

METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

Financial Statements
and Supplemental Information

Year Ended
December 31, 2020

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METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

Table of Contents

	Page
INTRODUCTORY SECTION	
ORGANIZATIONAL CHART	1
ELECTED AND APPOINTED OFFICIALS	2
FINANCIAL SECTION	
INDEPENDENT AUDITOR’S REPORT	3–5
MANAGEMENT’S DISCUSSION AND ANALYSIS	6–18
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	19
Statement of Activities	20
Fund Financial Statements	
Governmental Funds	
Balance Sheet	21
Reconciliation of the Balance Sheet to the Statement of Net Position	22
Statement of Revenue, Expenditures, and Changes in Fund Balances	23
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	24
Statement of Revenue, Expenditures, and Changes in Fund Balances – General Fund – Budget and Actual	25–26
Notes to Basic Financial Statements	27–42
REQUIRED SUPPLEMENTARY INFORMATION	
PERA – General Employees Retirement Fund	
Schedule of MELSA’s and Nonemployer Proportionate Share of Net Pension Liability	43
Schedule of MELSA Contributions	43
Notes to Required Supplementary Information	44–46

METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

Table of Contents (continued)

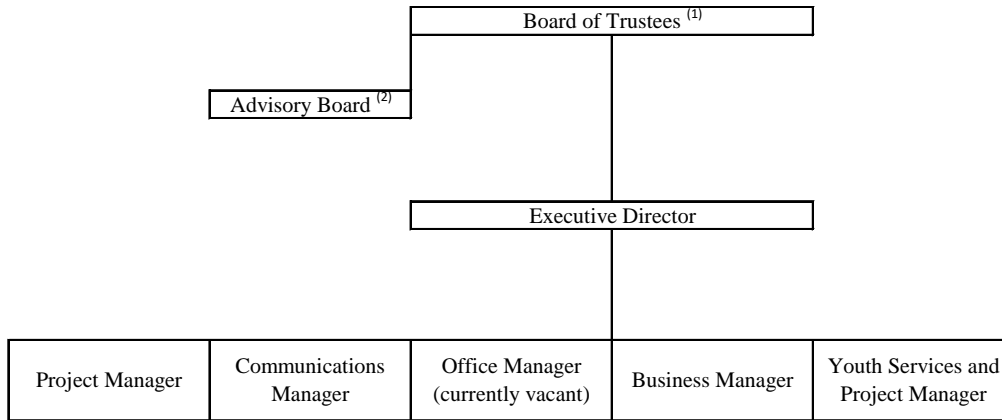
	Page
FINANCIAL SECTION (CONTINUED)	
SUPPLEMENTAL INFORMATION	
Schedules of Selected Expenditures	47
Schedule of Insurance Coverage	48
OTHER REQUIRED REPORTS	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	49–50
Independent Auditor's Report on Minnesota Legal Compliance	51
Schedule of Findings	52–53

INTRODUCTORY SECTION

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METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

Organizational Chart
December 31, 2020



⁽¹⁾ The Board of Trustees receives input and questions from the Advisory Board.

⁽²⁾ The Advisory Board makes recommendations to the Board of Trustees.

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METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

Elected and Appointed Officials
Year Ended December 31, 2020

BOARD OF TRUSTEES

	<u>Term Expires</u>	
Robyn West	December 2022	Anoka County Commissioner
Gayle Degler	December 2020	Carver County Commissioner
Elizabeth Workman	December 2020	Dakota County Commissioner
Angela Conley, President	December 2021	Hennepin County Commissioner
Mary Jo McGuire, Vice President	December 2021	Ramsey County Commissioner
Beth Burns	December 2022	Mayoral Appointment Representing Saint Paul Public Library
Barb Weckman Brekke, Treasurer	December 2022	Scott County Commissioner
Gary Kriesel	December 2021	Washington County Commissioner

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the Metropolitan Library Service Agency (MELSA) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise MELSA's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of MELSA as of December 31, 2020, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

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

Other Information

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

Prior Year Comparative Information

We have previously audited MELSA's 2019 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities and each major fund in our report dated April 30, 2020. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

(continued)

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2021, on our consideration of MELSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MELSA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MELSA's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota
May 7, 2021

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METROPOLITAN LIBRARY SERVICE AGENCY

Management's Discussion and Analysis Year Ended December 31, 2020

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, 2020.

While the coronavirus (COVID-19) pandemic significantly impacted all operations in 2020, MELSA and the library systems adapted quickly in order to provide core programs and services to library users during the year. Finding creative ways to meet the needs of users and staff, and board members and other stakeholders, in the new virtual environment, was a continued focus throughout the year.

FINANCIAL HIGHLIGHTS

The MELSA staff, trustees, and member library staff members worked cooperatively in 2020 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 2020, MELSA worked to achieve these goals in ways that included:

- Direct funding to member libraries for operational and technology needs
- Convening regular meetings with appropriate representatives from each member system on aspects of library services
- Building and maintaining digital collections of materials for all metro residents
- Seeking appropriate partners and service providers outside the library for collaborative efforts
- Leveraging MELSA's size in strengthening collaborative purchasing power and seeking 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 2020, MELSA allocated \$1,000,001 to member systems to help fund local cooperative efforts. Distributions to each system were: \$100,649 to Anoka County, \$85,251 to Carver County, \$126,774 to Dakota County, \$235,604 to Hennepin County, \$197,564 to Ramsey County, \$106,455 to Saint Paul Public, \$67,336 to Scott County, and \$80,368 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 \$783,290 in state fiscal year 2021. Ten percent of the Equalization funds awarded regionally to MELSA are distributed to the earning entities. In 2020, Anoka County Library received \$37,066 and Saint Paul Public Library received \$51,434 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 merger of e-content providers RBDigital and OverDrive allowed the opportunity for MELSA and its member libraries to reevaluate its collaborative eBook project in 2020. After an extensive RFI process, the decision was made to move the shared eBook, eAudiobook, and eMagazine collections to a new platform, OverDrive, in late 2020 (migrations continue into 2021). Because these collections share a single platform, a significant cost savings will be recognized for MELSA, resulting in a larger portion of funds available for content purchases for the shared collections rather than platform fees. The 2020 budget included \$500,000 to purchase content, primarily focusing on high demand, high interest titles; additional content was purchased with a \$100,000 fund balance assignment to support the platform transition and to meet increased demand, due to the COVID-19 pandemic. Circulation of eContent in the shared collection increased more than 36 percent in 2020. At year-end, MELSA's shared collection includes 88,042 copies of eBook titles and 22,889 copies of eAudiobook titles.
- 2020 was the fourth year of MN Writes MN Reads, a state-wide 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. In addition, select high quality titles are made available to readers across the country, supporting local authors by increasing their visibility. Readership of these indie titles in Minnesota increased by 188 percent in 2020. MN Writes MN Reads is made possible by a collaboration between Minitex, academic colleges and universities, and the regional public library systems of Minnesota. In 2020, partners, including the Minnesota Library Foundation, Minnesota Library Association, and BiblioLabs (the vendor of the service), hosted the 3rd annual Minnesota Author Project, a state-wide contest to highlight MN Writes MN Reads and recognize authors in the categories of adult and young adult fiction. New in 2020, the Minnesota Author Project also introduced a contest category called Communities Creates, which celebrates Minnesota organizations and communities that are producing written creative works with the support of their local library.

