METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

Financial Statements
and Supplemental Information

Year Ended
December 31, 2019

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METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

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INTRODUCTORY SECTION

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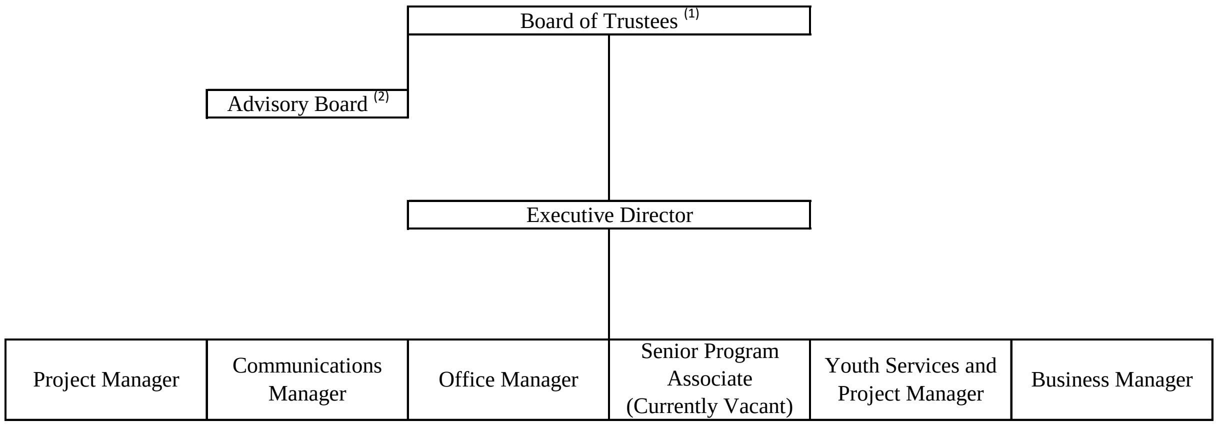
METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

Organizational Chart
December 31, 2019



(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, 2019

BOARD OF TRUSTEES

FINANCIAL SECTION

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PRINCIPALS
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA
Jaclyn M. Huegel, CPA
Kalen T. Karnowski, CPA

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, and each major fund of the Metropolitan Library Service Agency (MELSA) as of and for the year ended December 31, 2019, 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)

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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 and each major fund of MELSA as of December 31, 2019, 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.

EMPHASIS OF MATTER

As described in Note 1 of the notes to basic financial statements, MELSA implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, during the year ended December 31, 2019. Our opinion is not modified with respect to this matter.

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 GASB, 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 2018 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 8, 2019. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2018 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 April 30, 2020 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
April 30, 2020

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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, 2019.

FINANCIAL HIGHLIGHTS

The MELSA staff, trustees, and member library staff members worked cooperatively in 2019 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 2019, MELSA worked to achieve these goals in ways that included:

- Providing 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 2019, MELSA allocated $1,000,000 to member systems to help fund local cooperative efforts. Distributions to each system were: $100,644 to Anoka County, $67,735 to Carver County, $134,642 to Dakota County, $234,859 to Hennepin County, $210,714 to Ramsey County, $103,156 to Saint Paul Public, $67,308 to Scott County, and $80,942 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 2019, Anoka County Library received $39,383 and Saint Paul Public Library received $48,688 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 (Bibliotheca) that began in 2012 and implemented at all eight MELSA systems in 2014 continued to grow in content and usage in 2019. 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 2019 budget again included $500,000 to purchase content, primarily focusing on high demand, high interest titles, and $80,000 to cover systems' access fees. Additional content was purchased with a $32,000 fund balance assignment. 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. 2019 expenditures resulted in a procurement of 11,484 new items for the collection: 7,758 e-Books and 3,726 e-Audiobooks. The current MELSA CloudLibrary collection includes 67,548 copies of 9,862 e-Book titles and 11,849 copies of 2,034 e-Audiobook titles.

- 2019 was the third 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, publish, 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 public library systems of Minnesota. In 2019, collaborating partners, including the Minnesota Library Foundation and BiblioLabs (the vendor of the service), hosted the 2nd annual state-wide author contest to highlight MN Writes MN Reads and recognize local, independent authors. MELSA staff promoted the MN Writes MN Reads program at local and library events across the metro, including Twin Cities Book Festival and the Loft's Wordsmith conference.

- 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, homework help, tutorials on a variety of subjects, job search and resume creation assistance, and downloadable audiobooks. Each year a due diligence process is performed by the e-Resources group to evaluate the value and cost-effectiveness of these purchases.

- MELSA continued its support of these online tools for member libraries in 2019: Syndetics, a catalog enrichment product that provides cover images, professional reviews, and other elements; LibCal, an event and room reservations system; BLUEcloud Mobile, a mobile app (replacing Boopsie) for accessing systems' catalogs; 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: $99,316 to Anoka County, $40,012 to Carver County, $128,114 to Ramsey County, $54,445 to Saint Paul Public, and $50,000 to Scott County Libraries. In 2019, the Board of Trustees also provided $20,800 in total to the systems to support maintenance costs of NCIP, a national software protocol for library circulation and inter-library loan.

- MELSA staff, along with a contracted consultant, successfully applied for E-rate funds, a federal telecommunications reimbursement program, for seven of eight member libraries. (Hennepin County manages its own application process.) The amount received by all MELSA libraries in 2019 for E-rate funding year July 2018–June 2019 was $730,653.

- MELSA funding continued for classes to support job seekers and small business owners. In 2019, MELSA allocated $45,000 of these funds for classes taught by instructors from Twin Cities Media Alliance. Approximately 680 library users attended over 100 classes on a wide range of topics, including creating a website, developing a marketing plan, leveraging social media platforms and digital tools, and using image and video editing software. Member library systems also shared a $40,000 allocation to meet local program needs by offering additional classes with partners, including SCORE and Springboard Center for the Arts.

- MELSA continues to facilitate delivery of library materials borrowed and returned and other information and communications among the eight-member library systems.

