METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

Financial Statements
and Supplemental Information

Year Ended
December 31, 2018

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METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

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ST. PAUL, MINNESOTA

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INTRODUCTORY SECTION

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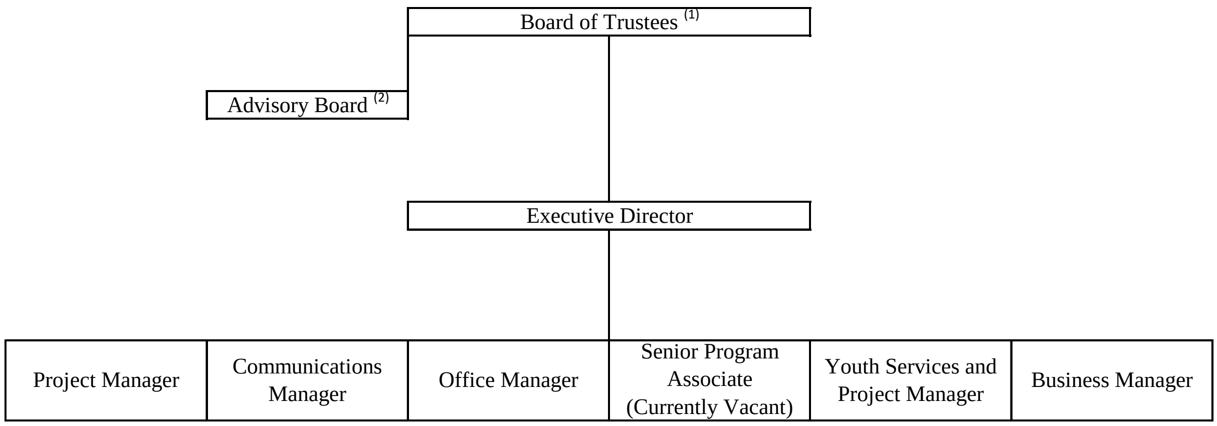
METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

Organizational Chart
December 31, 2018



[1] The Board of Trustees receives input and questions from the Advisory Board.
[2] The Advisory Board makes recommendations to the Board of Trustees.

METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

Elected and Appointed Officials
Year Ended December 31, 2018

BOARD OF TRUSTEES

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees and Management
Metropolitan Library Service Agency
St. Paul, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Metropolitan Library Service Agency (MELSA) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise MELSA'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 of 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 MELSA'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 MELSA'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.

(continued)

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and the aggregate remaining fund information of MELSA as of December 31, 2018, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information (RSI), as listed in the table of contents, 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 RSI 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MELSA's basic financial statements. The introductory section and supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The introductory section and supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Prior Year Comparative Information

We have previously audited MELSA's 2017 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, major fund, and the aggregate remaining fund information in our report dated May 3, 2018. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

(continued)

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2019 on our consideration of MELSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MELSA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MELSA's internal control over financial reporting and compliance.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
May 8, 2019

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As management of the Metropolitan Library Service Agency (MELSA), we hereby provide readers of MELSA's financial statements with this narrative overview and analysis of the financial activities of MELSA for the fiscal year ended December 31, 2018.

FINANCIAL HIGHLIGHTS

The MELSA staff, trustees, and member library staff members worked cooperatively in 2018 to once again achieve success as defined in our strategic plan and mission statement. As outlined in MELSA's 2017–2020 strategic plan, MELSA works to:

- Expand the capacity of member library systems to service the needs of metro area residents
- Support innovative services that are responsive to the needs of our member libraries
- Develop collaborative services that are responsive to the needs of our member libraries
- Support the learning, training, and professional development of member library staff
- Create a greater understanding among stakeholders of the role and value of member libraries' services
- Provide demonstrated accountability in the expenditure of state funding appropriated for public library services

In 2018, MELSA worked to achieve these goals in ways that included:

- Direct funding to member libraries for operational and technology needs
- Convening regular meetings with appropriate representatives from each member system on aspects of library services
- Building and maintaining digital collections of materials for all metro residents
- Seeking appropriate partners and service providers outside the library for collaborative efforts
- Leveraging MELSA's size in order to strengthen collaborative purchasing power and seek new funding opportunities

During the past year, the Advisory Board and the Board of Trustees have worked with staff to plan budgets, provide services, and evaluate future needs through these focused work areas. State funding supplied through Regional Library Basic System Support (RLBSS) funds, Regional Library Telecommunications Aid (RLTA), and the Arts and Cultural Heritage Fund (ACHF, also called Legacy Amendment) in this fiscal year allowed MELSA to continue development of region-wide projects and programming, and purchase resources and services on behalf of its member library systems. This summary not only highlights the new efforts, but also describes the numerous collaborations attained through the investment of these public dollars.

Regional Library Basic System Support (RLBSS)

Portions of the RLBSS funds are distributed directly to the member libraries through a regionally developed funding formula that includes four components: population, crossover circulation, inter-library loan, and a base factor. In 2018, MELSA allocated $1,000,000 to member systems to help fund local cooperative efforts. Distributions to each system were: $99,316 to Anoka County, $62,897 to Carver County, $135,333 to Dakota County, $251,029 to Hennepin County, $200,112 to Ramsey County, $103,613 to Saint Paul Public, $66,920 to Scott County, and $80,780 to Washington County.

A factor in the state's RLBSS fund distribution called "Equalization" allows counties with low per capita tax bases to earn a portion of the grant dollars, due to their adjusted net tax capacity. This factor is the most volatile in the state funding formula. In recent years, the amount allocated for the metro area system has fluctuated, peaking in state fiscal year 2015 at $1,368,372 and dropping to $880,710 in state fiscal year 2019. Ten percent of the Equalization funds awarded regionally to MELSA are distributed to the earning entities. In 2018, Anoka County Library received $42,381 and Saint Paul Public Library received $53,338 through funds targeted at eligible areas within Ramsey County. Remaining Equalization funding is used for collaborative projects and purchases such as content for the MELSA e-Book collection, and to support other budgetary commitments.

MELSA continues to support local library members through a variety of collaborative purchases and projects with the RLBSS grant and other sources of revenue. Highlights during the year include:

- The collaborative e-Book project with 3M that began in 2012 and implemented at all eight MELSA systems in 2014, continued to grow in content and usage in 2018. This first-of-its-kind sharing software product was developed for library consortia and allows e-Books purchased by MELSA to be shared among members systems. The 2018 budget again included $500,000 to purchase content, primarily focusing on high demand, high interest titles, $80,000 to cover systems' access fees, and $5,000 for cataloging records, if needed. In 2017, MELSA negotiated an amendment to its contract with Bibliotheca that provided a discount on copies/titles purchased based upon consistent annual expenditures for content and a demonstrated intent to continue funding annual access fee expenses for all member libraries. In 2018, expenditures resulted in a procurement of 12,265 new items for the collection: 9,814 e-Books and 2,451 e-Audiobooks. Since the inception of the cloudLibrary program, MELSA has acquired approximately 68,000 copies of 9,600 e-Book titles and more than 8,100 copies of 1,300 e-Audiobook titles.

- 2018 is the second year of MN Writes MN Reads, a program to support local independent authors and provide access to locally created content. The program allows authors to create and share professional-quality eBooks, and allows readers to access these eBooks. Submissions are reviewed by Library Journal, and select titles are made available to readers across the country. MN Writes MN Reads is the result of collaboration between Minitex, a consortium of private academic colleges, and the regional library systems of Minnesota. In 2018, collaborating partners, including the Minnesota Library Foundation and BiblioLabs (the vendor of the service) hosted a statewide author contest to highlight MN Writes MN Reads and recognize local, independent authors.

- MELSA spent over $1.5 million in electronic resources for the member library systems, covering a wide range of topics and services such as reference databases, ancestry research, online foreign language learning software, homework help, job search and resume creation assistance, and downloadable audio e-Audiobooks. Each year a due diligence process is performed by the e-Resources group to evaluate the need and cost effectiveness of these purchases.

- MELSA continued its support of these online tools for member libraries in 2018: Syndetics, a catalog enrichment product that provides cover images, professional reviews, and other elements; LibCal, an event and room reservations system (replacing Evanced); Boopsie, a mobile app; and Niche Academy, which offers video instructional materials to enhance the licensed online resources offered by the library systems and can also be used as an online platform for staff training.

- Technology funding remained an important component for MELSA and its member libraries. The Phase Program provides $500,000 per year for member libraries to use for a variety of local technology needs. Members are eligible to request their funds twice per year (January and July) and may carry over their balances from year-to-year. The following disbursements were requested and approved by the Board of Trustees: $52,000 to Anoka County, $160,000 to Dakota County, $124,802 to Hennepin County, $156,000 to Ramsey County, $115,000 to Saint Paul Public, and $43,036 to Washington County Library Systems. In 2018, the Board also provided $20,800 in total for the systems to support maintenance costs of NCIP, a national software protocol for library circulation and inter-library loan.

- MELSA staff, along with a hired consultant, successfully applied for E-rate funds, a federal telecommunications reimbursement program, for seven of eight member libraries. (Hennepin manages its own application process.) The amount received by all MELSA libraries in 2018 for E-rate funding year July 2017–June 2018 was $754,296.