- 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 audio e-Books. 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 2020: 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); 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. An additional \$142,569 from unused fund balance assignments was also allocated to the program in 2020. Member library systems may accumulate their balances over multiple years for larger projects or they can request funds during the year they become available. Funds may be requested four times per year, a change from the January and July release windows from prior years, to offer more flexibility during the COVID-19 pandemic. The following disbursements were requested and approved by the Board of Trustees and released in 2020: \$136,000 to Anoka County, \$66,850 to Carver County, \$124,631 to Dakota County, \$153,513 to Hennepin County, \$54,178 to Saint Paul Public, \$60,000 to Scott County, and \$97,602 to Washington County Libraries. In 2020, the Board 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 member systems and the MELSA office in 2020 for E-rate funding year July 2019–June 2020, was \$785,367.
- MELSA funding continued for classes to support job seekers and small business owners with \$45,000 allocated for this purpose in 2020. Over 100 classes were taught by instructors from Twin Cities Media Alliance, as well as new providers Loft Literary Center and Keer Keer Creative. While 30 classes were taught in person prior to the COVID-19 pandemic, the remaining classes were shifted to a virtual environment, which allowed member libraries to reach more users. Over 700 library users attended classes live, while over 650 were able to watch a recording of the instruction for a total of over 1,350 library users served. Class topics included search engine optimization, e-commerce, writing for the web, and more. Also in 2020, MELSA's Jobs & Small Business Interest Group identified a gap in services for individuals with the most basic literacy levels. Identifying this gap, along with the cancellation of in-person programs, presented the opportunity for a pilot year of Cell-Ed, a mobile-first learning platform targeting adults with essential skills gaps spanning language, adult basic education, and work skills. MELSA purchased 500 one-year learners licenses, distributed among the member libraries, for \$29,760. Member library systems also shared a \$10,000 allocation to meet local program needs by offering additional classes with partners, including SCORE and Joule Micronation.
- MELSA continues to facilitate delivery of library materials borrowed and returned and other information and communications among the eight member library systems.

- Member libraries offered the Winter Reads adult reading program for the twelfth 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 giveaways, 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 2020 program participation.
- MELSA continued the fourth year of smARTpass, a web-based arts access program for library users in partnership with local cultural organizations. smARTpass operated successfully as usual until theaters and museums closed in March 2020, due to the COVID-19 pandemic. Later in the year, theaters and other arts partners began to offer streaming and other virtual performance/program options. In September and October 2020, eight of the smARTpass partners participated in a series called smARTpass Reimagined, where the eight metro public library systems hosted video premieres on their Facebook pages and websites of works developed specifically for this series. Funding for smARTpass Reimagined was provided by the Arts and Cultural Heritage Fund. Funding for hosting and maintenance of the smARTpass website is provided by MELSA through RLBSS.
- MELSA renewed its annual contract with StarTribune.com, which includes mobile phone and iPad app advertising, in addition to the StarTribune.com website, print ads, and e-mails to subscribers. During the COVID-19 pandemic, all print, radio, digital, and television advertising was shifted to the themes of HelpNow online homework help and other resources for at-home learners. Other e-resources (language learning, Lynda skills courses) and e-content platforms (eBooks, e-magazines, and e-audio) were also featured in advertising. MELSA continued print advertising with La Vos Latina, the Minnesota Women's Press, Minnesota Parent, and Mpls/St. Paul magazines. Television ads were featured on WCCO-4, FOX-9, TPT, and KARE-11 (which again sponsored the summer learning program in its virtual format).
- MELSA continued to sponsor the Twin Cities Book Festival in its virtual form in October 2020, promoting MN Writes MN Reads and the Indie Minnesota collection.
- 2020 was the second year for Summer Learning, Summer Fun, Summer at Your Library, MELSA's regional summer marketing branding used by the eight library systems. MELSA continued annual support allocations of \$57,000 to member systems and worked with the Youth Services team to quickly create a virtual performer program series when in-person programs were cancelled. Summer program offerings included reading engagement, hands-on art, and STEM workshops, as well as arts and cultural performances in a virtual format this summer. MELSA continued online marketing to promote member library programs.
- Member libraries actively encouraged young library users to participate in the three reader choice awards through the Minnesota Youth Reading Awards organization, these include: Maud Hart Lovelace Divisions I (Grades 3–5) and II (Grades 6–8) and the Star of the North picture book award. MELSA supports these efforts by creating nominee trackers and making online voting available.
- MELSA provided support to systems' teen programming efforts through a \$24,000 allocation. These funds were used for efforts such as summer programming, and a variety of virtual programming, due to the COVID-19 pandemic.
- STEM programming for 0–18-year-olds in each system was boosted by the \$25,000 allocation they shared in 2020. These funds were used for a variety of virtual programs from wildlife presenters, science experiments with household materials, and tech training for teens.

- Training and continuing education events continued to be a focus of MELSA for its member libraries. In 2020, 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 2020. Examples include ILS-specific workshops, various software/hardware educational opportunities, and library/government conferences and events focused on technology.
- In addition, MELSA also facilitated and funded the following workshops:
 - In May, MELSA sponsored a third (virtual) session of the De-escalation workshop from People, Inc. offered in person in 2019. Over 30 staff learned skills for responding to escalating behaviors, including appropriate verbal responses, control of one's nonverbal communication, and interventions, such as reflecting and validating an upset person's concerns and setting limits clearly and concisely.
 - In August and September, four coaching sessions were held for staff who attended the De-escalation, Part 1 workshops. 33 staff participated in the small group session to practice and reinforce de-escalation-consistent responses to library-specific scenarios.

Other planned workshops on topics such as, program evaluation, and developing a plan for data collection, analysis, and use, were postponed until in-person learning is possible. Storytime Palooza, an annual peer sharing event for youth services staff, was also postponed.

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, summer programming, promotion, circulation, adult programming, volunteer coordination, jobs and small business initiatives, accessibility, world languages, facilities, and arts programming from the Legacy Amendment. A collection development team was added in 2020 to discuss purchasing decisions and develop lending/sharing policies for MELSA's collaborative e-content project, as well as discussion of other collection issues with the library systems.

Library Services and Technology Act (LSTA)

MELSA applied for and received \$49,773 from a LSTA grant, administered through State Library Services, to purchase hotspot devices and data plans for member library systems. This project runs from July 2020 through June 2021. The goal of the funding was to increase options for internet access for communities in need, while library buildings were closed (or with reduced hours) during the COVID-19 pandemic, for example, for distance learning for students and adults in search of employment. Systems will distribute the devices directly through standard checkout at library locations, or work with partners currently reaching the intended audiences.