- MELSA funding supported participation in the Edge Assessment for member library systems in 2019. The Edge Assessment is a management tool for libraries to evaluate the technology that supports their services and resources, and to identify strengths and areas for improvement. Peer results within the MELSA region and throughout the U.S. are provided. A toolkit to assist libraries in achieving desired outcomes, and presentation materials for stakeholders, are also available.

- Member libraries offered the Winter Reads adult reading program for the 11th consecutive year. The program runs January and February and is designed to encourage adults to read and to submit book reviews to qualify for giveaways. The library systems have a number of system-specific programs, activities and materials in addition to a giveaway that MELSA provides. MELSA also provides posters and Winter Reads wrapping paper to use for displays. In addition, MELSA provides advertising support through StarTrib.com, MinnPost, and the Minnesota Women's Press. More than 20,000 adults participate metro-wide, with some systems reporting increases in 2019 program participation.

- MELSA continued the third full year of smARTpass, a web-based arts access program for library users in partnership with local cultural organizations. In 2019, MELSA contracted with a local website developer to rebuild the site on a more stable platform. The site looks and functions the same from the user side, but offers easier usage for the arts partners. The program continues to be very popular, adding both users and partners in year three. Funding for smARTpass is provided by the Arts and Cultural Heritage Fund, along with MELSA funds.

- MELSA renewed its annual contract with StarTribune.com, which includes mobile phone and iPad app advertising in addition to the StarTribune.com website and print ads for smARTpass and for Summer at Your Library. It also includes several e-mails to subscribers to promote specific events, such as Read and Ride Day at the Minnesota State Fair. MELSA continued print advertising with La Vos Latina, the Minnesota Women’s Press, and Minnesota Parent magazine. MELSA continued advertising with School Space Media (for homework resources), iHeart radio (for events promotion and book club sponsorship, which included Falen's Book Club meeting at the Chanhassen Library), and LOVE105 (for various electronic resources). MELSA added indoor advertising at Excel Energy Center and a variety of Twin Cities restaurants through a new contract with Social Indoor.

- MELSA purchased and assisted with staffing a metro public library tent at Twin Cities Pride Festival in June 2019. Library information from the systems and “Be Proud at Your Library” buttons were distributed, and library card registration was available for attendees. Over the course of the festival, 10,000 “Be Proud at Your Library buttons and 2,500 book list bookmarks were distributed to attendees. Additional engagement opportunities at the booth included rainbow stamps, selfie frame photos, and a “Show Your Library Love” state-wide map.

- 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 with donations of over 23,000 passes, the Minnesota Twins with 2,800 tickets, The Crayola Experience with 2,500 tickets, SeaLife MN with 2,800 tickets and a year-long family membership for each of the 103 branches, 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 StarTribune and KARE-11 again provided media sponsorship for Summer at Your Library.

- Member libraries actively encourage 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 supports these efforts by making signage, nominee trackers and ballots available to all locations

- MELSA provided support to systems’ teen programming 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 to 18-year-olds in each system was boosted by the $25,000 allocation they shared in 2019. 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 2019, 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 a total of $38,000 in allocations to member library systems to meet individual training needs in 2019. Examples of spending 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 2019 Storytime Palooza training focused on peer to peer sharing of best practices. Storytime presenters presented new ways to share music, how to apply social and emotional learning best practices into storytime, Using American Sign Language in storytime and more peer sharing for better storytimes. Held on December 2, over 60 youth services staff attended the Storytime Palooza workshop at the Roseville Library to learn from each other.

- In November and December 2019, MELSA sponsored two sessions of a De-escalation workshop presented by People, Inc. Over 120 library staff learned skills for responding to scenarios involving escalated behaviors, including appropriate verbal responses, control of one's nonverbal communication, and interventions such as validating an upset person's concerns and setting limits clearly and concisely during these interactions.

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 2019, the Library Card Registration Task Force completed its directive to identify ways to improve success and speed of getting permanent library cards to users initiating an application at a system other than their "home" library. The tasks of implementing an online application for staff use, and redesigning the temporary card incorporating the Tennessen warning, were assigned to the Tech Team and Circulation Interest Group.

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 $927,641 (based on actual costs submitted remaining after E-rate refunds) was distributed to the library systems and the MELSA office as follows: Anoka $41,649, Carver $21,600, Dakota $8,612, Hennepin $723,517, Ramsey $29,309, Saint Paul $80,946, Scott $10,224, Washington $9,713, and MELSA $2,071.

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 regional public 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 $970,181 for state fiscal year 2019 (July 2018–June 2019) and an appropriation of $992,354 for state fiscal year 2020 (July 2019–June 2020). In fiscal year 2019, the MELSA allocation was distributed in four areas:

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

Legacy funds gave local libraries the opportunities to create new partnerships with artists and organizations in their communities and to bring new experiences to their patrons. Reports on goals and outcomes for each of these programs are provided to the Minnesota Department of Education (MDE), and summaries can be found at legacy.mn.gov. In 2019, Legacy funds allowed for over 1,000 programs attended by over 120,000 residents. While MELSA uses a portion of its Legacy funds to support regional administrative costs, including staffing 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. The program features best-selling and award-winning authors from across the country, as well as highlighting local talent. In 2019, 16 events drew 1,173 attendees. Each event is recorded as a podcast, and the total number of podcast downloads surpassed 47,000 in 2019.

- MELSA uses 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; 1,092 students from more than 75 schools attended a Hullaballoo in December 2018 and January 2019. Second, MELSA supports Research Field Trips, which bring students to libraries to conduct advanced research; 1,763 students from 25 schools participated in Research Field Trips from October 2018 to March 2019. Teachers reported that Hullaballoos and Research Field Trips increase students' ability to do history research (98 percent) and improve their analytical and interpretive skills (97 percent).