- MELSA funding continued for classes to support job seekers and small business owners. In 2018, MELSA allocated $45,000 of these funds for classes taught by instructors from Twin Cities Media Alliance. Approximately 800 library users attended over 130 classes on a wide range of topics such as creating a website, developing a marketing plan, choosing the best social media platform, using image editing tools, and protecting online privacy and security. Member library systems also shared a $40,000 allocation to meet local program needs by offering additional classes with partners such as SCORE and Springboard Center for the Arts.

- Member libraries offered the Winter Reads adult reading program for the tenth year. The program took place for eight weeks (January through February), and featured author readings under the Winter Reads banner. Adults participating in the program submitted reviews (either via a printed form or online) of what they were reading. This year MELSA furnished Winter Reads posters, Winter Reads magnet frames and ice scrapers (the give-away options selected by the Adult Program group), and Winter Reads wrapping paper to be used for displays. MELSA also provided advertising support through StarTrib.com banner ads, MinnPost, and the Minnesota Women's Press, as well as including the Winter Reads author events in the Star Tribune's Book Events calendar. Approximately 20,000 adults continue to participate metro-wide. The program is particularly popular with homebound library users and with the correctional facilities.

- MELSA continued its second full calendar year of smARTpass, a web-based arts access program for library users in partnership with local cultural organizations (theaters, museums, etc.). The program has 27 arts partners and about 30,000 registered users. Feedback from partners and users continues to be very positive, and MELSA added two key site enhancements in 2018 based on partner and user requests. Funding to maintain the smARTpass site is provided by the Arts and Cultural Heritage Fund along with RLBSS funds.

- MELSA also continued its partnership with the Minnesota Twins through Reading All-Stars. The Twins and Major League Baseball generously donated more than 2,800 tickets for two September weekend game dates, enabling MELSA to provide family 4-packs to the libraries to award through drawings to families participating in their library's summer learning programs. The Crayola Experience (at the Mall of America) continued its second year of summer learning program support by donating 2,500 tickets to be awarded through drawings.

- MELSA welcomed a new summer learning program partner: SeaLife MN, located in the Mall of America. SeaLife not only donated 2,800 tickets, but a grand prize of a year-long family membership to be awarded in each of the 102 branch libraries.

- MELSA continued its annual contract with StarTribune.com. This includes mobile phone app and iPad app advertising, in addition to the StarTribune.com website, and some print ads for smARTpass and for Summer at Your Library.

- MELSA extended its contract with iHeart radio for "library minute" dateBOOK (aggregate calendar) promotional spots that aired weekly on Twin Cities radio stations Cities 97, KDWB, and KOOL-108. Spots highlighted events at member libraries throughout the metro each week. MELSA continued sponsorship of Falen's Book Club (KDWB), which included attendance by MELSA and library system staff at monthly Book Club meetings at the radio station and a library branch (Roseville in 2018). Library staff promoted/demonstrated library resources at the meetings and also provided book selections and read-alike lists each month. MELSA libraries were included in several social media posts each month on KDWB.

- MELSA started a new advertising contract with School Space Media. The homework help resource was advertised on the large digital screens/boards at more than 40 metro football, soccer, and girls volleyball games from August through mid-November, and then renewed the contract for boys and girls basketball and boys hockey for November through March.

- MELSA purchased and assisted with staffing a metro public library tent at Pride Weekend in June. Library information from the systems and "Be Proud at Your Library" buttons were distributed, and library card registration was available for attendees.

- MELSA launched Summer Learning, Summer Fun, Summer at Your Library, a commodity brand under which the eight unique system programs operate. Supported by the Minnesota State Fair, which donated over 25,000 passes, and MELSA allocations of $57,000, member libraries logged over 100,000 visits by children and teens. Summer program offerings included reading engagement, hands-on art and STEM workshops, as well as arts and cultural performances. The shift to a regional commodity brand and unique system programs did not impact participation in the 2018 summer initiatives.

- MELSA continued its sponsorship of the Alphabet Forest, an educational initiative at the Minnesota State Fair in 2018. The initiative supports the early learning mission of MELSA member libraries. The partnership provided the libraries with vocabulary game cards to distribute during August promoting literacy skills of vocabulary, letter knowledge and print awareness. MELSA's $3,000 sponsorship paid for printing costs and included the metro public libraries logo on print pieces and event signage.

- Member libraries actively encouraged young library users to participate in the three reader choice awards through the Minnesota Youth Reading Awards organization, these include: Maud Hart Lovelace Divisions I (grades 3–5) and II (grades 6–8) and the Star of the North picture book award. MELSA supported these efforts by providing signage, nominee trackers, and ballots at all locations.

- MELSA provided support to systems' teen programming efforts through a $24,000 allocation. These funds were used for efforts such as summer programming, tech programs, volunteer initiatives, and book clubs.

- STEM programming for 0–18-year-olds in each system was boosted by the $25,000 allocation they shared in 2018. These funds were used for a variety of programs from wildlife presenters and preschool math activities for the youngest library users to tech training such as coding and 3-D printers for teens.

Training and continuing education events continued to be a focus of MELSA for its member libraries. In 2018, MELSA provided an $11,000 allocation to each system for staff professional development. Systems spent the allocations in a variety of ways to enhance staff performance: local, state, and national library conferences, classes at educational and community institutions, consultants for leadership development and organizational strategy, staff development reference materials, etc.

From the technology training budget, MELSA provided an allocation to each library system to meet individual training needs in 2018. Examples include ILS-specific workshops, various software/hardware educational opportunities, and library/government conferences and events focused on technology.

In addition, MELSA facilitated and funded the following workshops:

- The 2018 Storytime Palooza training focused on peer to peer sharing of best practices. Storytime presenters presented new ways to share music (Opera Chicken, dance parties, and tech to turn recorded children's songs to karaoke tracks), tips from top storytime bloggers, traditional storytime techniques, and more. Held on December 18, over 60 youth services staff attended the Storytime Palooza workshop at the Roseville Library to learn from each other.

- With Minitex, MELSA co-sponsored a program on May 9 at the Brookdale Library addressing *Library Programs for Teens with Disabilities*. Presenters Renee Grassi from Dakota County Library and Joe Houlihan and Gao Yang from St. Paul Public Library shared their experiences serving teens and young adults with disabilities. The 30 participants received programming ideas and inclusive strategies to welcome this audience to their libraries.

- On May 18, 150-member library staff attended a MELSA-hosted workshop at the Brookdale Library presented by national speaker and "inclusionist" Ellie Krug. The training, called Gray Area Thinking, offered "a new approach to human inclusivity…with an easy-to-understand toolset on how to be more welcoming of anyone who is 'other' in our society."

- Three of the shared electronic resources were highlighted with staff training in 2018. On October 17, MELSA hosted Reference USA trainer Chad McCrillis to help member library staff gain a better understanding of the business and consumer resource. On November 14, Brainfuse trainer Jack Rothstein walked member library staff through the best features of their homework help resource, HelpNow, and employment resource, JobNow. Two sessions were offered that day, both well received by attendees with positive evaluation comments.

With facilitation by MELSA staff, representatives from member library systems meet periodically to discuss a variety of topics relating to library services and operations. Current groups focus on electronic resources, technology, youth and teen services, promotion, circulation, adult programming, volunteer coordination, jobs and small business initiatives, accessibility, world languages (collections), and arts programming from the Legacy Amendment.

In 2018, the MELSA Advisory Board created the Library Card Registration Task Force to review issues that arise in serving new users (without valid library cards issued by their "home" libraries) when they visit other MELSA systems requesting services. The Task Force reviewed registration policies for adults and minors within each of the systems and suggested adoption of more consistent registration policies across all systems and a study to determine the feasibility of creating an online system that would facilitate the sharing of registration data between the system visited and the home library system.

Regional Library Telecommunications Aid (RLTA)

MELSA applied for grant funds for member library systems through the RLTA grant, a state telecommunications program, which supplements the E-rate program for internet and line access costs and associated equipment. A total of $346,361 was distributed to the library systems and for the MELSA office (based on actual costs submitted after E-rate refunds) as follows: Anoka $28,146, Carver $30,240, Dakota $27,204, Hennepin $161,976, Ramsey $38,602, Saint Paul $20,836, Scott $29,117, Washington $7,883, and MELSA $2,357.

Arts and Cultural Heritage Fund (ACHF, also called Legacy Amendment)

Under the Arts and Cultural Heritage Fund (ACHF), Minnesota's 300+ public libraries receive funding distributed through the 12 Minnesota Regional Library Systems to provide programs and services in four areas: arts (visual, performing, and media); culture; literature; and Minnesota history. MELSA received an appropriation of $965,841 for state fiscal year 2018 (July 2017–June 2018) and an appropriation of $970,181 for state fiscal year 2019 (July 2018–June 2019). In fiscal year 2018, the MELSA allocation was distributed as:

- 71 percent for local programs coordinated by the eight MELSA library systems
- 26 percent for regional programming coordinated by MELSA
- 3 percent for administration

Legacy funds gave local libraries opportunities to create new partnerships with artists and organizations in their communities and to bring new experiences to their patrons. 2018 was fast-paced for library programming with Legacy funds used for nearly 800 programs attended by over 85,000 residents. Reports on goals and outcomes for each of these programs are provided to the Minnesota Department of Education, and summaries can be found at www.legacy.leg.mn. While MELSA uses a portion of its Legacy funds to support administrative costs including staffing, technology, and office expenses, a significant in-kind contribution of staff time was made by both local and regional library staff members.