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 (Category 1), and associated equipment (Category 2). For Categories 1 and 2, a total of \$867,321 was distributed to the library systems and received for the MELSA office. Based on actual costs submitted by the systems after E-rate refunds, the distributions were: Anoka County \$29,404, Carver County \$30,240, Dakota County \$15,281, Hennepin County \$469,606, Ramsey County \$27,106, Saint Paul Public \$275,275, Scott County \$11,169, Washington County \$7,830, and MELSA \$1,410.

New in 2020: RLTA funds remaining after Category 1 and 2 needs were met throughout the 12 regions in the state were distributed to the regional systems as Category 3. Category 3 funds can be used “for the improvement of internet access and access to technology with items that are not e-rated, including, but not limited to, digital or online resources.” With an allocation of \$46,275, MELSA purchased hotspots and data plans for systems to circulate or lend to community partners serving residents with inadequate access to the internet (as with the above LSTA grant).

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

Under the Arts and Cultural Heritage Fund (ACHF), Minnesota's 300 plus public libraries receive funding distributed through the 12 regional public library systems to provide educational opportunities in the arts, history, literary arts, and cultural heritage in order to expand arts, arts education, and arts access and to preserve Minnesota's history and cultural heritage. MELSA received an appropriation of \$992,354 for state fiscal year 2020 (July 2019–June 2020) and an appropriation of \$855,868 for state fiscal year 2021 (July 2020–June 2021). In fiscal year 2020, MELSA's allocation was distributed in three 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

In 2020, MELSA and member libraries found new methods to deliver Legacy programs through innovative partnerships with community artists and organizations, through live virtual programming, pre-recorded content, take-and-make kits, and more. In the first 9 months of the COVID-19 pandemic (April–December 2020), Legacy funds allowed for over 230 programs with over 114,000 attendees. 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 features best-selling and award-winning authors from across the country, as well as highlighting local talent. In 2020, 2 in-person and 6 virtual events drew 272 live attendees. The virtual programs presented a unique opportunity to pair a moderator with each of the featured authors; each moderator was either a co-hosting library staff member or subject matter expert and acted as a proxy for the usual live audience. Each event is recorded and archived as a podcast, and the total number of podcast views of 2020 programs to date is 973.
- MELSA uses Legacy funds to support History Day in Minnesota across the region through Hullabaloo and Research Field Trips. Hullabaloo are research open houses where middle and high school students visit public and academic libraries to receive help on their History Day projects, including working with librarians to locate relevant resources, accessing library databases and resources, receiving one-on-one feedback about their projects, and attending mini-workshops about various aspects of History Day projects. 691 students from 72 schools attended one of the 9 Hullabaloo held from December 2019–February 2020. Research Field Trips support transportation and substitute teacher costs so that students and teachers can visit academic and public libraries. There were 1,242 students from 19 schools that participated in Research Field Trips from October 2019–March 2020. Teachers reported that Hullabaloo and Research Field Trips increase students' ability to analyze and interpret historical sources (95 percent).
- Planning for Teen Lit Con 2020 was completed, but the event was cancelled, due to the COVID-19 pandemic. Teen Lit Con is an all-day event that draws teen readers throughout the metro and offers opportunities for teens to experience literature through author talks, panels and book signings, and workshops on writing, publishing, and book arts.
- Planning was also underway for Read & Ride Day at the MN State Fair, when the 2020 State Fair was cancelled, due to the COVID-19 pandemic. Legacy funding for both Teen Lit Con and Read & Ride Day was moved forward to 2021 and 2022.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The Statement of Activities shows how MELSA's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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 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, and a budgetary comparison statement has been provided 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, 2020 and 2019			
	<u>2020</u>	<u>2019</u>	<u>Annual Change</u>
Assets			
Current and other assets	\$ 9,347,820	\$ 9,392,757	\$ (44,937)
Capital assets, net	<u>843,297</u>	<u>881,127</u>	<u>(37,830)</u>
Total assets	<u>\$ 10,191,117</u>	<u>\$ 10,273,884</u>	<u>\$ (82,767)</u>
Deferred outflows of resources			
Pension plan deferments	<u>\$ 20,615</u>	<u>\$ 41,070</u>	<u>\$ (20,455)</u>
Liabilities			
Other liabilities	\$ 389,813	\$ 576,043	\$ (186,230)
Net pension liability	395,700	381,486	14,214
Compensated absences	<u>81,504</u>	<u>70,628</u>	<u>10,876</u>
Total liabilities	<u>\$ 867,017</u>	<u>\$ 1,028,157</u>	<u>\$ (161,140)</u>
Deferred inflows of resources			
Grants received for subsequent year	\$ 1,866,694	\$ 1,586,969	\$ 279,725
Pension plan deferments	<u>57,376</u>	<u>121,423</u>	<u>(64,047)</u>
Total deferred inflows of resources	<u>\$ 1,924,070</u>	<u>\$ 1,708,392</u>	<u>\$ 215,678</u>
Net position			
Net investment in capital assets	\$ 843,297	\$ 881,127	\$ (37,830)
Unrestricted	<u>6,577,348</u>	<u>6,697,278</u>	<u>(119,930)</u>
Total net position	<u>\$ 7,420,645</u>	<u>\$ 7,578,405</u>	<u>\$ (157,760)</u>

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 \$7,420,645 at the close of the most recent fiscal year, a decrease of \$157,760 from the previous year. 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 11 percent reflects its net investment in capital assets (e.g., archival database and furniture and equipment). These assets are used to provide services to MELSA's stakeholders, and consequently are not available for future spending. The remaining unrestricted net position of \$6,577,348 may be used to meet MELSA's ongoing obligations to citizens and creditors.

Governmental Activities – Governmental activities decreased MELSA’s net position by \$157,760 during the year ended December 31, 2020. Key elements of this increase are as follows:

Table 2
Change in Net Position
for the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Annual Change</u>
Revenues			
Program revenues			
Operating grants and contributions	\$ 1,600,056	\$ 1,710,905	\$ (110,849)
General revenues			
Unrestricted grants	5,285,620	5,320,199	(34,579)
Other	79,288	199,945	(120,657)
Total revenues	<u>6,964,964</u>	<u>7,231,049</u>	<u>(266,085)</u>
Expenses			
Legacy Grant Programs	635,739	781,250	(145,511)
RLTA Grant Programs	912,187	925,570	(13,383)
LSTA Grant Programs	49,659	–	49,659
Cooperative and other programs	4,076,369	4,168,741	(92,372)
Member technology distributions	692,774	371,887	320,887
Administration	755,996	807,348	(51,352)
Total expenses	<u>7,122,724</u>	<u>7,054,796</u>	<u>67,928</u>
Changes in net position	(157,760)	176,253	(334,013)
Net position – beginning	<u>7,578,405</u>	<u>7,402,152</u>	<u>176,253</u>
Net position – ending	<u>\$ 7,420,645</u>	<u>\$ 7,578,405</u>	<u>\$ (157,760)</u>

Overall, MELSA’s government-wide revenue decreased \$266,085 from the previous year, which is comprised of changes in the following revenue line items:

- Operating grants and contributions were \$110,849 lower than last year, mainly due to a \$145,511 decrease in Legacy Grant revenue, partially offset by a \$49,659 increase in federal LSTA grant revenue.
- Unrestricted grants decreased \$34,579. 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 2020 reflects a net decrease in the entitlements for the state fiscal year ending June 30, 2021 and fiscal year ended June 30, 2020, compared to the entitlements for state fiscal years ended June 30, 2020 and June 30, 2019.
- The \$120,657 decrease in other general revenues was primarily the result of decreased investment income, due to market conditions.