- Teen Lit Con celebrated its 6th anniversary on Saturday, April 27, 2019, at Henry Sibley High School hosting approximately 1,600 attendees throughout the day. The event featured bestselling teen authors Tomi Adeyemi, Becky Albertalli, Lamar Giles and Jarrett Krosoczka along with nine 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 Wednesday, August 28, 2019. Located centrally on the fairgrounds and covering the 20,000 square feet of Dan Patch Park, the Read & Ride Day Festival offered free family fun, which included an entertainment stage, a Read & Walk picture book by MN author Daniel Bernstrom, games, crafts, and more for fairgoers of all ages. This is the one day fairgoers can use their public library card to get a discount on their entrance tickets. It is also the only day public libraries are on the fairgrounds to offer fairgoers a sampler of programming they will find in public libraries across the state every day of the year. Minitex was on hand to discuss state-wide library resources.

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.

Change in Accounting Principle – MELSA implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, during the year ended December 31, 2019. As a result, allocations of funding made by MELSA's Board to reimburse member libraries' technology improvements and other costs, which had previously been reported in a fiduciary (agency) fund, are now being reported in a governmental (special revenue) fund. This change in accounting principle resulted in increases to both MELSA's beginning government-wide net position (in the government-wide financial statements) and beginning fund balances (in the fund financial statements) of $1,410,676.

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, member technology distributions, 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 maintains only one fund type – governmental 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.

MELSA maintains two governmental funds to account for its operations. Information is presented separately in the basic financial statements for the General Fund and Member Library Allocations Special Revenue Fund. 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.

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.

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, 2019 and 2018

	2019	2018	Annual Change
Assets			
Current and other assets	$ 9,392,757	$ 7,199,088	$ 2,193,669
Capital assets, net	881,127	913,053	(31,926)
Total assets	$ 10,273,884	$ 8,112,141	$ 2,161,743
Deferred outflows of resources			
Pension plan deferments	$ 41,070	$ 97,232	$ (56,162)
Liabilities			
Other liabilities	$ 576,043	$ 222,578	$ 353,465
Net pension liability	381,486	438,261	(56,775)
Compensated absences	70,628	61,381	9,247
Total liabilities	$ 1,028,157	$ 722,220	$ 305,937
Deferred inflows of resources			
Grants received for subsequent year	$ 1,586,969	$ 1,385,217	$ 201,752
Pension plan deferments	121,423	110,460	10,963
Total deferred inflows of resources	$ 1,708,392	$ 1,495,677	$ 212,715
Net position			
Net investment in capital assets	$ 881,127	$ 913,053	$ (31,926)
Unrestricted	6,697,278	5,078,423	1,618,855
Total net position	$ 7,578,405	$ 5,991,476	$ 1,586,929

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.

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 $7,578,405 at the close of the most recent fiscal year, an increase of $176,253 from the previous year, excluding the change in accounting principle discussed earlier. At the end of the current fiscal year, MELSA reported positive balances in all categories of net position, as was the case the previous year-end.

Of MELSA’s net position, approximately 12 percent reflects its net investment in capital assets (e.g., archival database and furniture and equipment). These assets used to provide services to MELSA’s stakeholders, and consequently not available for future spending. The remaining unrestricted net position of $6,697,278 may be used to meet MELSA’s ongoing obligations to citizens and creditors.

Governmental Activities – Governmental activities increased MELSA’s net position by $176,253 during the year ended December 31, 2019. Key elements of this increase are as follows:

Table 2
Change in Net Position
for the Years Ended December 31, 2019 and 2018

	2019	2018	Annual Change
Revenues			
Program revenues			
Operating grants and contributions	$ 1,710,905	$ 1,143,203	$ 567,702
General revenues			
Unrestricted grants	5,320,199	5,341,758	(21,559)
Other	199,945	149,683	50,262
Total revenues	7,231,049	6,634,644	596,405
Expenses			
Legacy Grant Programs	781,250	792,358	(11,108)
RLTA Grant Programs	925,570	344,004	581,566
Cooperative and other programs	4,168,741	3,983,825	184,916
Member technoloy distributions	371,887	–	371,887
Administration	807,348	816,850	(9,502)
Total expenses	7,054,796	5,937,037	1,117,759
Increase in net position before transfers	176,253	697,607	(521,354)
Transfers	–	(520,800)	520,800
Changes in net position	176,253	176,807	(554)
Net position			
Beginning, as previously reported	5,991,476	5,814,669	176,807
Change in accounting principle	1,410,676	–	1,410,676
Beginning, as restated	7,402,152	5,814,669	1,587,483
Net position – ending	$ 7,578,405	$ 5,991,476	$ 1,586,929

Overall, MELSA's government-wide revenue increased $596,405 from the previous year, which is comprised of changes in the following revenue line items:

- Operating grants and contributions were $567,702 higher than last year, mainly due to a $581,280 increase in RLTA Grant revenue recognized that was partially mitigated by a decrease in Legacy Grant revenue recognized of $11,108.

- Unrestricted grants decreased $21,559. 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 2019 reflects a net decrease in the entitlements for the state fiscal years ending June 30, 2020 and June 30, 2019, compared to the entitlements for state fiscal years ended June 30, 2019 and June 30, 2018.

- The $50,262 increase in other general revenues was primarily the result of improved investment income.

MELSA's government-wide expenses for 2019, excluding Phase Program transfers, were $1,117,759 more than 2018, as detailed in the following major expense areas:

- Legacy Grant expenditures decreased $11,108, corresponding with the decrease in Legacy Grant revenues.

- RLTA Grant expenditures, including the portion used for MELSA administrative costs, were $581,566 more than last year, as member library submissions for equipment reimbursements increased significantly.

- Formula payments to member library systems remained at $1,000,000. The amount of Equalization paid to earning library systems decreased $7,648 in 2019. Anoka County and Saint Paul Public share 10 percent of the total Equalization component of RLBSS funds.

- Database expenditures increased $27,489 in 2019 compared to 2018.

- Technology distributions to member libraries from Phase Program allocations were $371,887 for the 2019 fiscal year. In prior years, preceding the change in accounting principle described previously, these distributions were reported in a fiduciary (agency) fund and not included in MELSA's government-wide financial statements.

