Management Report

for

Metropolitan Library Service Agency

December 31, 2021

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MMKR
CERTIFIED PUBLIC
ACCOUNTANTS

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

We have prepared this management report in conjunction with our audit of the Metropolitan Library Service Agency's (MELSA) financial statements for the year ended December 31, 2021. We have organized this report into the following sections:

- Audit Summary
- Financial Trends and Conditions
- Accounting and Auditing Updates

We would be pleased to discuss further any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of MELSA, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information related to MELSA's finances. Accordingly, this report is not suitable for any other purpose.

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

Minneapolis, Minnesota
May 11, 2022

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

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the Board of Trustees, management, or those charged with governance of MELSA.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities and each major fund of MELSA as of and for the year ended December 31, 2021. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally, in our audit engagement letter, and in a separate letter dated May 5, 2022. Professional standards also require that we communicate the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of MELSA's financial statements for the year ended December 31, 2021:

- We have issued an unmodified opinion on MELSA's basic financial statements.

- We noted two matters involving MELSA's internal controls over financial reporting that we consider to be material weaknesses:

    1) Due to the limited size of MELSA's office staff, MELSA has limited segregation of duties in some areas.

    2) MELSA has our firm prepare its annual financial statements. Organizations of your size often have their annual financial statements prepared by their auditors. Although this may be the most practical and cost-effective method to complete this task, the fact that you do not have the internal resources available to prepare the annual financial statements is considered a deficiency.

- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards.*

- We reported no findings related to MELSA's compliance with Minnesota laws and regulations.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by MELSA are described in Note 1 of the notes to basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2021.

We noted no transactions entered into by MELSA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- MELSA has recorded balances and activity for pension benefits. These obligations are calculated using actuarial methodologies described in Governmental Accounting Standards Board (GASB) Statement No. 68. These actuarial calculations include significant assumptions, including projected investment returns, proportionate share, retirement ages, and employee turnover.

- MELSA uses estimates of useful lives for the depreciation of capital assets.

We evaluated the key factors and assumptions used by management to develop these estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related to pension benefits are particularly sensitive, due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements With Management

For purposes of this report, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 11, 2022.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to MELSA's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as MELSA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis (MD&A) and the pension-related required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the introductory section and other supplemental information, which accompany the financial statements, but are not RSI. Such information has 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 it.

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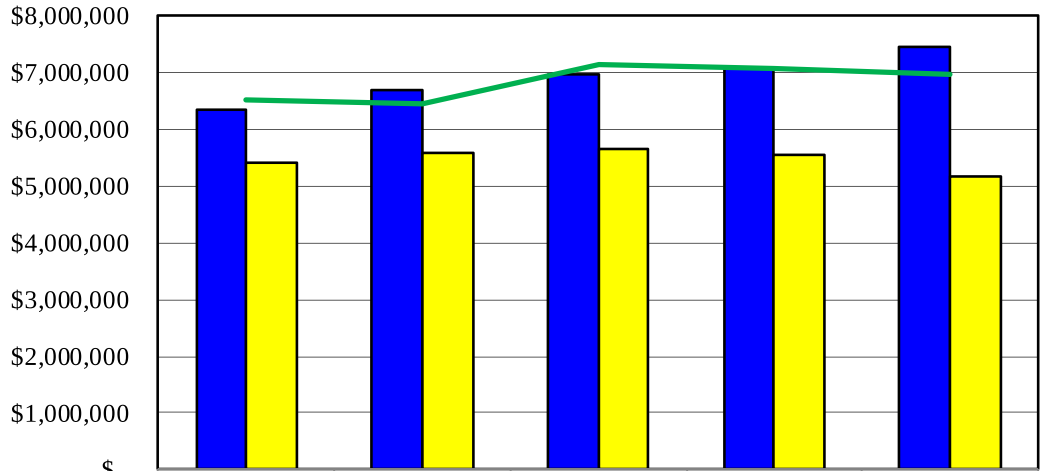
FINANCIAL TRENDS AND CONDITIONS

MELSA's General Fund accounts for the financial activity of the basic services provided to the member libraries, including grant programs, cooperative programs, and administration. The graph below displays MELSA's General Fund trends of financial position and changes in the volume of financial activity:

General Fund Financial Position
Year Ended December 31,



	2017	2018	2019	2020	2021
Cash Balance	$6,347,457	$6,705,066	$6,988,000	$7,073,165	$7,457,630
Fund Balance	$5,403,607	$5,591,293	$5,670,156	$5,561,129	$5,183,757
Exp and Trans Out	$6,533,515	$6,443,589	$7,151,287	$7,072,930	$6,987,574

MELSA's General Fund remains in healthy financial condition with total fund balances of $5,183,757 at December 31, 2021. A healthy fund balance is important because a government, like any organization, requires a certain amount of equity to operate. Generally, a healthy financial position allows MELSA to avoid volatility in operations, helps minimize the impact of state funding changes, and allows for the consistent funding of services and purchases for member library systems, and unexpected costs.