MELSA's government-wide expenses for 2020, were \$67,928 more than 2019, as detailed in the following major expense areas:

- Legacy Grant expenditures decreased \$145,511, corresponding with the decrease in Legacy Grant revenue.
- RLTA Grant expenditures, including the portion used to reimburse MELSA office internet, were \$13,383 less than last year.
- LSTA Grant expenditures increased \$49,659, corresponding with the increase in federal LSTA grant revenue.
- Formula payments to member library systems remained at \$1,000,001. The amount of Equalization paid to earning library systems increased \$429 in 2020. Anoka County and Saint Paul Public share 10 percent of the total Equalization component of RLBSS funds.
- Database expenditures decreased \$73,346 in 2020, compared to 2019.
- Technology distributions to member libraries from Phase Program allocations were \$692,744 for the 2020 fiscal year, an increase of \$320,887 from 2019.

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.

MELSA reports 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 \$5,561,129. 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 \$185,055 at year-end represents 2.9 percent of the total General Fund expenditures.

The Member Library Allocations Special Revenue 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. Total fund balance at the 2020 fiscal year-end was \$1,530,184, a decrease of \$29,405 from the 2019 fiscal year-end.

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

Table 3
General Fund Operating Results
for the Years Ended December 31, 2020 and 2019

	Original Budget	Final Budget	Actual	Over (Under) Budget	Prior Year Actual
Revenue	\$ 6,247,552	\$ 6,828,278	\$ 6,963,903	\$ 135,625	\$ 7,230,150
Expenditures	6,432,378	7,287,304	6,409,561	(877,743)	6,630,487
Excess (deficiency) of revenue over expenditures	(184,826)	(459,026)	554,342	1,013,368	599,663
Other financing (uses)	(521,600)	(664,169)	(663,369)	800	(520,800)
Net change in fund balances	<u>\$ (706,426)</u>	<u>\$ (1,123,195)</u>	(109,027)	<u>\$ 1,014,168</u>	78,863
Fund balances					
Beginning of year			<u>5,670,156</u>		<u>5,591,293</u>
End of year			<u>\$ 5,561,129</u>		<u>\$ 5,670,156</u>

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 \$129,213, mainly due to budgeting for RLBSS funding that intentionally reserves half of Equalization for expenditures in 2021, and less Legacy Grant expenditures than anticipated.
- Legacy Grant expenditures were \$287,150 under budget, due to conservative spending by some member libraries.
- Total expenditures for cooperative programs were \$499,910 less than budgeted, including:
 - Electronic database expenditures were under budget by \$245,295, due to conservative budgeting, one database not being renewed, and a \$50,000 fund balance assignment included in the budget for anticipated database cost increases that was not needed.
 - Staff and board training expenditures for member libraries were \$69,860 under budget, as various planned seminars, conferences, and trainings did not take place during the fiscal year 2020 because of the ongoing COVID-19 pandemic.
 - Cultural pass costs were \$57,575 less than budget, due to prior year carryover funds remaining unspent (unspent funds to be included in fund balance assignments for expenditures in 2021).
- Actual administration expenditures were \$155,436 less than budgeted, due to a combination of MELSA not being fully staffed for part of the year, and 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, 2020, amounted to \$843,297 (net of accumulated depreciation). This investment in capital assets includes archival database and furniture and equipment. Capital asset changes during the current fiscal year included the following:

Table 4 Capital Assets as of December 31, 2020 and 2019		
	2020	2019
Archival database	\$ 1,937,606	\$ 1,874,199
Discovery tool	–	348,558
Furniture and other equipment	107,896	123,088
Total capital assets	2,045,502	2,345,845
Accumulated depreciation	(1,202,205)	(1,464,718)
Total capital assets, net of depreciation	\$ 843,297	\$ 881,127
Depreciation expense	\$ 103,698	\$ 102,617

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, 2020, which is unchanged from the prior year. MELSA reported long-term liabilities at year-end of \$81,504 for compensated absences payable and a Public Employees Retirement Association net pension liability of \$395,700. Additional information on MELSA’s long-term liabilities can be found in the notes to basic financial statements.

FACTORS BEARING ON MELSA’S FUTURE

The COVID-19 pandemic had a significant impact on MELSA’s operations in 2020. Significant uncertainty remains about the breadth and duration of the pandemic, but it is expected to continue to impact MELSA at least through the 2021 fiscal year. At this time, governmental entities, including MELSA, are unable to determine what effect this may have on future operations and finances. As in 2020, MELSA continues to seek out additional state and federal funding opportunities on behalf of member library systems for addressing increased needs due to the COVID-19 pandemic.

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, 2020
(With Partial Comparative Information as of December 31, 2019)

	Governmental Activities	
	2020	2019
Assets		
Cash and cash equivalents	\$ 8,842,786	\$ 8,878,311
Receivables		
Accrued interest	5,297	31,954
Accounts	75	—
Due from other governmental units	2,372	2,431
Prepays	497,290	480,061
Capital assets, net	843,297	881,127
Total assets	<u>10,191,117</u>	<u>10,273,884</u>
Deferred outflows of resources		
Pension plan deferments	<u>20,615</u>	<u>41,070</u>
Total assets and deferred outflows of resources	<u>\$ 10,211,732</u>	<u>\$ 10,314,954</u>
Liabilities		
Accounts payable	\$ 7,528	\$ 76,428
Due to member libraries	239,408	326,855
Unearned revenue	142,877	172,760
Net pension liability	395,700	381,486
Compensated absences		
Due within one year	39,502	39,552
Due in more than one year	42,002	31,076
Total liabilities	<u>867,017</u>	<u>1,028,157</u>
Deferred inflows of resources		
Grants received for subsequent year	1,866,694	1,586,969
Pension plan deferments	<u>57,376</u>	<u>121,423</u>
Total deferred inflows of resources	<u>1,924,070</u>	<u>1,708,392</u>
Net position		
Net investment in capital assets	843,297	881,127
Unrestricted	<u>6,577,348</u>	<u>6,697,278</u>
Total net position	<u>7,420,645</u>	<u>7,578,405</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 10,211,732</u>	<u>\$ 10,314,954</u>

