor costs were under budget by approximately \$87,000, there were several vacancies during the year, and new employees that were hired that did not take insurance. Capital outlay was under budget by approximately \$190,000 due to a carryover of funds from 2017 to 2018 for video conferencing systems and equipment for storage relating to the court house office relocation project. Contracted services came in under budget by approximately \$129,000, the majority of this was due to spending less on court appointed attorneys.

Human Services (Special Revenue) Fund:

The Human Services Fund has a total fund balance of \$616,277. Of this amount, \$36,913 (or 6.0%) represents prepayments that benefit periods beyond the end of the current year. The balance of \$579,364 represents assigned fund balance. Total fund balance of the Human Services Fund increased \$531,697 from the prior year. The increase in fund balance is due to an additional \$600,000 that will need to reduce the tax levy transfer in 2018.

- Winnebago County's practice is to maintain a minimal fund balance in the Human Services Fund because of its need for tax levy support. As a result, most of the tax levy that is not needed is left in the General Fund at the end of the year. The Human Services Fund had a surplus of about \$3,600,000 for the year. The majority of this was due to unbudgeted revenues of approximately \$2,600,000, which were reimbursements from the state for prior years for Comprehensive Community Services and Economic Support Enhanced Funding. Because of this, the tax levy transfer to the fund was reduced by \$3,100,000 to keep the fund balance as close to zero as possible. The remaining \$600,000 is to be transferred to the general fund in 2018.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

- Approximately \$1,600,000 of the department's surplus was that placements at group homes, residential child caring institutions and foster care homes were down considerably.

Proprietary funds The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position for these funds can be seen in the following table. Also displayed in this table is the total growth in unrestricted net position for the current year.

| | <u>Airport</u> | <u>Solid Waste</u> | <u>Park View</u> | <u>Highway</u> |
|--|----------------|--------------------|------------------|----------------|
| Unrestricted Net Position - 2016 | \$ 1,246,152 | \$ 26,904,074 | \$ 12,191,587 | \$ 2,912,274 |
| Unrestricted Net Position - 2017 | 1,104,034 | 27,513,390 | 10,539,510 | 2,309,126 |
| Total Growth(Decline) in Unrestricted Net Position | \$ (142,118) | \$ 609,316 | \$ (1,652,077) | \$ (603,148) |

The Airport Fund's unrestricted net position decreased by \$142,118. The main reason for the decrease was carryover of purchase orders increased by about \$130,000.

The Solid Waste Fund's unrestricted net position increased by \$609,316. The large difference is due to revenues far exceeding budget for the year. Increased gas production from the closed landfills resulted in electric sales exceeding budget. There was less down time to the electricity converting engines resulting in more power generation. The ash tonnage put into the landfill far exceeded budget resulting in revenue exceeding budget. Revenues alone were approximately \$1.7 million over a budget of \$10.5 million.

Park View Health Center's unrestricted net position decreased \$ 1,652,077. The facility had a net loss of \$874,351, which accounts for most of the decrease. Depreciation for the year amounted to \$637,600 so a deficit around that would be expected. The other portion of the decrease in unrestricted net position can be attributed to the budgeting tax levy revenue of \$300,000 to pay debt principal. The tax represents revenue on the income statement. However, payment of debt principal is a reduction of a liability and not an expense on the income statement.

The Highway Department's unrestricted net position decreased by \$603,148. Unrestricted fund balance decreased due to an increase of approximately \$377,000 in the OPEB (Other Post-Employment Benefits) liabilities and a year over year increase to "net investment in capital assets".

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to a net increase in appropriations of approximately \$ 1,069,368 and can be briefly summarized as follows:

- \$291,933 carryovers of prior year appropriations
- \$453,497 additional appropriations needed for capital projects applied from general fund balance.
- \$178,983 for Sick Leave payouts.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

Revenues were over budgetary estimates – explanation:

During this year, revenues were under budget by \$684,735. This represents a variance of .8% from budget. A few items to note are as follows:

- Intergovernmental revenues were under budget by \$461,027. The largest areas include Land & Water Conservation and Child Support. In the Land and Water area, many of these grants are reimbursement programs. If we don't spend the money, we don't get the reimbursement grant revenue. Some projects were not done in 2017 and were carried over to 2018, which is why the Land & Water grant money was not received.
- Public service revenues were under budget \$253,559 due to lower jail monitoring fees, document recording fees and court fees.