The following table summarizes the changes in MELSA's General Fund balances during 2021:

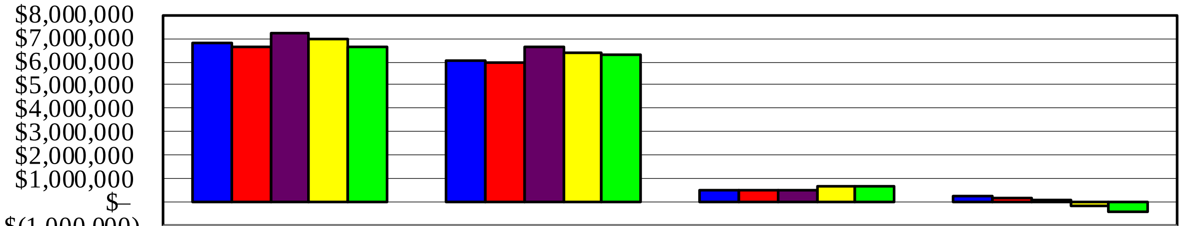
General Fund Change in Fund Balances

	Fund Balance as of December 31, 2021	Fund Balance as of December 31, 2020	Change
Fund balances			
Nonspendable	$ 533,231	$ 497,290	$ 35,941
Assigned	4,582,672	4,878,784	(296,112)
Unassigned	67,854	185,055	(117,201)
Total – General Fund	$ 5,183,757	$ 5,561,129	$ (377,372)

The $533,231 nonspendable fund balance corresponds to MELSA's prepaid expenditures at year-end. Assigned fund balances decreased $296,112, due to the discontinuation of a prior year assignment for e-resource purchases and renewals ($50,000), an assignment for one-time collaborative purchases used for an additional phase technology allocation ($175,000), a decreased assignment for RLBSS equalization carryforward ($81,147), and minor changes in several other assignments. Unassigned fund balance decreased $117,201, due to the operating results in the General Fund for 2021.

The following graph presents General Fund revenues, expenditures, phase transfers, and change in fund balance for the last five years:

General Fund Revenues and Expenditures
Year Ended December 31,

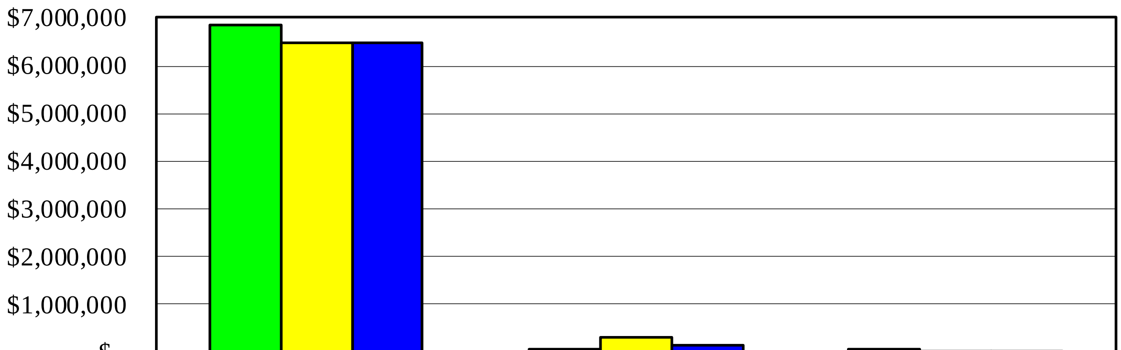


	Revenues	Expenditures	Phase Transfers	Change in Fund Balance
2017	$6,799,216	$6,012,715	$520,800	$265,701
2018	$6,631,275	$5,922,789	$520,800	$187,686
2019	$7,230,150	$6,630,487	$520,800	$78,863
2020	$6,963,903	$6,409,561	$663,369	$(109,027)
2021	$6,610,202	$6,290,974	$696,600	$(377,372)

MELSA's General Fund balance decreased $377,372 in 2021, $677,276 less than the decrease projected in the final budget. This variance resulted from the combination of revenues coming in $211,757 under budget, while expenditures and transfers out were $889,033 less than anticipated. A significant portion of the variance is from unexpended funds designated as fund balance assignments for use in 2022 and beyond.