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Activities
Year Ended December 31, 2020
(With Partial Comparative Information for the Year Ended December 31, 2019)

Functions/Programs	2020		2019	
	Expenses	Program Revenues Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position Governmental Activities	Net (Expenses) Revenue and Changes in Net Position Governmental Activities
Governmental activities				
Legacy Grant Programs	\$ 635,739	\$ 635,739	\$ —	\$ —
RLTA Grant Programs	912,187	912,187	—	—
LSTA Grant Programs	49,659	49,659	—	—
Cooperative and other programs	4,076,369	—	(4,076,369)	(4,168,741)
Member technology distributions	692,774	—	(692,774)	(371,887)
Administration	755,996	2,471	(753,525)	(803,263)
Total governmental activities	<u>\$ 7,122,724</u>	<u>\$ 1,600,056</u>	(5,522,668)	(5,343,891)
General revenues				
Unrestricted grants			5,285,620	5,320,199
Investment income			69,038	193,036
Other general revenues			<u>10,250</u>	<u>6,909</u>
Total general revenues			<u>5,364,908</u>	<u>5,520,144</u>
Change in net position			(157,760)	176,253
Net position – beginning of year			<u>7,578,405</u>	<u>7,402,152</u>
Net position – end of year			<u>\$ 7,420,645</u>	<u>\$ 7,578,405</u>

METROPOLITAN LIBRARY SERVICE AGENCY

Balance Sheet
Governmental Funds
as of December 31, 2020
(With Partial Comparative Information as of December 31, 2019)

	General	Member Library Allocations Special Revenue	Totals 2020	2019
Assets				
Cash and cash equivalents	\$ 7,073,165	\$ 1,769,621	\$ 8,842,786	\$ 8,878,311
Receivables				
Accrued interest	5,297	—	5,297	31,954
Accounts receivable	75	—	75	—
Due from other funds	29	—	29	3,867
Due from other governmental units	2,372	—	2,372	2,431
Prepays				
Databases	421,921	—	421,921	416,005
Other	75,369	—	75,369	64,056
Total assets	\$ 7,578,228	\$ 1,769,621	\$ 9,347,849	\$ 9,396,624
Liabilities				
Accounts payable	\$ 7,528	\$ —	\$ 7,528	\$ 76,428
Due to other funds	—	29	29	3,867
Due to member libraries	—	239,408	239,408	326,855
Unearned revenue	142,877	—	142,877	172,760
Total liabilities	150,405	239,437	389,842	579,910
Deferred inflows of resources				
Grants received for subsequent year	1,866,694	—	1,866,694	1,586,969
Fund balances				
Nonspendable for prepaids	497,290	—	497,290	480,061
Committed for member libraries – Phase Program	—	1,530,184	1,530,184	1,559,589
Assigned for compensated absences	81,504	—	81,504	70,628
Assigned for contingencies	1,500,000	—	1,500,000	1,500,000
Assigned for eBook collaborative project	510,000	—	510,000	410,000
Assigned for Equalization carryforward	417,070	—	417,070	441,426
Assigned for SELF-e and PressBooks collaborative project	—	—	—	50,000
Assigned for indie author project and BiblioBoard	50,000	—	50,000	—
Assigned for e-Resource purchases and renewals	50,000	—	50,000	50,000
Assigned for one-time collaborative purchase	175,000	—	175,000	—
Assigned for cultural pass collaborative project	57,578	—	57,578	59,202
Assigned for RLBSS funding stabilization	750,000	—	750,000	900,000
Assigned for working capital	987,632	—	987,632	987,632
Assigned for collaborative initiatives	300,000	—	300,000	300,000
Assigned for phase technology allocation	—	—	—	142,569
Unassigned	185,055	—	185,055	278,638
Total fund balances	5,561,129	1,530,184	7,091,313	7,229,745
Total liabilities, deferred inflows of resources, and fund balances	\$ 7,578,228	\$ 1,769,621	\$ 9,347,849	\$ 9,396,624

METROPOLITAN LIBRARY SERVICE AGENCY

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of December 31, 2020
(With Partial Comparative Information as of December 31, 2019)

	<u>2020</u>	<u>2019</u>
Total fund balances – total governmental funds	\$ 7,091,313	\$ 7,229,745
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	2,045,502	2,345,845
Less accumulated depreciation	(1,202,205)	(1,464,718)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
Compensated absences payable	(81,504)	(70,628)
Net pension liability – PERA	(395,700)	(381,486)
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	20,615	41,070
Deferred inflows of resources – pension plan deferments	<u>(57,376)</u>	<u>(121,423)</u>
Total net position – governmental activities	<u>\$ 7,420,645</u>	<u>\$ 7,578,405</u>

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds

Year Ended December 31, 2020

(With Partial Comparative Information for the Year Ended December 31, 2019)

	General	Member Library Allocations Special Revenue	Totals 2020	2019
Revenue				
State aid and grants	\$ 6,834,956	\$ —	\$ 6,834,956	\$ 7,030,205
Federal grants	49,659	—	49,659	—
Investment income	69,038	—	69,038	193,036
Other	10,250	—	10,250	6,909
Total revenue	<u>6,963,903</u>	<u>—</u>	<u>6,963,903</u>	<u>7,230,150</u>
Expenditures				
Current				
LSTA Grant Programs	49,659	—	49,659	—
Legacy Grant Programs	635,739	—	635,739	781,250
RLTA Grant Programs	912,187	—	912,187	925,570
Cooperative programs	3,979,489	—	3,979,489	4,075,031
Administration	766,619	—	766,619	777,945
Member technology distributions	—	692,774	692,774	371,887
Capital outlay	65,868	—	65,868	70,691
Total expenditures	<u>6,409,561</u>	<u>692,774</u>	<u>7,102,335</u>	<u>7,002,374</u>
Excess (deficiency) of revenue over expenditures	554,342	(692,774)	(138,432)	227,776
Other financing sources (uses)				
Transfers in	—	663,369	663,369	520,800
Transfers (out)	(663,369)	—	(663,369)	(520,800)
Total other financing sources (uses)	<u>(663,369)</u>	<u>663,369</u>	<u>—</u>	<u>—</u>
Net change in fund balances	(109,027)	(29,405)	(138,432)	227,776
Fund balances				
Beginning of year	<u>5,670,156</u>	<u>1,559,589</u>	<u>7,229,745</u>	<u>7,001,969</u>
End of year	<u>\$ 5,561,129</u>	<u>\$ 1,530,184</u>	<u>\$ 7,091,313</u>	<u>\$ 7,229,745</u>

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, 2020

(With Partial Comparative Information for the Year Ended December 31, 2019)