Examples of programming supported by regional funds:

- The Club Book author program continued to draw large audiences, and the number of listeners to the podcast continued to grow as well. The program features best-selling and award-winning authors from across the country. In 2018, 18 events drew 1,148 attendees. Each event is recorded as a podcast, and the total number of podcast downloads surpassed 43,000 in 2018.

- MELSA used Legacy funds to support History Day across the region. First, Hullabaloos are day-long events for middle and high school students to visit libraries to receive help on their National History Day project by working with librarians to locate relevant resources, receive one-on-one feedback about their projects, and attend specialized talks about various aspects of History Day projects. 1,473 students from 73 schools attended a Hullaballoo in December 2017 and January 2018. Second, MELSA supports Research Field Trips, which bring students to libraries to conduct advanced research. 1,578 students from 24 schools participated in Research Field Trips from October 2017 to March 2018. Hullaballoos and Research Field Trips increase students' ability to do research and improve their analytical and interpretive skills. In addition, 72 percent of teachers reported that their lowest performing students are more engaged during these History Day library programs than in the classroom.

- Teen Lit Con celebrated its 5th anniversary on Saturday, May 12, at Chaska High School hosting approximately 1,200 attendees throughout the day. The event featured bestselling teen authors Angie Thomas, Adam Silvera, Melissa de la Cruz, and Barry Lyga, along with seven Minnesota authors with recent books for the teen audience. A Legacy funded event, Teen Lit Con, allows teens to experience literature in a multitude of ways: author talks and panels, writing workshops, book arts, publishing, and book signings. It also provides a learning opportunity where they can prioritize their interests and set their own schedules, and connect face-to-face with peers who also love books and reading in a broader sense than a book club discussion group.

- With Legacy funding, MELSA hosted a one-day event at the Minnesota State Fair on August 29, 2018. Located centrally on the fairgrounds and covering the 20,000 square feet of Dan Patch Park, the Read & Ride Day Festival offers free family fun, which included an entertainment stage, a Read & Walk picture book by MN author/illustrator David LaRochelle, personalized book recommendations, crafts, and more for fairgoers of all ages. On this day, fairgoers could use their public library card to get a discount on their entrance tickets and experience a sampler of programming they will find in public libraries across the state every day of the year. Minitex was on hand to discuss statewide library resources and the Storymobile collected stories from fairgoers on paper, electronic tablets, and audio and video recordings.

This sampling of cooperative and collaborative projects demonstrates the focused areas of MELSA's strategic plan and supports the mission: to make great metro public libraries better.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management's discussion and analysis (MD&A) is intended to serve as an introduction to MELSA's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains other information in addition to the basic financial statements.

Government-Wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of MELSA's finances, in a manner similar to private-sector businesses.

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

The Statement of Activities shows how MELSA'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. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of MELSA that are principally supported by RLBSS revenue and RLTA revenue. The governmental activities include Legacy Grant Programs, RLTA Grant Programs, cooperative programs and other member services, and administration.

The government-wide financial statements include MELSA itself (the primary government). MELSA does not have any component units that are required to be included in MELSA's financial statements.

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. MELSA, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. MELSA's funds can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as the 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. By doing so, readers may better understand the long-term impact by the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenue, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

MELSA adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Fiduciary Funds – MELSA maintains agency accounts as a service to its member libraries. Phase Program allocations and other reimbursements may be directed into individual accounts by member libraries. Member libraries may either send their invoices to MELSA or notify vendors to submit their bills to MELSA for payment from their Agency Account. MELSA acts as the fiscal agent of this fund for its member libraries.

Notes to Basic Financial Statements – The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following tables present summaries of net position and changes in net position, including comparative data for the prior year:

Table 1
Summary of Net Position
as of December 31, 2018 and 2017

	2018	2017	Annual Change
Assets			
Current and other assets	$ 7,199,088	$ 6,839,525	$ 359,563
Capital assets, net	913,053	926,235	(13,182)
Total assets	$ 8,112,141	$ 7,765,760	$ 346,381
Deferred outflows of resources			
Pension plan deferments	$ 97,232	$ 157,662	$ (60,430)
Liabilities			
Other liabilities	$ 222,578	$ 220,310	$ 2,268
Long-term liabilities	499,642	563,666	(64,024)
Total liabilities	$ 722,220	$ 783,976	$ (61,756)
Deferred inflows of resources			
Grants received for subsequent year	$ 1,385,217	$ 1,215,608	$ 169,609
Pension plan deferments	110,460	109,169	1,291
Total deferred inflows of resources	$ 1,495,677	$ 1,324,777	$ 170,900
Net position			
Net investment in capital assets	$ 913,053	$ 926,235	$ (13,182)
Unrestricted	5,078,423	4,888,434	189,989
Total net position	$ 5,991,476	$ 5,814,669	$ 176,807

MELSA's financial position is the product of many factors. For example, the determination of MELSA's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, may produce a significant difference in the calculated amounts.

As noted earlier, changes in net position over time may serve as a useful indicator of a government's financial position. MELSA's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $5,991,476 at the close of the most recent fiscal year, which represents an increase of $176,807 from the previous year. At the end of the current fiscal year, MELSA is able to report positive balances in all categories of net position, as was the case at the previous year-end.

Of MELSA's net position, approximately 15 percent reflects its net investment in capital assets (e.g., archival database and furniture and equipment). MELSA uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The remaining unrestricted net position of $5,078,423 may be used to meet MELSA's ongoing obligations to citizens and creditors.

Governmental Activities – Governmental activities increased MELSA's net position by $176,807 during the year ended December 31, 2018. Key elements of this increase are as follows:

Table 2
Change in Net Position
for the Years Ended December 31, 2018 and 2017

	2018	2017	Annual Change
Revenues			
Program revenues			
Operating grants and contributions	$ 1,143,203	$ 1,257,696	$ (114,493)
General revenues			
Unrestricted grants	5,341,758	5,464,993	(123,235)
Other	149,683	76,710	72,973
Total revenues	6,634,644	6,799,399	(164,755)
Expenses			
Legacy Grant Programs	792,358	723,527	68,831
RLTA Grant Programs	344,004	531,471	(187,467)
Cooperative and other programs	3,983,825	3,960,932	22,893
Administration	816,850	848,187	(31,337)
Total expenses	5,937,037	6,064,117	(127,080)
Increase in net position before transfers	697,607	735,282	(37,675)
Transfers	(520,800)	(520,800)	–
Changes in net position	176,807	214,482	(37,675)
Net position – beginning	5,814,669	5,600,187	214,482
Net position – ending	$ 5,991,476	$ 5,814,669	$ 176,807

Overall, MELSA's government-wide revenue decreased $164,755 from the previous year, which is comprised of decreases in the following revenue line items:

- Operating grants and contributions were $114,493 lower than last year, mainly due to a $186,510 decrease in RLTA Grant revenue recognized that was partially mitigated by an increase in Legacy Grant revenue recognized of $68,831.

- Unrestricted grants decreased $123,235, due to a decrease in state RLBSS funding. State RLBSS entitlements are awarded based on the state's fiscal year, which runs from July 1 through June 30. Therefore, MELSA's RLBSS revenue for a given year consists of half of the entitlements from two state fiscal years. The decrease in MELSA's RLBSS revenue for 2018 reflects a decrease in the entitlements for the state fiscal years ending June 30, 2019 and June 30, 2018, compared to the entitlements for state fiscal years ending June 30, 2018 and June 30, 2017.

MELSA's government-wide expenses for 2018, excluding transfers to the Phase Program, were $127,080 less than 2017, as detailed in the following major expense areas:

- Legacy Grant expenditures increased $68,831, corresponding with the increase in Legacy Grant revenues.

- RLTA Grant expenditures, including the portion used for MELSA administrative costs, were $186,510 less than last year, as member library submissions for equipment reimbursements decreased.

- Formula payments to member library systems remained at $1,000,000. The amount of Equalization paid to earning library systems decreased $20,331 in 2018 (Anoka and Saint Paul share 10 percent of the total Equalization component of RLBSS funds).

- Database expenditures increased $60,589 in 2018 compared to 2017, due to the replacement of one database with a more expensive alternative, and a price increase on another database.

MELSA also transferred $520,800 to member libraries in 2018 through the Phase Program and for NCIP maintenance, which was the same amount as the previous year. These allocations are held by MELSA in an Agency Fund until utilized by the member libraries.

FINANCIAL ANALYSIS OF MELSA'S FUNDS

As noted earlier, MELSA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund – The focus of MELSA's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing MELSA's financing requirements. In particular, unreserved 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 the end of the current fiscal year, MELSA only has one governmental fund, the General Fund.