The following graph shows MELSA's General Fund sources of revenue:

General Fund Revenue
Year Ended December 31,



	State Aid and Grants	Federal Grants	Other
2020 Actual	$6,834,956	$49,659	$79,288
2021 Budget	$6,493,840	$318,284	$9,835
2021 Actual	$6,464,481	$132,838	$12,883

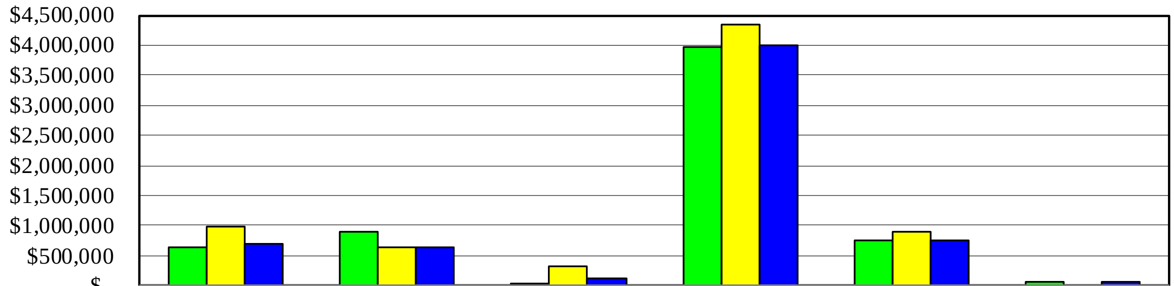
The graph above reflects MELSA's reliance on state aid as its primary funding source. State aid and grants totaled $6,464,481 for 2021, representing 97.8 percent of MELSA's total General Fund revenue.

Total General Fund revenue was $6,610,202 for 2021, a decrease of $353,701 (5.1 percent) from 2020. Revenue from state aid and grants was $370,475 lower than last year, mainly due to a $280,841 decrease in RLTA funding utilized by member library systems, along with a decrease of $157,392 in MELSA's RLBSS entitlement recognized. Revenue from federal grants increased $83,179 in 2021, mainly due to a new ARPA grant entitlement. Revenue from "other" sources, as shown above, decreased $66,405 from the prior year, mainly due to a decrease in investment income caused by market conditions in 2021.

Total General Fund revenue was under budget by $211,757. State aid and grants were $29,359 under budget. Legacy Grant revenue earned was $281,435 under budget, mainly due to MELSA budgeting Legacy Grant revenues and expenditures at the full annual entitlement, a portion of which was not used by member library systems. Systems can roll over Legacy funds up to three or four years, depending on the program year, from the start of the biennium of the state appropriation. This was partially offset by RLBSS revenue exceeding budget by $252,236, as the portion of 2020 RLBSS equalization funding intended to be carried over as assigned fund balance for 2021 (approximately $252,000) was not included in the revenue budget. Federal revenue was under budget by $185,446, due to MELSA budgeting ARPA grant revenues and expenditures at the full entitlement, while $200,003 has been carried over for future uses. Revenue from all other sources was $3,048 higher than budget.

The following graph summarizes MELSA's General Fund expenditures by function:

General Fund Expenditures
Year Ended December 31,



	Legacy	RLTA	Other Grants	Cooperative Programs	Administrative	Capital Outlay
2020 Actual	$635,739	$912,187	$49,659	$3,979,489	$766,619	$65,868
2021 Budget	$984,931	$632,916	$318,284	$4,344,197	$899,679	$–
2021 Actual	$703,497	$631,364	$132,838	$3,984,585	$765,614	$73,076

Total General Fund expenditures were $6,290,974 for 2021, a decrease of $118,587 from the prior year. RLTA program expenditures decreased $280,823, due to less funding used by member libraries in the current year. This was partially offset by increases in Legacy Grant expenditures of $67,758 and expenditures of other grants (mainly ARPA funding) of $83,179.