FINANCIAL ANALYSIS OF MELSA'S FUNDS

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

Governmental Funds – The focus of MELSA's governmental funds 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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, MELSA is reporting two governmental funds, the General Fund, and the Member Library Allocations Special Revenue 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 $5,670,156. 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 $278,638 at year-end represents 4.2 percent of the total General Fund expenditures.

The Member Library Allocations Special Revenue Fund was created in fiscal 2019 as a result of MELSA implementing GASB Statement No. 84. The fund is used to account for the Phase Program and other funding allocations committed by MELSA's Board of Trustees to finance technology improvements and other costs for the various member library systems. The change in accounting principle created a beginning fund balance of $1,410,676 in this fund, which increased by $148,913 to a balance of $1,559,589 at the 2019 fiscal year-end. New allocations of $520,800 were added to the fund in 2019 through a transfer from the General Fund. Member libraries utilized $371,887 during the current year, from current or prior years' allocations.

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

Table 3
General Fund Operating Results
for the Years Ended December 31, 2019 and 2018

	Original Budget	Final Budget	Actual	Over (Under) Budget	Prior Year Actual
Revenue	$ 6,228,161	$ 6,900,621	$ 7,230,150	$ 329,529	$ 6,631,275
Expenditures	6,471,036	7,560,514	6,630,487	(930,027)	5,922,789
Excess (deficiency) of revenue over expenditures	(242,875)	(659,893)	599,663	1,259,556	708,486
Other financing (uses)	(521,600)	(521,600)	(520,800)	800	(520,800)
Net change in fund balances	$ (764,475)	$ (1,181,493)	78,863	$ 1,260,356	187,686
Fund balances					
Beginning of year			5,591,293		5,403,607
End of year			$ 5,670,156		$ 5,591,293

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, increased member usage of available RLTA funding, and improved investment income. Corresponding adjustments were made to the expenditures budget reflecting the use of these funds, anticipated fund balance carryovers, and other estimated accruals.

- State aid and grants were over budget by $254,369, mainly due to budgeting for RLBSS funding that intentionally reserves half of Equalization for expenditure in 2020, and less Legacy Grant expenditures than anticipated.

- Investment income exceeded budget by $73,036, due to a strong market and higher interest rates.

- Legacy grant expenditures were $200,018 under budget, due to conservative spending by some member libraries

- Total expenditures for cooperative programs were $642,939 less than budgeted, including:
    - Database expenditures were under budget by $167,324, due to conservative budgeting for anticipated database cost increases.
    - Expenditures for the e-books collaborative project were $154,084 under budget, due to prior year carryover funds remaining unspent (unspent funds to be included in fund balance assignments for expenditures in 2020).
    - Catalog enhancements were $65,854 less than budget, mainly due to prior year carryover BookLens project funds remaining unspent (unspent funds to be reallocated in fund balance assignments for expenditures in 2020).
    - On-line library card registration project expenditures were $100,000 under budget, due to prior year carryover funds remaining unspent (unspent funds to be reallocated in fund balance assignments for expenditures in 2020).
    - Cultural pass costs were $59,202 less than budget, due to prior year carryover funds remaining unspent (unspent funds to be included in fund balance assignments for expenditures in 2020).

- Actual expenditures for administration were $168,650 less than budgeted, mainly due to conservative budgeting across most areas.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets – MELSA's investment in capital assets for its governmental activities as of December 31, 2019 amounted to $881,127 (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, 2019 and 2018

	2019	2018
Archival database	$ 1,874,199	$ 1,810,792
Discovery tool	348,558	348,558
Furniture and other equipment	123,088	118,742
Total capital assets	2,345,845	2,278,092
Accumulated depreciation	(1,464,718)	(1,365,039)
Total capital assets, net of depreciation	$ 881,127	$ 913,053
Depreciation expense	$ 102,617	$ 98,106

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, 2019, which is unchanged from the prior year. MELSA reported long-term liabilities at year-end of $70,628 for compensated absences payable and a PERA net pension liability of $381,486. Additional information on MELSA's long-term liabilities can be found in the notes to basic financial statements.

FACTORS BEARING ON MELSA'S FUTURE

Shortly after the fiscal year-end, the spread of novel coronavirus (COVID-19) around the world has caused significant volatility in U.S. economy and financial markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. At this time governmental entities, including MELSA, are unable to determine what effect this may have on future operations.

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, 2019
(With Partial Comparative Information as of December 31, 2018)

	Governmental Activities	
	2019	2018
Assets		
Cash and cash equivalents	$ 8,878,311	$ 6,705,066
Receivables		
Accrued interest	31,954	10,146
Accounts	–	9
Due from other governmental units	2,431	3,900
Prepaids	480,061	479,967
Capital assets, net	881,127	913,053
Total assets	10,273,884	8,112,141
Deferred outflows of resources		
Pension plan deferments	41,070	97,232
Total assets and deferred outflows of resources	$ 10,314,954	$ 8,209,373
Liabilities		
Accrued salaries payable	$ –	$ 630
Accounts payable	76,428	22,884
Due to member libraries	326,855	–
Unearned revenue	172,760	199,064
Net pension liability	381,486	438,261
Compensated absences		
Due within one year	39,552	44,786
Due in more than one year	31,076	16,595
Total liabilities	1,028,157	722,220
Deferred inflows of resources		
Grants received for subsequent year	1,586,969	1,385,217
Pension plan deferments	121,423	110,460
Total deferred inflows of resources	1,708,392	1,495,677
Net position		
Net investment in capital assets	881,127	913,053
Unrestricted	6,697,278	5,078,423
Total net position	7,578,405	5,991,476
Total liabilities, deferred inflows of resources, and net position	$ 10,314,954	$ 8,209,373

See notes to basic financial statements

Statement of Activities
Year Ended December 31, 2019
(With Partial Comparative Information for the Year Ended December 31, 2018)