The General Fund is the chief operating fund of MELSA. At the end of the current year, total fund balance of the General Fund was $5,591,293. As a measure of the General Fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. The unassigned fund balance of $405,820 at year-end represents 6.9 percent of the total General Fund expenditures.

General Fund – The General Fund operating results can be summarized as follows:

Table 3
General Fund Operating Results
for the Years Ended December 31, 2018 and 2017

	Original Budget	Final Budget	Actual	Over (Under) Budget	Prior Year Actual
Revenue	$ 6,173,440	$ 6,232,795	$ 6,631,275	$ 398,480	$ 6,799,216
Expenditures	6,386,264	6,697,005	5,922,789	(774,216)	6,012,715
Excess (deficiency) of revenue over expenditures	(212,824)	(464,210)	708,486	1,172,696	786,501
Other financing sources (uses)	(521,600)	(521,600)	(520,800)	800	(520,800)
Net change in fund balances	$ (734,424)	$ (985,810)	187,686	$ 1,173,496	265,701
Fund balances					
Beginning of year			5,403,607		5,137,906
End of year			$ 5,591,293		$ 5,403,607

General Fund Budgetary Highlights

The MELSA Board of Trustees adopted mid-year budget amendments that reflected the actual revenue to be received from RLBSS and Legacy Grants, the corresponding assignment of collaborative project and Legacy Program expenditures, and other estimated accruals.

- State aid and grants were over budget by $334,077, mainly due to budgeting for RLBSS funding that intentionally reserves half of Equalization for expenditure in 2019, and less Legacy Grant expenditures than anticipated.

- Total expenditures for cooperative programs were $588,239 less than budgeted, including:
    - Legacy Grant programs were $175,653 under budget, due to the amount of Legacy funding received and conservative spending by some member library systems.
    - Database expenditures were under budget by $136,110, due to conservative budgeting for anticipated database cost increases.
    - Catalog enhancements were $68,544 less than budget, mainly due to prior year carryover BookLens project funds remaining unspent (unspent funds to be included in fund balance assignments for expenditures in 2019).
    - On-line library card registration project expenditures were $100,000 under budget, due to prior year carryover funds remaining unspent (unspent funds to be included in fund balance assignments for expenditures in 2019).
    - Cultural pass costs were $108,338 less than budget, due to prior year carryover funds remaining unspent (unspent funds to be included in fund balance assignments for expenditures in 2019).

- Actual expenditures for administration were $143,145 less than budgeted, mainly due to conservative budgeting across most areas.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – MELSA's investment in capital assets for its governmental activities as of December 31, 2018 amounted to $913,053 (net of accumulated depreciation). This investment in capital assets includes archival database, discovery tool, and furniture and equipment.

Capital asset changes during the current fiscal year included the following:

Table 4
Capital Assets
as of December 31, 2018 and 2017

	2018	2017
Archival database	$ 1,810,792	$ 1,746,404
Discovery tool	348,558	348,558
Furniture and other equipment	118,742	116,226
Total capital assets	2,278,092	2,211,188
Accumulated depreciation	(1,365,039)	(1,284,953)
Total capital assets, net of depreciation	$ 913,053	$ 926,235
Depreciation expense	$ 98,106	$ 95,859

Additional information on MELSA's capital assets can be found in the notes to basic financial statements.

Long-Term Liabilities – MELSA had no outstanding long-term debt at December 31, 2018, which is unchanged from the prior year. MELSA reported long-term liabilities at year-end of $61,381 for compensated absences payable and a PERA net pension liability of $438,261.

Additional information on MELSA's long-term liabilities can be found in the notes to basic financial statements.

REQUESTS FOR INFORMATION

These financial statements are designed to provide a general overview for all those with an interest in MELSA's finances. Questions concerning any of the information provided in these statements or requests for additional financial information should be addressed to the Metropolitan Library Service Agency, 1619 Dayton Avenue, Suite 314, St. Paul, Minnesota 55104-6206; telephone (651) 645-5731; fax (651) 649-3169; or e-mail mgdpa@melsa.org.

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BASIC FINANCIAL STATEMENTS

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Net Position
as of December 31, 2018
(With Partial Comparative Information as of December 31, 2017)

	Governmental Activities	
	2018	2017
Assets		
Cash and cash equivalents	$ 6,705,066	$ 6,347,457
Receivables		
Accrued interest	10,146	14,424
Accounts	9	–
Due from other governmental units	3,900	5,498
Prepaids	479,967	472,146
Capital assets, net	913,053	926,235
Total assets	8,112,141	7,765,760
Deferred outflows of resources		
Pension plan deferments	97,232	157,662
Total assets and deferred outflows of resources	$ 8,209,373	$ 7,923,422
Liabilities		
Accrued salaries payable	$ 630	$ –
Accounts payable	22,884	50,018
Unearned revenue	199,064	170,292
Long-term liabilities		
Due within one year	44,786	59,333
Due in more than one year	454,856	504,333
Total long-term liabilities	499,642	563,666
Total liabilities	722,220	783,976
Deferred inflows of resources		
Grants received for subsequent year	1,385,217	1,215,608
Pension plan deferments	110,460	109,169
Total deferred inflows of resources	1,495,677	1,324,777
Net position		
Net investment in capital assets	913,053	926,235
Unrestricted	5,078,423	4,888,434
Total net position	5,991,476	5,814,669
Total liabilities, deferred inflows of resources, and net position	$ 8,209,373	$ 7,923,422

See notes to basic financial statements

Statement of Activities
Year Ended December 31, 2018
(With Partial Comparative Information for the Year Ended December 31, 2017)

	2018			2017
		Program Revenues	Net (Expenses) Revenue and Changes in Net Position	Net (Expenses) Revenue and Changes in Net Position
Functions/Programs	Expenses	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities				
Legacy Grant Programs	$ 792,358	$ 792,358	$ –	$ –
RLTA Grant Programs	344,004	344,004	–	–
Cooperative and other programs	3,983,825	–	(3,983,825)	(3,960,932)
Administration	816,850	6,841	(810,009)	(845,489)
Total governmental activities	$ 5,937,037	$ 1,143,203	(4,793,834)	(4,806,421)
General revenues				
Unrestricted grants			5,341,758	5,464,993
Investment income			140,666	65,929
Other general revenues			9,017	10,781
Transfers (out)			(520,800)	(520,800)
Total general revenues and transfers			4,970,641	5,020,903
Change in net position			176,807	214,482
Net position – beginning of year			5,814,669	5,600,187
Net position – end of year			$ 5,991,476	$ 5,814,669

See notes to basic financial statements

METROPOLITAN LIBRARY SERVICE AGENCY

Balance Sheet
General Fund
as of December 31, 2018
(With Partial Comparative Information as of December 31, 2017)

	2018	2017
Assets		
Cash and cash equivalents	$ 6,705,066	$ 6,347,457
Receivables		
Accrued interest	10,146	14,424
Accounts receivable	9	–
Due from fiduciary fund	1,521	3,057
Due from other governmental units	2,379	2,441
Prepaids		
Databases	435,363	440,022
Other	44,604	32,124
Total assets	$ 7,199,088	$ 6,839,525
Liabilities		
Accrued salaries payable	$ 630	$ –
Accounts payable	22,884	50,018
Unearned revenue	199,064	170,292
Total liabilities	222,578	220,310
Deferred inflows of resources		
Grants received for subsequent year	1,385,217	1,215,608
Fund balances		
Nonspendable for prepaids	479,967	472,146
Assigned for compensated absences	61,381	59,333
Assigned for contingencies	1,500,000	1,500,000
Assigned for e-Book collaborative project	446,111	446,111
Assigned for Equalization carryforward	459,475	529,423
Assigned for SELF-e and PressBooks collaborative project	50,000	50,000
Assigned for e-Resource purchases and renewals	50,000	50,000
Assigned for BookLens collaborative project	42,569	42,569
Assigned for cultural pass collaborative project	108,338	94,916
Assigned for online library card registration project	100,000	100,000
Assigned for RLBSS funding stabilization	900,000	800,000
Assigned for working capital	987,632	987,632
Unassigned	405,820	271,477
Total fund balances	5,591,293	5,403,607
Total liabilities, deferred inflows of resources, and fund balances	$ 7,199,088	$ 6,839,525

See notes to basic financial statements

Reconciliation of the Balance Sheet to the
Statement of Net Position
General Fund
as of December 31, 2018
(With Partial Comparative Information as of December 31, 2017)

	2018	2017
Total fund balances – General Fund	$ 5,591,293	$ 5,403,607
Amounts reported for governmental activities in the Statement of Net Position differ because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Cost of capital assets	2,278,092	2,211,188
Less accumulated depreciation	(1,365,039)	(1,284,953)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
Compensated absences payable	(61,381)	(59,333)
Net pension liability – PERA	(438,261)	(504,333)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows of resources – pension plan deferments	97,232	157,662
Deferred inflows of resources – pension plan deferments	(110,460)	(109,169)
Total net position – governmental activities	$ 5,991,476	$ 5,814,669

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Revenue, Expenditures, and Changes in Fund Balances
General Fund
Year Ended December 31, 2018
(With Partial Comparative Information for the Year Ended December 31, 2017)