Expenditures were less than budgetary estimates – explanation:

Actual operating expenditures were less than budget by \$4,914,482. Some of the main reasons include:

General Government – \$1,223,856 under budget

A breakdown by department with large variances follows:

Information Systems – \$273,115 under budget: Computer software was budgeted for all new server licenses, however, the datacenter licenses ended up not needed. Software licensing is complex and sometimes what is planned to be housed on certain servers changes over the period of time between budget and purchase. Another savings was realized due to fiber maintenance work that was slated to be done in 2017 but due to the weather was delayed until spring of 2018. This amount was carried over to the 2018 budget.

Facilities – \$684,997 under budget: Labor costs were under budget by approximately \$200,000 primarily due to several vacancies for an extended period of time and seasonal employees working fewer hours than estimated. Capital outlay was under budget by approximately \$176,000 due to the razing of the Work Release Center bids coming in significantly under budget, and the deferral of tuck-pointing project at the Orin King building. Several other operating expenses including building, equipment and grounds maintenance, building repairs, professional services, and snow removal were considerably under budget by approximately \$244,000. In some cases projects were not completed by the end of the year. In others, the costs came in lower than expected.

Public Safety - \$1,603,361 under budget

Sheriff – \$1,083,559 under budget: Some of the line items which came in significantly under budget include: telephone, small equipment, motor fuel, equipment and vehicle repairs, professional services and other contract services. Some explanations are as follows: the 911 system upgrades created a consolidation of network, which resulted in a savings of \$38,792. Homeland Security grants offset budgeted costs for small equipment, and the Forensic cell phone software that was budgeted was not purchased in 2017. Motor fuel prices were less than budgeted and the department uses a considerable amount of fuel for its vehicle fleet. Equipment and vehicle repair costs were down by over \$79,000 due to lower than anticipated repair costs no major squad crashes needing major repairs. Professional services were under budget by approximately \$113,000 because there was a fee reduction with the electronic monitoring program due to a vendor change. Other contractual services was under budget by approximately \$122,000 due to the elimination of FoxComm expenses.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

Courts – \$430,897 under budget: Labor costs were under budget by approximately \$87,000, there were several vacancies during the year, and new employees that were hired that did not take insurance. Capital outlay was under budget by approximately \$190,000 due to a carryover of funds from 2017 to 2018 for video conferencing systems and equipment for storage relating to the court house office relocation project. Contracted services came in under budget by approximately \$129,000, the majority of this was due to spending less on court appointed attorneys. The rest consists of small variances within the rest of the Public Safety division.

Public Works – \$340,727 under budget

This area consists of County Road Maintenance, which accounts for all of the variance. The department did considerably more contract work for the state and municipalities than was anticipated during budget preparation. As a result, much of the county road work was postponed. Also, as a result of the mild winter, there was not nearly as much spent on plowing and salting county roads as in prior years.

Health & Human Services - \$371,724 under budget

Public Health – \$249,035 under budget: The largest area was wages and benefits which were under budget approximately \$228,000. In 2017, four employees that were on maternity leave, which accounted for a great deal of the underage. The remainder was due to staff vacancies.

Child Support – \$109,228 under budget: The largest area was wages and benefits which were under budget approximately \$93,000. This was due to staff vacancies.

Veterans Services had small favorable variances from budget adding to the total amount the division was under budget.

Culture, Education and Recreation - \$936,054 under budget

UW Fox Valley – \$647,054 under budget: Some very large building repair projects were not completed in 2017 due to projects bids coming in over budget and the timing to get the extra funding approved. As a result they were carried over into 2018. This accounted for about \$579,000 of the variance.

Parks Department - \$196,047 under budget: The largest area was capital outlay, which was under budget by approximately \$177,000. This variance was an amount budgeted to support the conversion of the race track area into a grandstand entertainment complex. However, the final Board vote to forego continuation of racing activities at the Expo and to proceed with building a grandstand entertainment complex was not made until November 2017, thus funds were not spent in 2017.