	2019			2018
		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	$ 781,250	$ 781,250	$ –	$ –
RLTA Grant Programs	925,570	925,570	–	–
Cooperative and other programs	4,168,741	–	(4,168,741)	(3,983,825)
Member technology distributions	371,887	–	(371,887)	–
Administration	807,348	4,085	(803,263)	(810,009)
Total governmental activities	$ 7,054,796	$ 1,710,905	(5,343,891)	(4,793,834)
General revenues				
Unrestricted grants			5,320,199	5,341,758
Investment income			193,036	140,666
Other general revenues			6,909	9,017
Transfers			–	(520,800)
Total general revenues and transfers			5,520,144	4,970,641
Change in net position			176,253	176,807
Net position				
Beginning, as previously reported			5,991,476	5,814,669
Change in accounting principle			1,410,676	–
Beginning, as restated			7,402,152	5,814,669
Net position – end of year			$ 7,578,405	$ 5,991,476

METROPOLITAN LIBRARY SERVICE AGENCY

Balance Sheet
Governmental Funds
as of December 31, 2019
(With Partial Comparative Information as of December 31, 2018)

	General	Member Library Allocations Special Revenue	Totals 2019	Totals 2018
Assets				
Cash and cash equivalents	$ 6,988,000	$ 1,890,311	$ 8,878,311	$ 6,705,066
Receivables				
Accrued interest	31,954	–	31,954	10,146
Accounts receivable	–	–	–	9
Due from other funds	3,867	–	3,867	1,521
Due from other governmental units	2,431	–	2,431	2,379
Prepaids				
Databases	416,005	–	416,005	435,363
Other	64,056	–	64,056	44,604
Total assets	$ 7,506,313	$ 1,890,311	$ 9,396,624	$ 7,199,088
Liabilities				
Accrued salaries payable	$ –	$ –	$ –	$ 630
Accounts payable	76,428	–	76,428	22,884
Due to other funds	–	3,867	3,867	–
Due to member libraries	–	326,855	326,855	–
Unearned revenue	172,760	–	172,760	199,064
Total liabilities	249,188	330,722	579,910	222,578
Deferred inflows of resources				
Grants received for subsequent year	1,586,969	–	1,586,969	1,385,217
Fund balances				
Nonspendable for prepaids	480,061	–	480,061	479,967
Committed for member libraries – Phase program	–	1,559,589	1,559,589	–
Assigned for compensated absences	70,628	–	70,628	61,381
Assigned for contingencies	1,500,000	–	1,500,000	1,500,000
Assigned for e-Book collaborative project	410,000	–	410,000	446,111
Assigned for Equalization carryforward	441,426	–	441,426	459,475
Assigned for SELF-e and PressBooks collaborative project	50,000	–	50,000	50,000
Assigned for e-Resource purchases and renewals	50,000	–	50,000	50,000
Assigned for BookLens collaborative project	–	–	–	42,569
Assigned for cultural pass collaborative project	59,202	–	59,202	108,338
Assigned for online library card registration project	–	–	–	100,000
Assigned for RLBSS funding stabilization	900,000	–	900,000	900,000
Assigned for working capital	987,632	–	987,632	987,632
Assigned for collaborative initiatives	300,000	–	300,000	–
Assigned for phase technology allocation	142,569	–	142,569	–
Unassigned	278,638	–	278,638	405,820
Total fund balances	5,670,156	1,559,589	7,229,745	5,591,293
Total liabilities, deferred inflows of resources, and fund balances	$ 7,506,313	$ 1,890,311	$ 9,396,624	$ 7,199,088

See notes to basic financial statements

METROPOLITAN LIBRARY SERVICE AGENCY

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of December 31, 2019
(With Partial Comparative Information as of December 31, 2018)

	2019	2018
Total fund balances – total governmental funds	$ 7,229,745	$ 5,591,293
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	2,345,845	2,278,092
Less accumulated depreciation	(1,464,718)	(1,365,039)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
Compensated absences payable	(70,628)	(61,381)
Net pension liability – PERA	(381,486)	(438,261)
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	41,070	97,232
Deferred inflows of resources – pension plan deferments	(121,423)	(110,460)
Total net position – governmental activities	$ 7,578,405	$ 5,991,476

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2019
(With Partial Comparative Information for the Year Ended December 31, 2018)

	General	Member Library Allocations Special Revenue	Totals 2019	Totals 2018
Revenue				
State aid and grants	$ 7,030,205	$ –	$ 7,030,205	$ 6,481,592
Investment income	193,036	–	193,036	140,666
Other	6,909	–	6,909	9,017
Total revenue	7,230,150	–	7,230,150	6,631,275
Expenditures				
Current				
Legacy Grant Programs	781,250	–	781,250	792,358
RLTA Grant Programs	925,570	–	925,570	344,004
Cooperative programs	4,075,031	–	4,075,031	3,893,285
Administration	777,945	–	777,945	808,218
Member technology distributions	–	371,887	371,887	–
Capital outlay	70,691	–	70,691	84,924
Total expenditures	6,630,487	371,887	7,002,374	5,922,789
Excess (deficiency) of revenue over expenditures	599,663	(371,887)	227,776	708,486
Other financing sources (uses)				
Transfers in	–	520,800	520,800	–
Transfers (out)	(520,800)	–	(520,800)	(520,800)
Total other financing sources (uses)	(520,800)	520,800	–	(520,800)
Net change in fund balances	78,863	148,913	227,776	187,686
Fund balances				
Beginning of year, as previously reported	5,591,293	–	5,591,293	5,403,607
Change in accounting principle	–	1,410,676	1,410,676	–
Beginning of year, as restated	5,591,293	1,410,676	7,001,969	5,403,607
End of year	$ 5,670,156	$ 1,559,589	$ 7,229,745	$ 5,591,293

METROPOLITAN LIBRARY SERVICE AGENCY

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended December 31, 2019
(With Partial Comparative Information for the Year Ended December 31, 2018)

	2019	2018
Total net change in fund balances – total governmental funds	$ 227,776	$ 187,686
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	70,691	84,924
Depreciation expense	(102,617)	(98,106)
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	(9,247)	(2,048)
Net pension liability – PERA	56,775	66,072
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	(56,162)	(60,430)
Deferred inflows of resources – pension plan deferments	(10,963)	(1,291)
Change in net position – governmental activities	$ 176,253	$ 176,807