	2018	2017
Revenue		
State aid and grants	$ 6,481,592	$ 6,722,506
Investment income	140,666	65,929
Other	9,017	10,781
Total revenue	6,631,275	6,799,216
Expenditures		
Current		
Legacy Grant Programs	792,358	723,527
RLTA Grant Programs	344,004	531,471
Cooperative programs	3,893,285	3,873,611
Administration	808,218	819,719
Capital outlay	84,924	64,387
Total expenditures	5,922,789	6,012,715
Excess of revenues over expenditures	708,486	786,501
Other financing (uses)		
Transfers (out) to Agency Fund	(520,800)	(520,800)
Net change in fund balances	187,686	265,701
Fund balances		
Beginning of year	5,403,607	5,137,906
End of year	$ 5,591,293	$ 5,403,607

See notes to basic financial statements

METROPOLITAN LIBRARY SERVICE AGENCY

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
General Fund
Year Ended December 31, 2018
(With Partial Comparative Information for the Year Ended December 31, 2017)

	2018	2017
Total net change in fund balances – General Fund	$ 187,686	$ 265,701
Amounts reported for governmental activities in the Statement of Activities differ because:		
Governmental funds report capital outlays as expenditures while governmental activities allocate those expenditures over the life of the assets through depreciation expense.		
Capital outlays	84,924	64,387
Depreciation expense	(98,106)	(95,859)
Some expenses reported on the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Compensated absences payable	(2,048)	4,266
Net pension liability – PERA	66,072	88,392
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows of resources – pension plan deferments	(60,430)	(100,187)
Deferred inflows of resources – pension plan deferments	(1,291)	(12,218)
Change in net position – governmental activities	$ 176,807	$ 214,482

Statement of Revenue, Expenditures, and Changes in Fund Balances
General Fund
Budget and Actual
Year Ended December 31, 2018

	Budget			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
State aid and grants	$ 6,144,160	$ 6,147,515	$ 6,481,592	$ 334,077
Investment income	24,000	80,000	140,666	60,666
Other revenue				
e-Rate reimbursement revenues	5,280	5,280	5,997	717
Miscellaneous	–	–	3,020	3,020
Total revenue	6,173,440	6,232,795	6,631,275	398,480
Expenditures				
Current				
Legacy Grant Programs	965,841	968,011	792,358	(175,653)
RLTA Grant Programs	283,821	296,107	344,004	47,897
Cooperative programs				
Distributions – member libraries				
Formula payments	1,000,000	1,000,000	1,000,000	–
Equalization to earning libraries	95,719	95,719	95,719	–
Collaborative region-wide purchases				
Electronic databases	1,153,603	1,203,603	1,067,493	(136,110)
Homework help	257,500	257,500	250,000	(7,500)
Employment help	46,350	46,350	45,000	(1,350)
Downloadable books	179,457	179,457	169,155	(10,302)
e-Books collaborative project	585,000	585,000	580,000	(5,000)
Electronic self-publishing project	25,000	25,000	21,138	(3,862)
Catalog enhancements	140,265	182,834	114,290	(68,544)
On-line library card registration project	–	100,000	–	(100,000)
Calendar software	27,000	27,000	18,005	(8,995)
Mobile application	60,219	60,219	46,978	(13,241)
Contracted services for member libraries				
Delivery service	51,171	51,171	45,580	(5,591)
Printing and copying	12,000	12,000	4,512	(7,488)
E-Rate consulting	10,000	10,000	7,200	(2,800)
Staff and board training – member libraries				
Workshops and leadership seminars	21,000	21,000	3,992	(17,008)
Professional development	88,000	88,000	87,188	(812)
Technology training	40,000	40,000	37,306	(2,694)
Training/conferences – MELSA boards	2,700	2,700	–	(2,700)
Urban Library Council membership	750	750	650	(100)
Youth service programs – member libraries				
Summer reading programs	72,300	72,300	61,065	(11,235)
Youth services literacy initiative	38,000	38,000	31,586	(6,414)
Teen services literacy initiative	24,000	24,000	23,477	(523)
STEM programming	25,000	25,000	23,393	(1,607)
Other services – member libraries				
Jobs and small business initiative	85,000	85,000	66,410	(18,590)
Digital literacy/e-government initiatives	8,000	8,000	–	(8,000)
Technology measures tools	27,769	27,769	1,360	(26,409)
Cultural pass	15,817	110,733	2,395	(108,338)
Promotions	100,000	100,000	86,602	(13,398)
Other collaborative projects	2,419	2,419	2,791	372
Total cooperative programs	4,194,039	4,481,524	3,893,285	(588,239)

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Revenue, Expenditures, and Changes in Fund Balances
General Fund
Budget and Actual (continued)
Year Ended December 31, 2018

	Budget Original	Budget Final	Actual	Over (Under) Final Budget
Expenditures (continued)				
Current (continued)				
Administration				
Salaries and benefits				
Salaries	531,397	531,397	515,565	(15,832)
Fringe benefits	161,581	161,581	135,941	(25,640)
Other payroll expense	2,650	2,650	2,717	67
Staff travel and training				
Local travel	6,500	6,500	2,463	(4,037)
Staff education/conferences	16,000	16,000	2,205	(13,795)
Supplies and printing				
Office supplies	7,500	7,500	1,928	(5,572)
Printing, copying, and postage	4,300	4,300	428	(3,872)
Contracted services				
Technology support	15,000	15,000	12,039	(2,961)
Website and hosting	9,740	9,740	1,820	(7,920)
Legal services	10,000	10,000	2,432	(7,568)
Accounting services	22,500	22,500	19,225	(3,275)
Other administrative				
Equipment, software, and maintenance	23,000	32,000	4,970	(27,030)
Meetings	9,000	9,000	5,013	(3,987)
Rent	70,809	70,809	61,191	(9,618)
Internet access	7,188	7,188	7,498	310
Telephone	3,000	3,000	1,014	(1,986)
Insurance	16,698	16,698	10,644	(6,054)
Dues and memberships	3,400	3,400	542	(2,858)
CRPLSA dues	21,000	21,000	20,425	(575)
Other	1,300	1,100	158	(942)
Total administration	942,563	951,363	808,218	(143,145)
Capital outlay	–	–	84,924	84,924
Total expenditures	6,386,264	6,697,005	5,922,789	(774,216)
Excess (deficiency) of revenue over expenditures	(212,824)	(464,210)	708,486	1,172,696
Other financing (uses)				
Transfers (out) – Phase funds	(500,000)	(500,000)	(500,000)	–
Transfers (out) – NCIP maintenance	(21,600)	(21,600)	(20,800)	800
Total other financing (uses)	(521,600)	(521,600)	(520,800)	800
Net change in fund balances	$ (734,424)	$ (985,810)	187,686	$ 1,173,496
Fund balances				
Beginning of year			5,403,607	
End of year			$ 5,591,293	

See notes to basic financial statements

Statement of Fiduciary Net Position
Agency Fund
as of December 31, 2018
(With Partial Comparative Information as of December 31, 2017)

	2018	2017
Assets		
Cash and cash equivalents	$ 1,819,051	$ 1,838,924
Liabilities		
Due to governmental funds	$ 1,521	$ 3,057
Due to member libraries		
Phase Program funds	1,410,676	1,540,714
Other	406,854	295,153
Total liabilities	$ 1,819,051	$ 1,838,924

See notes to basic financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Operation

The Metropolitan Library Service Agency (MELSA) is a multi-jurisdictional federation of the city and county public libraries in the metropolitan Twin Cities area organized to provide cooperative services and cost saving programs to the participants. MELSA is the administrative agency for receiving and equitable sharing of state and federal grant appropriations made available through State Library Services of the Minnesota Department of Education (MDE). MELSA was established in 1969 as a nonprofit governmental agency in accordance with the Minnesota Joint Powers Agreement, an agreement between the cities and counties of the member libraries, and serves as 1 of 12 regional library systems in the state. It is governed by a Board of Trustees; one trustee is appointed by each party to the agreement. Since the merger of the Minneapolis Public Library with the Hennepin County Library in January 2008, the trustee from Hennepin County has two votes on the Board of Trustees. The trustees receive professional expertise from an Advisory Board composed of the directors for the regular member libraries. There are also teams and interest groups made up of staff members from the libraries organized to consider specialized areas of library operations.

The operations of MELSA are funded primarily by Regional Library Basic System Support State Aid. MELSA also applies for state and federal grants through State Library Services, a unit of the MDE. The grant funds are awarded annually and are based on applications approved by State Library Services. Certain grants require that eligible expenditures are made in order to earn the grant. Revenue for these grants is recognized in the period in which eligible expenditures are incurred.

The principal services performed by MELSA are as follows:

- Equitable distribution of state and federal grant appropriations.
- Seamless reciprocal borrowing for library patrons, including delivery of materials for interlibrary loans.
- Access to a variety of cooperatively purchased electronic resources and tools, such as e-books/magazines/audiobooks, homework help and career preparation services, databases on topics ranging from ancestry search to car repair to investment information, self-publishing tools, and catalog enhancements.
- Support of library systems' summer reading programs and other youth literacy activities.
- Funding and information-sharing in areas such as technology, training, and general library operations.
- Development of public awareness marketing and community relations partnerships.
- Oversight of the Arts and Cultural Heritage Fund Grant from the State of Minnesota, including coordination of region-wide programming.

B. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements include MELSA (the primary government) and its component units. Component units are legally separate entities for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Based on these criteria, there are no organizations considered to be component units of MELSA for financial reporting purposes.

C. Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all of the financial activities of MELSA. Since, by definition, fiduciary fund assets are held for the benefit of a third party and cannot be used for activities or obligations of MELSA, these funds are excluded from the government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; 2) operating grants and contributions; and 3) capital grants and contributions. Other internally-directed revenues are reported as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Depreciation expense is included in the direct expenses of each function. Interest on long-term debt, if any, is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for MELSA's governmental and fiduciary funds.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner:

1. **Revenue Recognition** – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, MELSA considers revenues to be available if collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

   Major revenue susceptible to accrual includes intergovernmental revenue and interest earned on investments. In general, other revenues are recognized when cash is received.

2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt (if any), compensated absences, and pensions, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary fund financial statements also use the accrual basis of accounting as described on the previous page. MELSA's only fiduciary fund type, an Agency Fund, is custodial in nature (assets equal liabilities) and does not have a measurement focus.

Description of Funds

MELSA reports the following major governmental fund:

> **General Fund** – The General Fund is the primary operating fund of MELSA. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from state aids and investment income.

MELSA also reports the following fund type:

> **Agency Fund** – This fund is used to account for assets held by MELSA in the capacity of agent. MELSA maintains one Agency Fund to account for assets held on behalf of its member libraries. The assets represent Phase and other allocations made to the member libraries that have not yet been requested for distribution. Distributions to the Phase program and other allocation are recorded separately in MELSA's financial records and are held in individual bank accounts.

E. Budgets and Budgetary Accounting

The Board of Trustees adopts an annual budget for the General Fund on the modified accrual basis. Spending control (the level at which total expenditures may not legally exceed budget) is established at the fund level; however, management control is exercised at budgetary line-item levels. Unexpended appropriations lapse at year-end unless approved by the Board of Trustees as encumbered.

F. Use of Estimates

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States of America, requires management to make estimates that affect amounts reported in the financial statements. Actual amounts could differ from such estimates.

G. Cash and Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law.

Investments are generally stated at fair value, except for certain external investment pools stated at amortized cost. Short-term, highly liquid debt instruments (including negotiable certificates of deposit, commercial paper, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less may also be reported at amortized cost. Investment income is accrued at the Balance Sheet date.

MELSA categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for MELSA's recurring fair value measurements at year-end.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Receivables

Accounts receivable are stated at the amount management expects to collect from the balance outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenses/expenditures at the time of consumption.

J. Capital Assets

Capital outlays are recorded as expenditures of the General Fund in the fund financial statements but are reported as capital assets in the government-wide financial statements. MELSA defines capital assets as those with an initial, individual cost of $500 or more with an estimated useful life in excess of one year. Such assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated acquisition value on the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is recorded on a government-wide basis using the straight-line method and the following estimated useful lives:

	Years
Archival databases	20
Discovery tool	3
Furniture and other equipment	3–10

K. Compensated Absences

All MELSA employees earn flex leave at various rates. Compensated absences are accrued when earned in the government-wide financial statements, and as they mature in the governmental fund financial statements.

L. State-Wide Pension Plans

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from the PERA's fiduciary net position have been determined on the same basis as they are reported by the PERA, except that the PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The PERA has a special funding situation created by a direct aid contribution made by the state of Minnesota. The direct aid is a result of the merger of the Minneapolis Employees Retirement Fund into the PERA on January 1, 2015.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, statements of financial position or balance sheets will sometimes report separate sections for deferred outflows or inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or an inflow of financial resources (revenue) until then.

MELSA reports deferred outflows and inflows of resources related to pensions in the government-wide Statement of Net Position. These deferred outflows and inflows result from differences between expected and actual experience, changes in proportion, changes of assumptions, differences between projected and actual earnings on pension plan investments, and contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

Grants received for subsequent years, which represents advances of grants received before the period they are intended to finance, are reported as deferred inflows of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Such grant funds are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which the funding is intended, and as an inflow of resources in the governmental fund financial statements during the year for which they are intended, if available.

N. Risk Management

MELSA is exposed to various risks of loss related to torts: theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. MELSA manages these various risks through membership in the Minnesota Counties Insurance Trust (the Trust), a joint powers organization formed for the purpose of developing and administering a risk management service program. Insurance coverage obtained through the Trust includes workers' compensation, property, commercial general liability, and public official liability. According to the Trust's joint powers agreement, any liabilities of the Trust in excess of assets shall be assessed to the members of the Trust in a manner determined by the Trust's Board. If the Trust's assets are determined to be more than sufficient to meet liabilities and maintain reserves, such surplus assets may be returned to members in a manner determined by the Trust's Board. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage in the current year.

O. Net Position

In the government-wide financial statements, net position represents the difference between assets, liabilities, and deferred inflows/outflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by outstanding debt (if any) issued to acquire capital assets.

- **Restricted Net Position** – Consists of net position restricted for external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- **Unrestricted Net Position** – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

MELSA applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the Board of Trustees. Those committed amounts cannot be used for any other purpose unless the Board of Trustees removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints of amounts intended to be used by MELSA for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- **Unassigned –** The residual classification for the General Fund.

When both restricted and unrestricted resources are available for use, it is MELSA's policy to first use restricted resources, then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use, it is MELSA's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

Q. Prior Period Comparative Financial Information/Reclassification

The financial statements include partial prior year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MELSA's financial statements for the year ended December 31, 2017, from which such partial information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Investments	$ 8,524,101
Cash on hand	16
Total	$ 8,524,117

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Cash and investments are presented in the financial statements as follows:

Statement of Net Position	$	6,705,066
Statement of Fiduciary Net Position		1,819,051
Total	$	8,524,117

B. Deposits

In accordance with applicable Minnesota Statutes, MELSA may maintain deposits at depository banks authorized by the Board of Trustees, including checking accounts and certificates of deposit. The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, MELSA's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. MELSA has no additional deposit policies addressing custodial credit risk.

At year-end, the carrying amount and bank balance of MELSA's deposits were both $0. At December 31, 2018, all deposits were fully covered by federal deposit insurance.

C. Investments

MELSA has the following investments at year-end:

Investment Type	Credit Risk Agency	Credit Risk Rating	Fair Value Measurements Using	Interest Risk Maturity Duration	Total
U.S. treasury bills	Not rated		Level 2	Less than 1 year	$ 649,877
U.S. treasury notes	Moody's	AAA	Level 2	Less than 1 year	1,241,000
U.S. agency securities	Moody's	AAA	Level 2	Less than 1 year	500,000
U.S. agency securities	S & P	AA+	Level 2	Less than 1 year	750,000
Negotiable certificates of deposit	Not rated		Level 2	Less than 1 year	694,000
Investment pools/mutual funds					
4M Fund	Not rated		Not applicable	Not applicable	4,689,224
					$ 8,524,101

The Minnesota Municipal Money Market (4M) Fund is an external investment pool regulated by Minnesota Statutes not registered with the Securities and Exchange Commission (SEC) that follows the regulatory rules of the SEC. MELSA's investment in this fund is measured at the net asset value per share provided by the pool, which is on the amortized cost method that approximates fair value. The 4M Fund has no restrictions on withdrawals.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) MELSA would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. MELSA's investment policy addresses this risk by instructing management to limit its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit MELSA's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. MELSA's investment policy does not further restrict investing in specific financial instruments.

Concentration Risk – This is the risk associated with investing a significant portion of MELSA's investment (considered 5.0 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. MELSA does not have an investment policy that limits the concentration of investments. At year-end, securities from the following issuers made up 5.0 percent or more of MELSA's total investment portfolio: Federal Home Loan Mortgage Corporation (8.8 percent) and Federal Home Loan Bank (5.9 percent).

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). MELSA does not have an investment policy limiting the duration of investments.

NOTE 3 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Due to/from other funds represents balances from cash and investment transactions and the remaining portion of the annual transfer from the General Fund to the Agency Fund. The amounts are noninterest-bearing and are generally settled during the subsequent fiscal year. At December 31, 2018, the General Fund had a receivable of $1,521 due from the Agency Fund.

B. Interfund Transfers

During the year, MELSA transferred $520,800 from the General Fund to the Agency Fund. The transfer represents the budgeted allocation of funds to its member libraries under the Phase Program ($500,000), and under the NISO Circulation Interchange Protocol (NCIP) Program ($20,800) to finance NCIP maintenance at the library sites.