	<u>2020</u>	<u>2019</u>
Total net change in fund balances – total governmental funds	\$ (138,432)	\$ 227,776
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	65,868	70,691
Depreciation expense	(103,698)	(102,617)
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	(10,876)	(9,247)
Net pension liability – PERA	(14,214)	56,775
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	(20,455)	(56,162)
Deferred inflows of resources – pension plan deferments	<u>64,047</u>	<u>(10,963)</u>
Change in net position – governmental activities	<u>\$ (157,760)</u>	<u>\$ 176,253</u>

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Revenue, Expenditures, and Changes in Fund Balances
General Fund
Budget and Actual
Year Ended December 31, 2020

	Budget			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
State aid and grants	\$ 6,167,767	\$ 6,705,743	\$ 6,834,956	\$ 129,213
Federal grants	–	49,773	49,659	(114)
Investment income	75,000	63,690	69,038	5,348
Other revenue				
e-Rate reimbursement revenues	4,785	5,550	5,550	–
Miscellaneous	–	3,522	4,700	1,178
Total revenue	6,247,552	6,828,278	6,963,903	135,625
Expenditures				
Current				
LSTA Grant Programs	–	49,773	49,659	(114)
Legacy Grant Programs	992,354	922,889	635,739	(287,150)
RLTA Grant Programs	287,934	913,188	912,187	(1,001)
Cooperative programs				
Distributions – member libraries				
Formula payments	1,000,000	1,000,000	1,000,001	1
Equalization to earning libraries	88,499	88,499	88,500	1
Collaborative region-wide purchases				
Electronic databases	1,216,931	1,266,931	1,021,636	(245,295)
Homework help	250,000	250,000	250,000	–
Employment help	45,000	45,000	44,550	(450)
Downloadable books	169,155	169,155	162,000	(7,155)
e-Books collaborative project	580,000	730,000	725,959	(4,041)
Electronic self-publishing project	25,000	25,000	19,687	(5,313)
Catalog enhancements	140,265	140,265	125,003	(15,262)
Calendar software	25,000	25,000	21,052	(3,948)
Mobile application	68,000	68,000	57,549	(10,451)
Contracted services for member libraries				
Delivery service	52,828	52,828	46,589	(6,239)
Printing and copying	12,000	12,000	3,022	(8,978)
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	1,953	(19,047)
Professional development	88,000	88,000	63,925	(24,075)
Technology training	40,000	40,000	16,062	(23,938)
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	63,500	58,301	(5,199)
Youth services literacy initiative	38,000	46,800	38,216	(8,584)
Teen services literacy initiative	24,000	24,000	24,000	–
STEM programming	25,000	25,000	25,000	–
Other services – member libraries				
Jobs and small business initiative	85,000	85,000	79,235	(5,765)
Inclusion initiatives	8,000	8,000	–	(8,000)
Technology measures tools	27,769	27,769	–	(27,769)
Cultural pass	5,000	64,202	6,627	(57,575)
Promotions	100,000	100,000	92,772	(7,228)
Other collaborative projects	8,225	–	–	–
Total cooperative programs	4,228,422	4,479,399	3,979,489	(499,910)

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Revenue, Expenditures, and Changes in Fund Balances
General Fund
Budget and Actual (continued)
Year Ended December 31, 2020

	Budget		Actual	Over (Under) Final Budget
	Original	Final		
Expenditures (continued)				
Current (continued)				
Administration				
Salaries and benefits				
Salaries	514,615	514,615	459,042	(55,573)
Fringe benefits	160,576	160,576	133,360	(27,216)
Other payroll expense	3,000	3,000	2,836	(164)
Staff travel and training				
Local travel	6,500	6,500	329	(6,171)
Staff education/conferences	16,000	16,000	6,314	(9,686)
Supplies and printing				
Office supplies	7,500	7,500	1,801	(5,699)
Printing, copying, and postage	4,300	4,300	302	(3,998)
Contracted services				
Technology support	15,000	15,000	18,107	3,107
Website and hosting	9,740	9,740	9,395	(345)
Legal services	10,000	10,000	3,658	(6,342)
Accounting services	21,300	21,300	19,800	(1,500)
Other administrative				
Equipment, software, and maintenance	23,500	23,500	6,478	(17,022)
Meetings	9,000	9,000	656	(8,344)
Rent	72,737	71,124	62,616	(8,508)
Internet access	7,200	7,200	6,961	(239)
Telephone	1,500	1,500	664	(836)
Insurance	15,000	15,000	12,267	(2,733)
Dues and memberships	3,400	3,400	1,302	(2,098)
CRPLSA expenditures	21,500	21,500	20,261	(1,239)
Other	1,300	1,300	470	(830)
Total administration	923,668	922,055	766,619	(155,436)
Capital outlay	—	—	65,868	65,868
Total expenditures	6,432,378	7,287,304	6,409,561	(877,743)
Excess (deficiency) of revenue over expenditures	(184,826)	(459,026)	554,342	1,013,368
Other financing (uses)				
Transfers (out) – Phase funds	(500,000)	(642,569)	(642,569)	—
Transfers (out) – NCIP maintenance	(21,600)	(21,600)	(20,800)	800
Total other financing (uses)	(521,600)	(664,169)	(663,369)	800
Net change in fund balances	<u>\$ (706,426)</u>	<u>\$ (1,123,195)</u>	(109,027)	<u>\$ 1,014,168</u>
Fund balances				
Beginning of year			5,670,156	
End of year			<u>\$ 5,561,129</u>	

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METROPOLITAN LIBRARY SERVICE AGENCY

Notes to Basic Financial Statements
Year Ended December 31, 2020

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 from the 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

C. Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all of the financial activities of MELSA.

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 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)

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:

	<u>Years</u>
Archival databases	20
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. 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.

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, 2019, from which such partial information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

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

Investments	\$ 8,842,771
Cash on hand	15
	<hr/>
Total	<u>\$ 8,842,786</u>

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

C. Investments

MELSA has the following investments at year-end:

Investment Type	Credit Risk		Fair Value Measurements Using	Interest Risk Maturity Duration	Total
	Agency	Rating			
U.S. agency securities	S&P	AA	Level 2	Less than 1 year	\$ 749,090
U.S. treasuries	Not rated		Level 2	Less than 1 year	899,519
Negotiable certificates of deposit	Not rated		Level 2	Less than 1 year	1,739,000
Investment pools/mutual funds					
4M Fund	Not rated		Not applicable	Not applicable	5,455,162
					<hr/>
					<u>\$ 8,842,771</u>

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

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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

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

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

Concentration Risk – This is the risk associated with investing a significant portion of MELSA's investment (considered 5.0 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. MELSA does not have an investment policy that limits the concentration of investments. At December 31, 2020, investments issued by the Federal Home Loan Bank represented 8.5 percent of MELSA's portfolio.