Total expenditures for 2021 were $889,033 (12.4 percent) under budget. Spending for the Legacy Grant program was $281,434 under budget, due in part to the way MELSA budgets for this program, along with conservative spending by member library systems. Expenditures of other grants were $185,446 under budget, due to MELSA including the entire ARPA entitlement in the budget for 2021.

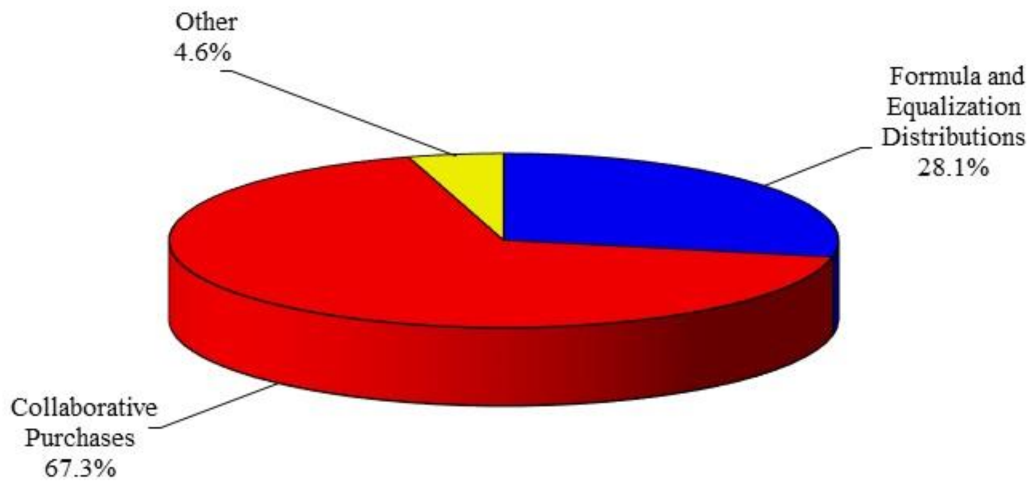
The largest variance to budget was in expenditures for various cooperative programs and projects, which were $359,612 under budget. Formula payments to member library systems exceeded budget by $43,133, due to MELSA's decision to use fund balance to hold two of its member library systems harmless for decreases in the crossover circulation component of its 2021 formula revenue allocation. Most other cooperative program expenditure categories were at, or under budget in the current year, due in part, to the continued impact of the COVID-19 pandemic. Some of the larger areas of underspending included: electronic databases ($169,281 under budget, due to conservative budgeting), one database not being renewed, a $50,000 budgeted fund balance assignment or anticipated database cost increases that were not needed, the cultural pass program ($55,678), and other collaborative projects ($33,975). In many cases, these budgetary savings were in fund balance assignments at year-end to be spent in subsequent years.

Administrative expenditures were also under budget by $134,065, due to MELSA not being fully staffed for part of the year and savings distributed across most other administrative categories.

COOPERATIVE PROGRAM

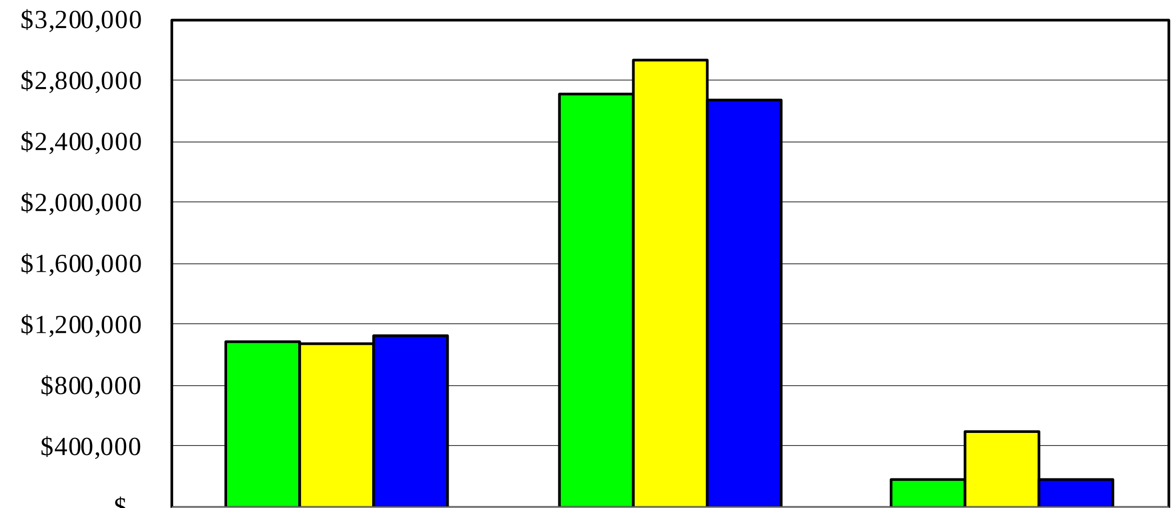
The following graphs illustrate the components of MELSA's Cooperative Program expenditures:

Cooperative Program Expenditures – 2021



Cooperative Program expenditures for 2021 of $3,984,585 were $359,612 under budget. Expenditures were under budget in most areas, with the largest variances related to spending for electronic databases, training, the cultural pass program, and other collaborative projects, as previously discussed.

Cooperative Program Expenditures
Year Ended December 31,



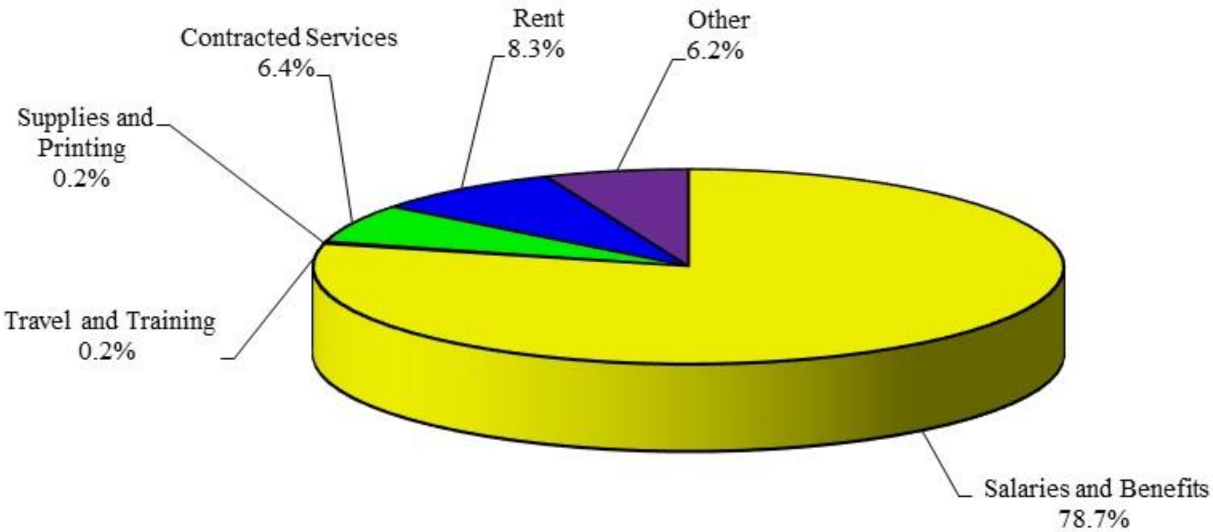
	Formula and Equalization Dist.	Collaborative Purchases	Other
2020 Actual	$1,088,501	$2,712,354	$178,634
2021 Budget	$1,078,329	$2,941,108	$499,760
2021 Actual	$1,121,462	$2,680,548	$182,575

Total General Fund Cooperative Program expenditures increased $5,096 (0.13 percent) from the prior year, with increases of $32,961 in formula and equalization distributions and $3,941 in other cooperative expenditures, offset by a decrease of $31,806 in collaborative purchases.