C. Accounting Treatment

Interfund balances and transfers reported in the fund financial statements are eliminated, to the extent possible, in the government-wide financial statements.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

A. Governmental Activities

	December 31, 2017	Increases	Decreases	December 31, 2018
Capital assets, depreciated				
Archival database	$ 1,746,404	$ 64,388	$ –	$ 1,810,792
Discovery tool	348,558	–	–	348,558
Furniture and other equipment	116,226	20,536	18,020	118,742
Total other capital assets	2,211,188	84,924	18,020	2,278,092
Less accumulated depreciation on				
Archival database	832,882	90,539	–	923,421
Discovery tool	348,558	–	–	348,558
Furniture and other equipment	103,513	7,567	18,020	93,060
Total accumulated depreciation	1,284,953	98,106	18,020	1,365,039
Net capital assets	$ 926,235	$ (13,182)	$ –	$ 913,053

B. Depreciation Expense by Function

Depreciation expense for the year ended December 31, 2018 was charged to the following functions:

Cooperative and other programs	$ 90,540
Administration	7,566
Total	$ 98,106

NOTE 5 – UNEARNED REVENUE AND DEFERRED INFLOWS FROM GRANTS

Grants and entitlements received before all eligibility requirements are met are recorded as unearned revenue. Unearned revenue at December 31, 2018 consisted of $199,064 in state aid and grants for Regional Library Telecommunications Aid (RLTA).

Grant funds that are received prior to the period they were intended to finance, for which the only revenue recognition requirement that must be fulfilled is the passage of time, are recorded as deferred inflows of resources. Deferred inflows of resources at December 31, 2018 consisted of:

State aid and grants (RLBSS)	$	530,981
State aid and grants (Legacy)		854,236
	$	1,385,217

NOTE 6 – LONG-TERM LIABILITIES

A. Compensated Absences

Flex leave pay is provided to full-time employees and may be carried over to subsequent years. Upon separation from employment, flex leave pay earned and unused is paid to the employee at 100 percent up to a maximum of 500 hours. The accrual for flex leave pay, including related employer-contributed payroll benefits, amounted to $61,381 at year-end.

B. Pension Liability

MELSA employees earn pension benefits as members of a state-wide pension plan administered by the PERA, the details of which are discussed elsewhere in these notes.

C. Changes in Long-Term Liabilities

	December 31, 2017	Additions	Retirements	December 31, 2018	Due Within One Year
Compensated absences payable	$ 59,333	$ 58,839	$ 56,791	$ 61,381	$ 44,786
Net pension liability – PERA	504,333	40,288	106,360	438,261	–
Total	$ 563,666	$ 99,127	$ 163,151	$ 499,642	$ 44,786

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

All full-time and certain part-time employees of MELSA participate in the General Employees Retirement Fund (GERF), a cost-sharing, multiple-employer defined benefit pension plan administered by the PERA of Minnesota, which is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. The PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

GERF members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. GERF Benefits Provided

The PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statutes and can only be modified by the State Legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for the PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the GERF is at least 90.0 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90.0 percent funded, or have fallen below 80.0 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

C. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018. MELSA was required to contribute 7.50 percent for Coordinated Plan members. MELSA's contributions to the GERF for the year ended December 31, 2018 were $39,251. MELSA's contributions were equal to the required contributions as set by state statutes.

D. GERF Pension Costs

At December 31, 2018, MELSA reported a liability of $438,261 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MELSA's proportion of the net pension liability was based on MELSA's contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of the PERA's participating employers. MELSA's proportionate share was 0.0079 percent at the end of the measurement period and 0.0079 percent for the beginning of the period.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

MELSA's net pension liability reflected a reduction due to the state of Minnesota's contribution of $16 million to the fund in 2018. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The amount recognized by MELSA as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with MELSA were as follows:

MELSA's proportionate share of the net pension liability	$	438,261
State's proportionate share of the net pension liability associated with MELSA	$	14,448

For the year ended December 31, 2018, MELSA recognized pension expense of $34,873 for its proportionate share of the GERF's pension expense. In addition, MELSA recognized an additional $3,369 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of $16 million to the GERF.

At December 31, 2018, MELSA reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 11,600	$ 11,811
Changes in actuarial assumptions	38,685	49,243
Difference between projected and actual investment earnings	–	49,406
Changes in proportion	28,245	–
Contributions paid to the PERA subsequent to the measurement date	18,702	–
Total	$ 97,232	$ 110,460

Deferred outflows of resources reported $18,702 related to pensions resulting from MELSA contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2019	$ 26,062
2020	$ (13,284)
2021	$ (35,561)
2022	$ (9,147)

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per year
Active member payroll growth	3.25% per year
Investment rate of return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males and females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the GERF.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the GERF was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.00 percent per year through 2044, and 2.50 percent per year thereafter, to 1.25 percent per year.

The State Board of Investment, which manages the investments of the PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best-estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	36 %	5.10 %
International stocks	17	5.30 %
Bonds	20	0.75 %
Alternative assets	25	5.90 %
Cash	2	– %
Total	100 %	

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the GERF was projected to be available to make all projected future benefit payments 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.

G. Pension Liability Sensitivity

The following table presents MELSA's proportionate share of the net pension liability for the GERF, calculated using the discount rate disclosed in the preceding paragraph, as well as what MELSA's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate 6.50%	Discount Rate 7.50%	1% Increase in Discount Rate 8.50%
MELSA's proportionate share of the GERF net pension liability	$ 712,228	$ 438,261	$ 212,107

H. Pension Plan Fiduciary Net Position

Detailed information about the GERF's fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the PERA website at www.mnpera.org; by writing to the PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103; or by calling (651) 296-7460 or (800) 652-9026.

NOTE 8 – LONG-TERM CAPITAL PROGRAMS

As discussed in Note 1, MELSA uses an Agency Fund to report assets held for member libraries to be expended for long-term capital programs. The programs are funded primarily by transfers from MELSA's General Fund. The Phase VI Capital Automation Program (the Phase Program) was established in 2001 to run through 2007. The Board of Trustees subsequently approved annual extensions of the Phase Program through 2018, operating under the previous program guidelines.

Through 2018, cumulative allocations of $11,330,779 have been transferred to the Agency Fund to fund the member libraries' new and expanded technology services through annual Phase Program transfers, NCIP funds, and unused Project Interconnect funds. In September 2017, the list of eligible uses of Phase funding was updated to reflect current technologies available.

The Board of Trustees authorized transfers of funds annually for the capital programs. The member libraries may request funds for capital expenditures twice a year, which are not to exceed their individual cumulative balance from prior and current years held in the Phase Program portion of the Agency Fund.

Approved allocations from the Phase Program's inception in fiscal 2001 through fiscal 2018 totaled $11,330,779, while expenditures over that time period totaled $9,920,103.

A summary of Phase Program activity and balances by member library system as of and for the year ended December 31, 2018 is as follows:

Member Library System	Allocation Percentage	Available Balance – 12/31/2017	Allocation for Current Year	2018 Disbursements	Available Balance – 12/31/2018
Anoka County	9.93 %	$ 277,479	$ 52,258	$ 52,000	$ 277,737
Carver County	6.29	175,931	34,049	–	209,980
Dakota County	13.53	323,597	70,267	160,000	233,864
Hennepin County	25.11	122,220	128,114	124,802	125,532
Ramsey County	20.01	359,792	102,656	156,000	306,448
Saint Paul Public	10.36	112,450	54,406	115,000	51,856
Scott County	6.69	128,804	36,060	–	164,864
Washington County	8.08	40,441	42,990	43,036	40,395
Totals	100.00 %	$ 1,540,714	$ 520,800	$ 650,838	$ 1,410,676

NOTE 9 – OPERATING LEASES

MELSA leases office space at the Richards Gordon Office Building under a four-year lease agreement, which expired October 31, 2018. During the year, MELSA agreed to a two-year extension of the lease, which expires October 31, 2020, and calls for monthly base rent ranging from $7,845 to $8,001. MELSA entered into the office lease jointly with Metronet, and they have agreed to share the costs. For the year ended December 31, 2018, the shared percentages were:

MELSA	72.0%
Metronet	28.0%

Rent expenditures under the lease agreement for the year ended December 31, 2018 totaled $61,191.

MELSA's share of future annual minimum payments required under the lease is as follows:

Year Ending December 31,	Amount
2019	$ 94,452
2020	88,011
	$ 182,463

REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN LIBRARY SERVICE AGENCY

PERA – General Employees Retirement Fund
Schedule of MELSA's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended December 31, 2018

MELSA Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	MELSA's Proportion of the Net Pension Liability	MELSA's Proportionate Share of the Net Pension Liability	MELSA's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and MELSA's Share of the State of Minnesota's Share of the Net Pension Liability	MELSA's Covered Payroll	MELSA's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/2015	06/30/2015	0.0070%	$ 362,776	$ –	$ 362,776	$ 414,445	87.53%	78.19%
12/31/2016	06/30/2016	0.0073%	$ 592,725	$ 7,746	$ 600,471	$ 458,272	129.34%	68.90%
12/31/2017	06/30/2017	0.0079%	$ 504,333	$ 6,380	$ 510,713	$ 512,010	98.50%	75.90%
12/31/2018	06/30/2018	0.0079%	$ 438,261	$ 14,448	$ 452,709	$ 532,113	82.36%	79.50%

PERA – General Employees Retirement Fund
Schedule of MELSA Contributions
Year Ended December 31, 2018

MELSA Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
12/31/2015	$ 29,405	$ 29,405	$ –	$ 392,068	7.50%
12/31/2016	$ 38,125	$ 38,125	$ –	$ 510,877	7.46%
12/31/2017	$ 39,024	$ 39,024	$ –	$ 520,328	7.50%
12/31/2018	$ 39,251	$ 39,251	$ –	$ 523,349	7.50%

Note: MELSA implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2015 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

PERA – GENERAL EMPLOYEES RETIREMENT FUND

2018 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The morality projection scale was changed from MP-2015 to MP-2017.