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, 2020, the General Fund had a receivable of \$29 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 \$663,369 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 (\$642,569), 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

A. Unearned Revenue

Grants and entitlements received before all eligibility requirements are met are recorded as unearned revenue. Unearned revenue at December 31, 2020 consisted of:

Regional Library Telecommunications Aid	\$ 141,021
State E-rate aid	<u>1,856</u>
	<u>\$ 142,877</u>

B. Deferred Inflows of Resources

Grant funds 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, 2020 consisted of:

State aid and grants (RLBSS)	\$ 524,065
State aid and grants (Legacy)	<u>1,342,629</u>
	<u>\$ 1,866,694</u>

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 was as follows:

A. Governmental Activities

	December 31, 2019	Increases	Decreases	December 31, 2020
Capital assets, depreciated				
Archival database	\$ 1,874,199	\$ 63,407	\$ –	\$ 1,937,606
Discovery tool	348,558	–	348,558	–
Furniture and other equipment	123,088	2,461	17,653	107,896
Total capital assets, depreciated	<u>2,345,845</u>	<u>65,868</u>	<u>366,211</u>	<u>2,045,502</u>
Less accumulated depreciation on				
Archival database	1,017,131	96,880	–	1,114,011
Discovery tool	348,558	–	348,558	–
Furniture and other equipment	99,029	6,818	17,653	88,194
Total accumulated depreciation	<u>1,464,718</u>	<u>103,698</u>	<u>366,211</u>	<u>1,202,205</u>
Net capital assets	<u>\$ 881,127</u>	<u>\$ (37,830)</u>	<u>\$ –</u>	<u>\$ 843,297</u>

B. Depreciation Expense by Function

Depreciation expense for the year ended December 31, 2020 was charged to the following functions:

Cooperative and other programs	\$ 96,880
Administration	<u>6,818</u>
Total	<u>\$ 103,698</u>

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. Flex pay is paid from the General Fund. The accrual for flex leave pay, including related employer-contributed payroll benefits, amounted to \$81,504 at year-end.

Changes in compensated absences during the year were as follows:

	December 31, 2019	Additions	Retirements	December 31, 2020	Due Within One Year
Compensated absences	<u>\$ 70,628</u>	<u>\$ 56,748</u>	<u>\$ 45,872</u>	<u>\$ 81,504</u>	<u>\$ 39,502</u>

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 the 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 2020. MELSA was required to contribute 7.50 percent for Coordinated Plan members. MELSA's contributions to the GERF for the year ended December 31, 2020, were \$34,370. MELSA's contributions were equal to the required contributions as set by state statutes.

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

D. GERS Pension Costs

At December 31, 2020, MELSA reported a liability of \$395,700 for its proportionate share of the GERS's net pension liability. MELSA's net pension liability reflected a reduction, due to the state of Minnesota's contribution of \$16.0 million. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The net pension liability was measured as of June 30, 2020, 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, 2019 through June 30, 2020, relative to the total employer contributions received from all of the PERA's participating employers. The MELSA's proportionate share was 0.0066 percent at the end of the measurement period and 0.0069 percent for the beginning of the period.

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	\$	395,700
State's proportionate share of the net pension liability associated with MELSA	\$	12,196

For the year ended December 31, 2020, MELSA recognized pension expense of \$4,192 for its proportionate share of the GERS's pension expense. MELSA recognized an additional \$1,061 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16.0 million to the GERS.

At December 31, 2020, MELSA reported its proportionate share of the GERS'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	\$ 3,792	\$ 1,495
Changes in actuarial assumptions	—	15,703
Difference between projected and actual investment earnings	383	—
Changes in proportion	—	40,178
Contributions paid to the PERA subsequent to the measurement date	16,440	—
Total	<u>\$ 20,615</u>	<u>\$ 57,376</u>

A total of \$16,440 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, 2021. 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
2021	\$ (46,289)
2022	\$ (19,875)
2023	\$ 3,403
2024	\$ 9,560

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

E. Actuarial Assumptions

The total pension liability in the June 30, 2020 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 GERP.

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of actuarial experience studies. The most recent four-year experience study for the GERP was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2020:

CHANGES IN ACTUARIAL ASSUMPTIONS

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years two through five, and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 Table to the Pub-2010 General Mortality Table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality Table to the PUB-2010 General/Teacher Disabled Annuitant Mortality Table, with adjustments.
- The mortality improvement scale was changed from MP-2018 to MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100.00 percent joint and survivor option changed from 35.00 percent to 45.00 percent. The assumed number of married female new retirees electing the 100.00 percent joint and survivor option changed from 15.00 percent to 30.00 percent. The corresponding number of married new retirees electing the life annuity option was adjusted accordingly.

CHANGES IN PLAN PROVISIONS

- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023, and zero percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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

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	35.50 %	5.10 %
International stocks	17.50	5.30 %
Bonds (fixed income)	20.00	0.75 %
Alternative assets (private markets)	25.00	5.90 %
Cash	2.00	– %
Total	100.00 %	

F. Discount Rate

The discount rate used to measure the total pension liability in 2020 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 GERP 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 GERP, 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 GERP net pension liability	\$ 634,170	\$ 395,700	\$ 198,982

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan'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 – 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 2020, operating under the previous program guidelines.

Through 2020, cumulative allocations of \$12,514,948 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 Trustees authorize transfers of funds annually for the capital program. In September 2020, the Trustees approved a change in the timeline for member library system requests of these funds from twice per year to four times per year, not to exceed their individual balances from prior and current year allocations. Member systems may accumulate funds over multiple years for large projects. Expenditures from the Phase Program's inception in fiscal 2001 through fiscal 2020 totaled \$10,984,764.

A summary of the Phase Program activity and committed fund balances by member library system as of and for the year ended December 31, 2020 is as follows:

Member Library System	Allocation Percentage	Available Balance – 12/31/2019	Allocation for Current Year	2020 Disbursements	Available Balance – 12/31/2020
Anoka County	10.06 %	\$ 231,342	\$ 67,273	\$ 136,000	\$ 162,615
Carver County	8.53	206,436	54,882	66,850	194,468
Dakota County	12.68	303,785	85,183	124,631	264,337
Hennepin County	23.55	117,448	153,886	153,513	117,821
Ramsey County	19.76	414,405	131,423	–	545,828
Saint Paul Public	10.65	51,589	70,534	54,178	67,945
Scott County	6.73	151,118	45,864	60,000	136,982
Washington County	8.04	83,466	54,324	97,602	40,188
Totals	100.00 %	\$ 1,559,589	\$ 663,369	\$ 692,774	\$ 1,530,184

NOTE 9 – OPERATING LEASE

MELSA leases office space at the Richards Gordon Office Building under a two-year lease agreement, which expires November 1, 2022 and calls for monthly base rent of \$8,161. MELSA entered into the office lease jointly with Metronet, and they have agreed to share the costs. For the year ended December 31, 2020, the shared percentages were:

MELSA	72.0%
Metronet	28.0%

MELSA's rent expenditures for the year ended December 31, 2020, under this lease agreement and a preceding agreement for the same space that expired November 1, 2020, totaled \$62,616.