ADMINISTRATION

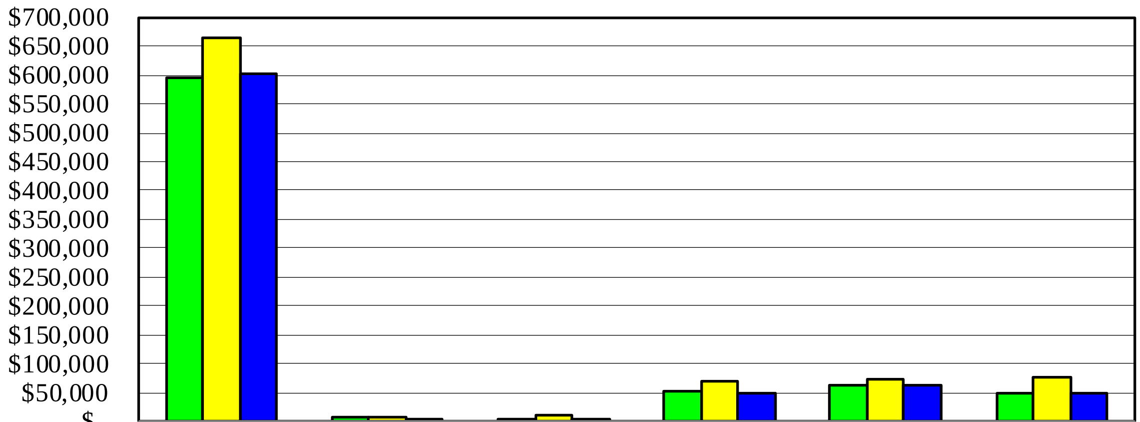
The following graphs illustrate the components of MELSA's administrative expenditures:

Administrative Expenditures – 2021



Total General Fund administrative expenditures for 2021 were $765,614, which was $134,065 under budget. The variance was spread among all categories shown here, with the largest savings in salaries and benefits of $63,997, due to unfilled positions for parts of the year.

Administrative Expenditures
Year Ended December 31,



	Salaries and Benefits	Travel and Training	Supplies and Printing	Contracted Services	Rent	Other
2020 Actual	$595,238	$6,643	$2,103	$50,960	$62,616	$49,059
2021 Budget	$666,632	$6,500	$9,300	$70,680	$71,167	$75,400
2021 Actual	$602,635	$1,441	$1,136	$48,914	$63,656	$47,832

The total General Fund administrative expenditures were $1,005 (0.1 percent) less than the previous year.

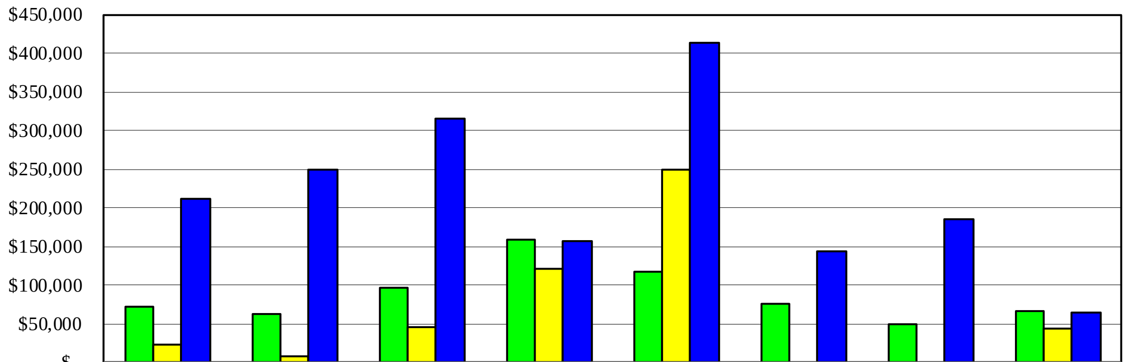
MEMBER LIBRARY ALLOCATIONS SPECIAL REVENUE FUND

MELSA's Member Library Allocations Special Revenue Fund is used to record allocations of funding made by MELSA's Board of Trustees to reimburse member library systems' technology improvements and other costs.

During 2021, $696,600 of Phase Program funds (including a $500,000 regular allocation and an additional $175,000 allocation of fund balance from 2020), and $21,600 for NCIP maintenance were allocated to this fund and transferred from the General Fund. After current year project disbursements of $486,768, member libraries had $1,740,016 of fund balance committed for member libraries' Phase Programs available for future technology improvements as of December 31, 2021.

The following graph presents current year Phase Program allocations, disbursements, and year-end fund balances by member library:

Phase Program
Year Ended December 31, 2021



	Anoka County	Carver County	Dakota County	Hennepin County	Ramsey County	Saint Paul Public	Scott County	Washington County
2021 Allocation	$71,170	$62,602	$96,378	$159,464	$116,758	$75,461	$48,315	$66,452
2021 Disbursements	$22,448	$7,234	$45,000	$120,502	$248,700	$–	$–	$42,884
Balance 12/31/2021	$211,337	$249,836	$315,715	$156,783	$413,886	$143,406	$185,297	$63,756

GOVERNMENT-WIDE FINANCIAL STATEMENTS

In addition to fund-based information, the current reporting model for governmental entities also requires the inclusion of two government-wide financial statements designed to present a clear picture of MELSA as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering services, including capital assets, long-term liabilities, and deferred outflows/inflows of resources.