Statement of Revenue, Expenditures, and Changes in Fund Balances
General Fund
Budget and Actual
Year Ended December 31, 2019

	Budget Original	Budget Final	Actual	Over (Under) Final Budget
Revenue				
State aid and grants	$ 6,173,376	$ 6,775,836	$ 7,030,205	$ 254,369
Investment income	50,000	120,000	193,036	73,036
Other revenue				
e-Rate reimbursement revenues	4,785	4,785	4,785	–
Miscellaneous	–	–	2,124	2,124
Total revenue	6,228,161	6,900,621	7,230,150	329,529
Expenditures				
Current				
Legacy Grant Programs	970,182	981,268	781,250	(200,018)
RLTA Grant Programs	330,898	914,681	925,570	10,889
Cooperative programs				
Distributions – member libraries				
Formula payments	1,000,000	1,000,000	1,000,000	–
Equalization to earning libraries	88,071	88,071	88,071	–
Collaborative region-wide purchases				
Electronic databases	1,212,306	1,262,306	1,094,982	(167,324)
Homework help	250,000	250,000	250,000	–
Employment help	45,000	45,000	44,550	(450)
Downloadable books	174,230	174,230	168,185	(6,045)
e-Books collaborative project	580,000	766,111	612,026	(154,085)
Electronic self-publishing project	25,000	25,000	19,841	(5,159)
Catalog enhancements	140,265	182,834	116,980	(65,854)
On-line library card registration project	–	100,000	–	(100,000)
Calendar software	27,000	27,000	19,901	(7,099)
Mobile application	56,373	68,000	68,523	523
Contracted services for member libraries				
Delivery service	51,171	51,171	46,971	(4,200)
Printing and copying	12,000	12,000	4,211	(7,789)
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	5,470	(15,530)
Professional development	88,000	88,000	87,771	(229)
Technology training	40,000	40,000	35,999	(4,001)
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	67,151	(5,149)
Youth services literacy initiative	38,000	38,000	32,696	(5,304)
Teen services literacy initiative	24,000	24,000	23,957	(43)
STEM programming	25,000	25,000	23,607	(1,393)
Other services – member libraries				
Jobs and small business initiative	85,000	85,000	71,479	(13,521)
Digital literacy/e-government initiatives	8,000	8,000	–	(8,000)
Technology measures tools	27,769	27,769	26,960	(809)
Cultural pass	5,000	113,338	54,136	(59,202)
Promotions	100,000	100,000	100,429	429
Other collaborative projects	4,322	10,390	3,285	(7,105)
Total cooperative programs	4,213,257	4,717,970	4,075,031	(642,939)

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Revenue, Expenditures, and Changes in Fund Balances
General Fund
Budget and Actual (continued)
Year Ended December 31, 2019

	Budget Original	Budget Final	Actual	Over (Under) Final Budget
Expenditures (continued)				
Current (continued)				
Administration				
Salaries and benefits				
Salaries	543,582	531,233	479,367	(51,866)
Fringe benefits	161,284	163,529	132,225	(31,304)
Other payroll expense	2,900	2,900	2,840	(60)
Staff travel and training				
Local travel	6,500	6,500	2,249	(4,251)
Staff education/conferences	16,000	16,000	8,680	(7,320)
Supplies and printing				
Office supplies	7,500	7,500	1,355	(6,145)
Printing, copying, and postage	4,300	4,300	1,042	(3,258)
Contracted services				
Technology support	15,000	15,000	12,949	(2,051)
Website and hosting	9,740	9,740	1,899	(7,841)
Legal services	10,000	10,000	1,699	(8,301)
Accounting services	22,500	22,500	19,500	(3,000)
Other administrative				
Equipment, software, and maintenance	25,000	25,000	7,027	(17,973)
Meetings	9,000	9,000	4,882	(4,118)
Rent	70,807	70,807	61,480	(9,327)
Internet access	7,188	7,188	6,952	(236)
Telephone	3,000	3,000	821	(2,179)
Insurance	16,698	16,698	10,351	(6,347)
Dues and memberships	3,400	3,400	1,703	(1,697)
CRPLSA dues	21,000	21,000	20,195	(805)
Other	1,300	1,300	729	(571)
Total administration	956,699	946,595	777,945	(168,650)
Capital outlay	–	–	70,691	70,691
Total expenditures	6,471,036	7,560,514	6,630,487	(930,027)
Excess (deficiency) of revenue over expenditures	(242,875)	(659,893)	599,663	1,259,556
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	$ (764,475)	$ (1,181,493)	78,863	$ 1,260,356
Fund balances				
Beginning of year			5,591,293	
End of year			$ 5,670,156	

See notes to basic financial statements

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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 counties and city 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 (RLBSS) state aid. MELSA also applies for other 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, programming, 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.

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.

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)

Description of Funds

MELSA reports the following major governmental funds:

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.

Member Library Allocations Special Revenue Fund – This fund is used to account for resources committed through allocation by MELSA's Board of Trustees for use by member library systems. The assets represent Phase and other allocations made to the member library systems that have not yet been requested for distribution. Distributions to the Phase program and other allocations 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 governmental funds 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, 2018, 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.

R. Change in Accounting Principle

During the year ended December 31, 2019, MELSA adopted new accounting guidance by implementing the provisions of GASB Statement No. 84, *Fiduciary Activities,* which establishes new criteria for identifying and reporting fiduciary activities. The implementation of this statement has resulted in changing the presentation of the financial statements by accounting for the use of certain own-source revenues allocated by MELSA's Board of Trustees for use by its member library systems in the Member Library Allocations Special Revenue Fund and its governmental activities, rather than in a fiduciary (agency) fund as it has in the past. Certain amounts necessary to fully restate fiscal year 2018 financial information are not determinable; therefore, prior year comparative amounts have not been restated.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The implementation of the new GASB statement in the current year resulted in the restatement of beginning net position and fund balances as follows:

	Governmental Activities	Governmental Funds
Net position/fund balance – beginning, as previously reported	$ 5,991,476	$ 5,591,293
Change in accounting principle	1,410,676	1,410,676
Net position/fund balance – beginning, as restated	$ 7,402,152	$ 7,001,969

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

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

Investments	$ 8,878,296
Cash on hand	15
Total	$ 8,878,311

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, 2019, all deposits were fully covered by federal deposit insurance.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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
Negotiable certificates of deposit	Not rated		Level 2	Less than 1 year	$ 4,382,713
Investment pools/mutual funds					
4M Fund	Not rated		Not applicable	Not applicable	4,495,583
					$ 8,878,296

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.