Conservation and Development - \$438,760 under budget

Land and Water Conservation – \$292,520 under budget: This is primarily due to runoff projects undertaken by landowners. These are fully funded programs. Not as many of these took place in 2017 as expected. As a result, there is a savings in expenses. Since these are reimbursable grant programs, the revenues will be under by a similar amount.

Land Records and Property Lister and small variances that accounted for the remaining variances.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

Capital Assets and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business type activities as of December 31, 2017 amounts to \$246,462,638 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, highways, and bridges. The total increase in the government's investment in capital assets for the current fiscal year was \$ 5,458,092 or 2.26% (a 2.44% increase for governmental activities and a 1.83% increase for business-type activities). Major capital asset events during the current fiscal year included the following:

Governmental Activities:

The total change in capital assets for the governmental activities was an increase of \$4,192,357.

Major assets placed in service during 2017:

- The Sheriff's department upgraded the Computer Aided Dispatch (CAD) system at a cost of approximately \$695,000, purchased an armored vehicle for approximately \$278,000, purchase 8 fleet vehicles for approximately \$350,000, and upgraded the Video Surveillance system for approximately \$150,000.
- The Facilities Department upgraded the Card Access system for approximately \$150,000, demolished the Work Release for approximately \$146,000, and replaced the asphalt on the Knapp St parking lot for approximately \$491,000.

Major assets retired during 2017:

- There were no major dispositions during the year.
- Total dispositions were approximately \$408,000, consisting mostly of old vehicles, lawn mowing tractors and related equipment. Most of these vehicles and equipment were fully depreciated and at the end of their useful lives.

Other changes to capital assets:

- Many of the assets placed in service during 2017 were from construction in process from prior years. Thus, the increase to the capital asset has a partial decrease to construction in process. They offset each other so don't effect the total change to capital assets.
- The change in accumulated depreciation during the year would usually reduce total capital assets as it is part of total capital assets above.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

Business Type Activities:

The total change in capital assets for the business type activities was an increase of \$1,265,734.

Major assets placed in service during 2017:

- The Solid Waste Department modified the Convenience and Residential Drop-Off areas for approximately \$445,000.
- Park View health care center installed a new nurse call system for approximately \$391,000. In addition, 8 whirlpool tubs were replaced for approximately \$156,000
- The Highway Department annually replaces road maintenance vehicles, construction and snow plowing vehicles and other road maintenance equipment costing around \$1 million per year as part of an equipment rotation program. Approximately \$1 million of old vehicles are traded in or sold.

Other changes to capital assets:

- Many of the assets placed in service during 2017 were from construction in process from prior years. This results in a shift from construction in process to a capital asset category such as buildings, equipment, improvements and other. The result is that there may not be a large overall changes to capital assets in total.
- The change in accumulated depreciation during the year would usually reduce total capital assets as it is part of total capital assets.

| Winnebago County's Capital Assets (net of accumulated depreciation) (Amounts Expressed in \$1,000's) | | | | | | |
|--|--------------|------------|---------------|-----------|------------|------------|
| | Governmental | | Business-Type | | Total | |
| | Activities | | Activities | | | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | \$ 3,561 | \$ 3,415 | \$ 9,461 | \$ 9,461 | \$ 13,022 | \$ 12,876 |
| Buildings | 46,855 | 48,364 | 29,534 | 30,545 | 76,389 | 78,909 |
| Improvements other than buildings | 7,703 | 7,808 | 14,298 | 15,204 | 22,001 | 23,012 |
| Machinery, equipment and vehicles | 14,419 | 14,602 | 11,625 | 11,317 | 26,044 | 25,919 |
| Infrastructure | 93,206 | 94,015 | - | - | 93,206 | 94,015 |
| Construction in progress | 10,250 | 3,598 | 5,551 | 2,676 | 15,801 | 6,274 |
| Total | \$ 175,994 | \$ 171,802 | \$ 70,469 | \$ 69,203 | \$ 246,463 | \$ 241,005 |

Additional information on the County's capital assets can be found in the footnotes on pages 78-80 of this report.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

Long-term debt. At the end of the current fiscal year, the County had total bonded debt outstanding of \$34,138,833, backed by the full faith and credit of the County.