- The assumed benefit increase was changed from 1.00 percent per year through 2044, and 2.50 percent per year thereafter, to 1.25 percent per year.

2017 CHANGES IN PLAN PROVISIONS:

- The state's special funding contribution increased from $6 million to $16 million.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and nonvested deferred members. The revised CSA loads are now zero percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for nonvested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years, to 1.00 percent per year through 2044, and 2.50 percent per year thereafter.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035, and 2.50 percent per year thereafter, to 1.00 percent per year for all years.

- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth, and 2.50 percent for inflation.

2015 CHANGES IN PLAN PROVISIONS:

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Retirement Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised.

2015 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030, and 2.50 percent per year thereafter, to 1.00 percent per year through 2035, and 2.50 percent per year thereafter.

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SUPPLEMENTAL INFORMATION

METROPOLITAN LIBRARY SERVICE AGENCY

Schedules of Selected Expenditures
for the Years Ended December 31, 2018 and 2017

	2018	2017
Legacy Grant Programs		
Anoka County	$ 56,819	$ 65,254
Carver County	17,056	14,669
Dakota County	85,378	84,230
Hennepin County	241,924	212,222
Ramsey County	61,621	54,009
Saint Paul Public	46,155	52,846
Scott County	29,023	26,712
Washington County	41,347	37,856
Region-wide	213,035	175,729
Total Legacy Grant Programs (1)	$ 792,358	$ 723,527
Formula payments		
Anoka County	$ 99,316	$ 99,665
Carver County	62,897	63,548
Dakota County	135,333	135,418
Hennepin County	251,029	244,404
Ramsey County	200,112	199,053
Saint Paul Public	103,613	111,120
Scott County	66,920	65,920
Washington County	80,780	80,872
Total formula payments	$ 1,000,000	$ 1,000,000
Equalization to earning libraries		
Anoka County	$ 53,338	$ 47,999
Saint Paul Public	42,381	68,051
Total equalization to earning libraries	$ 95,719	$ 116,050
Electronic database expenditures (2)		
Literature and biography	$ 102,390	$ 102,201
Ancestry library addition	29,600	29,600
InfoUSA Marketing – Reference USA	94,740	94,999
ALLData	89,250	–
Chilton	9,666	57,995
Morningstar	89,483	86,401
Newsbank	71,510	69,425
NoveList	72,420	70,311
New York Times	25,296	27,595
Transparent Languages	75,000	75,890
Zinio	192,485	186,769
BookFlix	89,176	86,679
Lynda.com	126,477	119,039
Total electronic database expenditures	$ 1,067,493	$ 1,006,904

(1) These represent actual calendar year expenditures; system allocations are based on state fiscal year.
(2) Representing coverage for January through December.

Schedule of Insurance Coverage
December 31, 2018

Commercial property	
Building and contents	Limits: $129,664
	Deductible: $500
Commercial general liability	
General liability	Limits: $500,000 per claimant
	$1,500,000 per occurrence
	Deductible: $1,000 per occurrence
Fire damage	Limits: $100,000 (any 1 fire)
Medical expense	Limits: $2,500 (any 1 person)
Public officials liability	Limits: $500,000 per claimant
	$1,500,000 per occurrence
	Deductible: $2,500 per occurrence
Business auto	
Bodily injury	Limits: $500,000 per claimant
	$1,500,000 per occurrence
Hired/borrowed liability	Limits: $500,000 per claimant
	$1,500,000 per occurrence
Valuable papers	Limits: $30,000
	Deductible: $500
Miscellaneous extra expense	Limits: $15,000
	Deductible: $500
Electronic data processing	Limits: $38,025
	Deductible: $500
Miscellaneous equipment	Limits: $12,127
	Deductible: $500
Crime coverage	
Money/securities in	Limits: $100,000
	Deductible: $1,000
Money/securities out	Limits: $100,000
	Deductible: $1,000
Bond coverage	
Blanket bonds	Limits: $100,000 per employee
(Employee dishonesty/faithful	$50,000 MCIT/$50,000 Old Republic
performance of duty)	Employees: 15
Excess blanket bond with Old Republic	Limits: $150,000 per position
Workers' compensation	Limits:
	Bodily injury by accident – $500,000 each employee
	Bodily injury by accident – $1,500,000 each accident
	Bodily injury by disease – $500,000 each employee
	Bodily injury by disease – $1,500,000 each coverage document limit

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<u>OTHER REQUIRED REPORTS</u>

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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 and Management
Metropolitan Library Service Agency
St. Paul, Minnesota

We have audited, 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 of the United States, the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Metropolitan Library Service Agency (MELSA) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise MELSA's basic financial statements, and have issued our report thereon dated May 8, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered MELSA'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 MELSA's internal control. Accordingly, we do not express an opinion on the effectiveness of MELSA'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of MELSA's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as items 2018-001 and 2018-002, that we consider to be material weaknesses.

(continued)

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether MELSA'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.*

MELSA'S RESPONSES TO FINDINGS

MELSA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. MELSA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 MELSA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MELSA's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
May 8, 2019

INDEPENDENT AUDITOR'S REPORT

ON MINNESOTA LEGAL COMPLIANCE

To the Board of Trustees and Management
Metropolitan Library Service Agency
St. Paul, Minnesota

We have audited, 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 of the United States, the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Metropolitan Library Service Agency (MELSA) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise MELSA's basic financial statements, and have issued our report thereon dated May 8, 2019.

MINNESOTA LEGAL COMPLIANCE

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Office of the State Auditor pursuant to Minnesota Statutes § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing (TIF). Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for TIF, which is not utilized by MELSA.

In connection with our audit, nothing came to our attention that caused us to believe that MELSA failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions.* However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding MELSA's noncompliance with the above referenced provisions.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
May 8, 2019

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FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING

2018-001 SEGREGATION OF DUTIES

Criteria – Internal control over financial reporting.

Condition – Metropolitan Library Service Agency (MELSA) has limited segregation of duties in a number of areas.

Context – This is a current year and prior year finding.

Cause – The limited segregation of duties is primarily caused by the limited size of MELSA's business office staff.

Effect – One important element of internal accounting controls is an adequate segregation of duties such that no one individual should have responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects MELSA to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

Recommendation – We recommend that MELSA continue its efforts to segregate duties as best it can within the limits of what MELSA considers to be cost beneficial.

Corrective Action Plan

Actions Planned – MELSA makes every effort to maximize the segregation of financial duties within the limits of its available staffing, including the utilization of its Board of Trustees to perform various review functions to mitigate assessed internal control risks. MELSA will continue to periodically review its internal controls and work with its external auditors to assess specific weaknesses identified and evaluate actions needed to eliminate or mitigate them. MELSA will weigh the related costs and benefits associated with the implementation changes needed to further segregate duties.

Official Responsible – The Executive Director.

Planned Completion Date – December 31, 2019.

Disagreement With or Explanation of Finding – MELSA has no disagreement with this finding.

Plan to Monitor – The Executive Director will continue to monitor this deficiency and evaluate the practicality of potential changes in policies and procedures to address it within the limits of the staff available.

FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

2018-002 PREPARATION OF FINANCIAL STATEMENTS

Criteria – Management is responsible for establishing and maintaining effective internal controls. These controls include the responsibility for preparation, or oversight of the preparation, of the financial statements in accordance with accounting principles generally accepted in the United States of America.

Condition – Other than the management's discussion and analysis, MELSA had our firm prepare the annual financial statements. Like many similarly sized organizations, MELSA requested assistance from us with the drafting of the annual financial statements and related notes. Although this is common practice and may be the most practical and cost-effective method to complete this task, the fact that MELSA does not have the internal resources available to prepare the annual financial statements is considered a deficiency.

Context – This is a current year and prior year finding.

Cause – MELSA does not have the internal resources available to prepare its own annual financial statements and has made the decision that from a cost-benefit perspective, it is more efficient to have the auditor prepare them than to contract with another outside party.

Effect – The auditor prepared the draft of MELSA's annual financial statements and disclosures.

Recommendation – We recommend that MELSA consider whether it is cost beneficial to either provide training to its internal staff that would enable MELSA to prepare its own financial statements, or contract with another outside party to prepare them.

Corrective Action Plan

Actions Planned – MELSA will determine as to whether it is practical and cost-effective for MELSA or an outside contractor to prepare its financial statements in the future.

Official Responsible – The Executive Director.

Planned Completion Date – December 31, 2019.

Disagreement With or Explanation of Finding – MELSA has no disagreement with this finding. MELSA reviewed and made necessary changes to the draft of the annual financial statements, which were prepared and produced by its independent auditing firm for the current year. MELSA's management will determine whether it is cost beneficial to change this arrangement in future years.

Plan to Monitor – The Executive Director will continue to monitor this deficiency and evaluate the practicality of potential changes in policies and procedures to address it within the limits of the staff available.