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.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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

At December 31, 2019, the General Fund had a receivable of $3,867 due from the Member Library Allocation Special Revenue Fund, which represents interest due to be transferred from the Member Library Allocation Special Revenue Fund to the General Fund. The amounts are noninterest-bearing and are generally settled during the subsequent fiscal year.

B. Interfund Transfers

During the year, MELSA transferred $520,800 from the General Fund to the Member Library Allocation Special Revenue 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 – 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, 2019 consisted of $172,760 in state aid and grants for Regional Library Telecommunications Aid.

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, 2019 consisted of:

State aid and grants (RLBSS)	$ 532,713
State aid and grants (Legacy)	1,054,256
	$ 1,586,969

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

A. Governmental Activities

	December 31, 2018	Increases	Decreases	December 31, 2019
Capital assets, depreciated				
Archival database	$ 1,810,792	$ 63,407	$ –	$ 1,874,199
Discovery tool	348,558	–	–	348,558
Furniture and other equipment	118,742	7,284	2,938	123,088
Total capital assets, depreciated	2,278,092	70,691	2,938	2,345,845
Less accumulated depreciation on				
Archival database	923,421	93,710	–	1,017,131
Discovery tool	348,558	–	–	348,558
Furniture and other equipment	93,060	8,907	2,938	99,029
Total accumulated depreciation	1,365,039	102,617	2,938	1,464,718
Net capital assets	$ 913,053	$ (31,926)	$ –	$ 881,127

B. Depreciation Expense by Function

Depreciation expense for the year ended December 31, 2019 was charged to the following functions:

Cooperative and other programs	$ 93,710
Administration	8,907
Total	$ 102,617

NOTE 6 – 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 $70,628 at year-end.

Changes in compensated absences during the year were as follows:

	December 31, 2018	Additions	Retirements	December 31, 2019	Due Within One Year
Compensated absences	$ 61,381	$ 56,561	$ 47,314	$ 70,628	$ 39,552

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Description

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 Plan 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 Plan 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 age 66.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the post-retirement increase will be equal to 50.0 percent of the cost of living adjustment (COLA) announced by the Social Security Administration, with a minimum increase of at least 1.0 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of June 30 before the effective date of the increase, will receive the full increase. For recipients receiving the annuity or benefit for at least one month, but less than a full year as of the June 30 before the effective date of the increase, will receive a reduced prorated increase. For members retiring on January 1, 2024 or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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 2019. MELSA was required to contribute 7.50 percent for Coordinated Plan members. MELSA's contributions to the GERF for the year ended December 31, 2019, were $35,739. MELSA's contributions were equal to the required contributions as set by state statutes.

D. GERF Pension Costs

At December 31, 2019, MELSA reported a liability of $381,486 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018 through June 30, 2019, relative to the total employer contributions received from all of the PERA's participating employers. MELSA's proportionate share was 0.0069 percent at the end of the measurement period and 0.0079 percent for the beginning of the period.

MELSA's net pension liability reflected a reduction, due to the state of Minnesota's contribution of $16 million to the fund in 2019. 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	$	381,486
State's proportionate share of the net pension liability associated with MELSA	$	11,999

For the year ended December 31, 2019, MELSA recognized pension expense of $45,893 for its proportionate share of the GERF's pension expense. In addition, MELSA recognized an additional $899 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, 2019, 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	$ 11,316	$ –
Changes in actuarial assumptions	–	33,428
Difference between projected and actual investment earnings	–	46,388
Changes in proportion	12,179	41,607
Contributions paid to the PERA subsequent to the measurement date	17,575	–
Total	$ 41,070	$ 121,423

A total of $17,575 reported as deferred outflows of resources 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, 2020. 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
2020	$ (26,801)
2021	$ (49,078)
2022	$ (22,664)
2023	$ 615

E. Actuarial Assumptions

The total pension liability in the June 30, 2019 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 the 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, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

CHANGES IN ACTUARIAL ASSUMPTIONS

- The mortality projection scale was changed from MP-2017 to MP-2018.

CHANGES IN PLAN PROVISIONS

- The employer supplemental contribution was changed prospectively, decreasing from $31.0 million to $21.0 million per year. The state's special funding contribution was changed prospectively, requiring $16.0 million due per year through 2031.

The Minnesota 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 equity	35.5 %	5.10 %
Private markets	25.0	5.90 %
Fixed income	20.0	0.75 %
International equity	17.5	5.90 %
Cash equivalents	2.0	– %
Total	100.0 %	

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

F. Discount Rate

The discount rate used to measure the total pension liability in 2019 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 position 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	$ 627,142	$ 381,486	$ 178,648

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 includes financial statements and required supplementary information. 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 – OPERATING LEASE

MELSA leases office space at the Richards Gordon Office Building under a two-year lease agreement, 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, 2019, the shared percentages were:

MELSA	72.0%
Metronet	28.0%

MELSA's rent expenditures under the lease agreement for the year ended December 31, 2019 totaled $61,480.

Future annual minimum payments required under the lease is as follows:

Year Ending December 31,	Amount
2020	$ 88,011

NOTE 9 – LONG-TERM CAPITAL PROGRAMS

As discussed in Note 1, MELSA uses the Member Library Allocations Special Revenue Fund to report assets committed 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 (Phase Program) was established in 2001 to run through 2007. The Board of Trustees subsequently approved annual extensions of the Phase Program through 2019, operating under the previous program guidelines.