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 97,932
2022	<u>81,610</u>
Total	<u><u>\$ 179,542</u></u>

NOTE 10 – SUBSEQUENT EVENTS

The COVID-19 pandemic has caused economic and financial market volatility in the United States and around the world, along with significant business and operational disruptions for many organizations. Due to the unknown breadth and duration of this pandemic, any potential impact it may have on MELSA's future operations and financial condition cannot be determined at this time, and has not been reflected in these financial statements.

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, 2020

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 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%
12/31/2020	06/30/2020	0.0066%	\$ 395,700	\$ 12,196	\$ 407,896	\$ 473,388	83.59%	79.10%

PERA – General Employees Retirement Fund
Schedule of MELSA Contributions
Year Ended December 31, 2020

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%
12/31/2020	\$ 34,370	\$ 34,370	\$ —	\$ 458,267	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.

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METROPOLITAN LIBRARY SERVICE AGENCY

Notes to Required Supplementary Information December 31, 2020

PERA – GENERAL EMPLOYEES RETIREMENT FUND

2020 CHANGES IN ACTUARIAL ASSUMPTIONS

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years two through five, and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 Table to the Pub-2010 General Mortality Table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality Table to the Pub-2010 General/Teacher Disabled Annuitant Mortality Table, with adjustments.
- The mortality improvement scale was changed from MP-2018 to MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100.00 percent joint and survivor option changed from 35.00 percent to 45.00 percent. The assumed number of married female new retirees electing the 100.00 percent joint and survivor option changed from 15.00 percent to 30.00 percent. The corresponding number of married new retirees electing the life annuity option was adjusted accordingly.

2020 CHANGES IN PLAN PROVISIONS

- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023, and zero percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

METROPOLITAN LIBRARY SERVICE AGENCY

Notes to Required Supplementary Information (continued)
December 31, 2020

PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)

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.

METROPOLITAN LIBRARY SERVICE AGENCY

Notes to Required Supplementary Information (continued)
December 31, 2020

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, 2020 and 2019

	2020	2019
Legacy Grant Programs (1)		
Anoka County	\$ 16,514	\$ 48,448
Carver County	13,548	19,937
Dakota County	57,230	81,166
Hennepin County	249,620	223,086
Ramsey County	28,873	56,024
Saint Paul Public	89,649	59,304
Scott County	18,427	33,832
Washington County	57,267	52,164
Region-Wide	104,611	207,289
Total Legacy Grant Programs	<u>\$ 635,739</u>	<u>\$ 781,250</u>
Formula payments		
Anoka County	\$ 100,649	\$ 100,644
Carver County	85,251	67,735
Dakota County	126,774	134,642
Hennepin County	235,604	234,859
Ramsey County	197,564	210,714
Saint Paul Public	106,455	103,156
Scott County	67,336	67,308
Washington County	80,368	80,942
Total formula payments	<u>\$ 1,000,001</u>	<u>\$ 1,000,000</u>
Equalization to earning libraries		
Anoka County	\$ 37,066	\$ 39,383
Saint Paul Public	51,434	48,688
Total equalization to earning libraries	<u>\$ 88,500</u>	<u>\$ 88,071</u>
Electronic database expenditures (2)		
Gale Literature and Biography	\$ 40,514	\$ 107,526
Ancestry library addition	31,641	31,021
InfoUSA Marketing – Reference USA	95,000	95,260
ALLData	107,100	107,100
Morningstar	88,887	89,250
Newsbank	73,656	71,510
NoveList	72,420	72,420
New York Times	27,175	27,420
Transparent Languages	75,000	75,000
RB Digital-Magazines	179,086	179,791
Scholastic BookFlix	96,607	89,851
Lynda.com	134,550	148,833
Total electronic database expenditures	<u>\$ 1,021,636</u>	<u>\$ 1,094,982</u>

(1) These represent actual calendar year expenditures; system allocations are based on state fiscal year.

(2) Representing coverage for January through December.

METROPOLITAN LIBRARY SERVICE AGENCY

Schedule of Insurance Coverage
December 31, 2020

Commercial property	
Building and contents	Limits: \$133,554 Deductible: \$500
Extra expense	Limits: \$15,000 Deductible: \$500
Inland marine	
Electronic data processing	Limits: \$51,252 Deductible: \$500
Valuable papers and records	Limits: \$30,000 Deductible: \$500
Money/securities	Limits: \$100,000 Deductible: \$1,000
Liability	
General liability/Personal liability/Employee benefits liability	Limits: \$500,000 per claimant \$1,500,000 per occurrence Deductible: \$1,000 per occurrence
Public officials liability	Limits: \$500,000 per claimant \$1,500,000 per occurrence Deductible: \$2,500 per occurrence
Fire damage	Limits: \$100,000 (any 1 fire) Deductible: \$1,000 per occurrence
Medical expense	Limits: \$2,500 (any 1 person)
Business auto	
Bodily injury	Limits: \$500,000 per claimant \$1,500,000 per occurrence
Uninsured motorist	Limits: \$25,000 per claimant \$50,000 per occurrence
Cyber suite	
Data compromise response	Annual aggregate limit: \$50,000 Deductible: \$1,000 per occurrence
Computer attack	Annual aggregate limit: \$50,000 Deductible: \$1,000 per occurrence
Data compromise liability	Annual aggregate limit: \$25,000 Deductible: \$1,000 per occurrence
Network security liability	Annual aggregate limit: \$25,000 Deductible: \$1,000 per occurrence
Electronic media liability	Annual aggregate limit: \$25,000 Deductible: \$1,000 per occurrence
Employee dishonesty and faithful performance of duty	
Blanket bonds	Limits: \$50,000 per occurrence
Excess blanket bond with Old Republic	Limits: \$150,000 per position
Workers' compensation	
Bodily injury by accident	Limits: \$500,000 each employee \$1,500,000 each accident
Bodily injury by disease	Limits: \$500,000 each employee \$1,500,000 each coverage document limit

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OTHER REQUIRED REPORTS

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Metropolitan Library Service Agency (MELSA) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise MELSA's basic financial statements, and have issued our report thereon dated May 7, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 findings 2020-001 and 2020-002 that we consider to be material weaknesses.

(continued)

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether MELSA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

MELSA'S RESPONSES TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MELSA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MELSA's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

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

Minneapolis, Minnesota
May 7, 2021

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, 2020, and the related notes to the financial statements, which collectively comprise MELSA's basic financial statements, and have issued our report thereon dated May 7, 2021.

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
May 7, 2021

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METROPOLITAN LIBRARY SERVICE AGENCY

Schedule of Findings
Year Ended December 31, 2020

FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING

2020-001 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, 2021.

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.

METROPOLITAN LIBRARY SERVICE AGENCY

Schedule of Findings (continued)
Year Ended December 31, 2020

FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

2020-002 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, 2021.

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.