| Winnebago County's Outstanding Debt | | | | | | |
|-------------------------------------|-------------------------|---------------|--------------------------|--------------|---------------|---------------|
| General Obligation Debt | | | | | | |
| (Amounts Expressed in \$1,000's) | | | | | | |
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| General obligation notes | \$ 30,679,136 | \$ 26,689,682 | \$ 1,799,697 | \$ 2,888,361 | \$ 32,478,833 | \$ 29,578,043 |
| General obligation bonds | 1,158,185 | 1,643,084 | 501,815 | 711,916 | 1,660,000 | 2,355,000 |
| Total | \$ 31,837,321 | \$ 28,332,766 | \$ 2,301,512 | \$ 3,600,277 | \$ 34,138,833 | \$ 31,933,043 |

The County's total general-obligation debt increased by \$2,205,790, or 6.5%, during the current year. There was a new borrowing during 2017 totaling \$9,860,000. The notes were issued to finance the following projects:

| Project | Proceeds |
|---|---------------------|
| Department relocation | \$ 3,300,000 |
| Courthouse roof | 410,000 |
| Mental health crisis service center architect and engineering | 250,000 |
| Couthouse security | 250,000 |
| UW -Fox Valley boiler | 215,000 |
| CAD system | 1,150,000 |
| Airport Taxiway B reconstruct | 310,000 |
| Road resurface and reconstruction | 3,924,000 |
| Debt issue costs and discounts | 51,000 |
| Total 2017 Bonding | \$ 9,860,000 |

Winnebago County maintains an Aa1 rating from Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5 percent of its total equalized valuation. The current debt limitation for the County is \$603,582,950, which is significantly in excess of its outstanding general obligation debt of \$34,138,833. The County has a debt service fund balance of \$476,638.

Additional information on the County's long-term debt can be found in the footnotes on pages 82-85 of this report.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

Economic Factors and Next Year's Budgets and Rates

- At the end of 2017 the US unemployment rate was 4.1%, Wisconsin's rate was 3.0% and Winnebago County's rate was 2.4%.
- Winnebago County continues to be a very affordable area to live with median home prices at \$154,000 compared to the Wisconsin average of \$174,000 and US average of \$246,500.
- Home sales in Winnebago County increased from 2,368 in 2016 to 2,545 in 2017.
- The labor force remains stable at around 93,700 persons.
- Non-farm labor increased slightly at around 98,900 jobs.
- Areas with the highest concentration of jobs are in manufacturing, trade, transportation and utilities, professional and business services, education and health care, and government.
- Growth in net new construction has remained slow at around 1.3% which limits increases in spending.

These factors were considered in preparing the County's budget for the 2018 fiscal year.

Section 66.0602 Local Levy Limits:

1. Except as provided in subs. (3), (4), and (5), no political subdivision may increase its levy in any year by a percentage that exceeds the political subdivision's valuation factor. The valuation factor is equal to the percentage change in the political subdivision's January 1 equalized value due to new construction less improvements removed between the previous year and the current year.

2. Debt service continues to be exempt from the levy limit freeze for all debt issued prior to July 1, 2005. Debt issued after July 1, 2005 will also be exempt if certain conditions are met. One of those is that the governing body can approve the bond issue by a $\frac{3}{4}$ vote. Winnebago County has used this provision to exceed rate limits in the past and will likely continue to do so.

3. Penalties will be imposed upon any governing body that exceeds these levy limits.

The County may also exceed the limitation by holding a referendum (according to state statutes) authorizing the County Board to approve higher rates. The County may also exceed the rates if it increases the services it provides through a transfer of these services from another governmental unit.

The debt service tax rate limit was frozen at \$0.31. The debt service rate that was adopted with the 2017 budget is \$0.68. We have been able to exceed the limit by using the 2nd exception listed below:

Generally, referendum approval is required to issue unlimited tax general obligation debt, with the following exceptions:

- Refunding debt issues
- Approval by the County Board by a vote of $\frac{3}{4}$ ths of the full board.
- A reasonable expectation that the new debt can be accommodated within the existing tax rate
- Other exceptions as listed in State Statutes Section 67.045

The 2017 tax levy and rate are within the limitations contained in state laws.

WINNEBAGO COUNTY, WISCONSIN

Management's Discussion and Analysis

December 31, 2017

Requests for Information

This financial report is designed to provide a general overview of Winnebago County, Wisconsin's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 112 Otter Avenue, P.O. Box 2808, Oshkosh, WI 54903-2808.