Through 2019, cumulative allocations of $11,851,579 have been transferred to the Special Revenue Member Libraries 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 the Phase Program 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 balances from prior and current years allocations.

Approved allocations from the Phase Program's inception in fiscal 2001 through fiscal 2019 totaled $11,851,579, while expenditures over that time period totaled $10,291,990.

A summary of the Phase Program activity and committed fund balances by member library system as of and for the year ended December 31, 2019 is as follows:

Member Library System	Allocation Percentage	Available Balance – 12/31/2018	Allocation for Current Year	2019 Disbursements	Available Balance – 12/31/2019
Anoka County	10.06 %	$ 277,737	$ 52,921	$ 99,316	$ 231,342
Carver County	6.77	209,980	36,468	40,012	206,436
Dakota County	13.46	233,864	69,921	–	303,785
Hennepin County	23.50	125,532	120,030	128,114	117,448
Ramsey County	21.07	306,448	107,957	54,445	359,960
Saint Paul Public	10.32	51,856	54,178	50,000	56,034
Scott County	6.73	164,864	36,254	–	201,118
Washington County	8.09	40,395	43,071	–	83,466
Totals	100.00 %	$ 1,410,676	$ 520,800	$ 371,887	$ 1,559,589

NOTE 10 – SUBSEQUENT EVENTS

Shortly after the fiscal year-end, the spread of novel coronavirus (COVID-19) around the world has caused significant volatility in U.S. economy and financial markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. At this time, MELSA is unable to determine what effect this may have on its future operations.

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REQUIRED SUPPLEMENTARY INFORMATION

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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, 2019

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%
12/31/2019	06/30/2019	0.0069%	$ 381,486	$ 11,999	$ 393,485	$ 491,560	77.61%	80.20%

PERA – General Employees Retirement Fund
Schedule of MELSA Contributions
Year Ended December 31, 2019

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%
12/31/2019	$ 35,739	$ 35,739	$ –	$ 476,521	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

2019 CHANGES IN ACTUARIAL ASSUMPTIONS

- The mortality projection scale was changed from MP-2017 to MP-2018.

2019 CHANGES IN PLAN PROVISIONS

- The employer supplemental contribution was changed prospectively, decreasing from $31.0 million to $21.0 million per year. The state's special funding contribution was changed prospectively, requiring $16.0 million due per year through 2031.

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The mortality 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.

2018 CHANGES IN PLAN PROVISIONS

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.

- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.

- Deferred augmentation was changed to zero percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

- Contribution stabilizer provisions were repealed.

- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.

- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.

- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)

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.

2017 CHANGES IN PLAN PROVISIONS

- The state's contribution for the Minneapolis Employees Retirement Fund equals $16.0 million in 2017 and 2018, and $6.0 million thereafter.

- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from $21.0 million to $31.0 million in calendar years 2019 to 2031. The state's contribution changed from $16.0 million to $6.0 million in calendar years 2019 to 2031.

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 changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study 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 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.

2015 CHANGES IN PLAN PROVISIONS

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892.0 million. Upon consolidation, state and employer contributions were revised; the state's contribution of $6.0 million, which meets the special funding situation definition, was due September 2015.

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SUPPLEMENTAL INFORMATION

METROPOLITAN LIBRARY SERVICE AGENCY

Schedules of Selected Expenditures
for the Years Ended December 31, 2019 and 2018

	2019	2018
Legacy Grant Programs (1)		
Anoka County	$ 48,448	$ 56,819
Carver County	19,937	17,056
Dakota County	81,166	85,378
Hennepin County	223,086	241,924
Ramsey County	56,024	61,621
Saint Paul Public	59,304	46,155
Scott County	33,832	29,023
Washington County	52,164	41,347
Region-Wide	207,289	213,035
Total Legacy Grant Programs	$ 781,250	$ 792,358
Formula payments		
Anoka County	$ 100,644	$ 99,316
Carver County	67,735	62,897
Dakota County	134,642	135,333
Hennepin County	234,859	251,029
Ramsey County	210,714	200,112
Saint Paul Public	103,156	103,613
Scott County	67,308	66,920
Washington County	80,942	80,780
Total formula payments	$ 1,000,000	$ 1,000,000
Equalization to earning libraries		
Anoka County	$ 39,383	$ 53,338
Saint Paul Public	48,688	42,381
Total equalization to earning libraries	$ 88,071	$ 95,719
Electronic database expenditures (2)		
Gale Literature and Biography	$ 107,526	$ 102,390
Ancestry library addition	31,021	29,600
InfoUSA Marketing – Reference USA	95,260	94,740
ALLData	107,100	89,250
Chilton	–	9,666
Morningstar	89,250	89,483
Newsbank	71,510	71,510
NoveList	72,420	72,420
New York Times	27,420	25,296
Transparent Languages	75,000	75,000
RB Digital-Magazines	179,791	192,485
Scholastic BookFlix	89,851	89,176
Lynda.com	148,833	126,477
Total electronic database expenditures	$ 1,094,982	$ 1,067,493

(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, 2019

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: $40,475 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 (Employee dishonesty/faithful performance of duty)	Limits: $100,000 per employee $50,000 MCIT/$50,000 Old Republic 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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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA
Jaclyn M. Huegel, CPA
Kalen T. Karnowski, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OV
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 and each major fund of the Metropolitan Library Service Agency (MELSA) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise MELSA's basic financial statements, and have issued our report thereon dated April 30, 2020.

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 2019-001 and 2019-002 that we consider to be material weaknesses.

(continued)

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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
April 30, 2020

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CERTIFIED PUBLIC ACCOUNTANTS

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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 and each major fund of the Metropolitan Library Service Agency (MELSA) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise MELSA's basic financial statements, and have issued our report thereon dated April 30, 2020.

MINNESOTA LEGAL COMPLIANCE

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 contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

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
April 30, 2020

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Schedule of Findings
Year Ended December 31, 2019

FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING

2019-001 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, 2020.

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)

2019-002 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, 2020.

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.