STATEMENT OF NET POSITION

The Statement of Net Position essentially tells you what MELSA owns and owes at a given point in time, the last day of the fiscal year. Theoretically, net position represents the resources MELSA has leftover to use for providing services after its debts are settled. However, those resources are not always in spendable form, or there may be restrictions on how some of those resources may be used. Therefore, net position consists of three components: net investment capital assets, restricted, and unrestricted.

The following table presents the components of MELSA's net position as of December 31, 2021 and 2020 for governmental activities:

	Governmental Activities Net Position	
	2021	2020
Net position		
Total fund balance	$ 6,923,773	$ 7,091,313
Net book value of capital assets	809,729	843,297
Compensated absences	(93,439)	(81,504)
PERA pension liability and deferments	(367,593)	(432,461)
Total net position	$ 7,272,470	$ 7,420,645
Net position		
Net investment in capital assets	$ 809,729	$ 843,297
Unrestricted	6,462,741	6,577,348
Total net position	$ 7,272,470	$ 7,420,645

MELSA ended 2021 with total net position of $7,272,470, a decrease of $148,175 from the prior year. MELSA's investment in capital assets decreased $33,568 from the prior year, due to depreciation. Unrestricted net position decreased $114,607 during 2021, primarily due to the operating results of the General Fund.

STATEMENT OF ACTIVITIES

The Statement of Activities tracks MELSA's yearly revenues and expenses, as well as any other transactions that increase or reduce total net position. These amounts represent the full cost of providing services. The Statement of Activities provides a more comprehensive measure than just the amount of cash that changed hands, as reflected in the fund-based financial statements. This statement includes the cost of supplies used, depreciation of long-lived capital assets, and other accrual-based expenses.

The following table presents the change in net position of MELSA for the years ended December 31, 2021 and 2020:

	2021			2020
	Expenses	Program Revenue	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
Legacy Grant Programs	$ 703,497	$ 703,497	$ –	$ –
RLTA Grant Programs	631,364	631,364	–	–
LSTA Grant Programs	34,557	34,557	–	–
ARPA Grant Programs	98,281	98,281	–	–
Cooperative program and other programs	4,084,636	–	(4,084,636)	(4,076,369)
Member technology distributions	486,768	–	(486,768)	(692,774)
Administration	719,927	2,045	(717,882)	(753,525)
Subtotal	$ 6,759,030	$ 1,469,744	(5,289,286)	(5,522,668)
General revenues				
Unrestricted grants			5,128,228	5,285,620
Investment income			5,911	69,038
Other general revenues			6,972	10,250
Total general revenues			5,141,111	5,364,908
Change in net position			$ (148,175)	$ (157,760)

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way MELSA's governmental operations are financed. MELSA's governmental operations rely primarily on grants from the state, which provide most of the operating grants (program revenue) and unrestricted grants (general revenue), shown above.

Overall, MELSA's operating results for 2021 were very similar to the prior year. The biggest differences from 2020 to 2021 were decreases in member technology distributions and administration costs (mainly due to a change in MELSA's proportionate share of the state Public Employees Retirement Association pension plan liability and related deferrals), offset by declines in general revenues from unrestricted grants (mainly RLBSS funding), and investment income, due to a decline in market conditions.

ACCOUNTING AND AUDITING UPDATES

The following is a summary of Governmental Accounting Standards Board (GASB) standards expected to be implemented in the next few years. Due to the COVID-19 pandemic, the GASB has delayed the original implementation dates of these and other standards as described below.

GASB Statement No. 87, *Leases*

A lease is a contract that transfers control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this statement.

Governments enter into leases for many types of assets. Under the previous guidance, leases were classified as either capital or operating depending on whether the lease met any of the four tests. In many cases, the previous guidance resulted in reporting lease transactions differently than similar nonlease financing transactions.

The goal of this statement is to better meet the information needs of users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

To reduce the cost of implementation, this statement includes an exception for short-term leases, defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*

This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases,* as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.

This statement provides an exception for short-term SBITAs with a maximum possible term under the SBITA contract of 12 months, including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

Financial Statements
and Supplemental Information

Year Ended
December 31, 2021

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METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

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METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

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INTRODUCTORY SECTION

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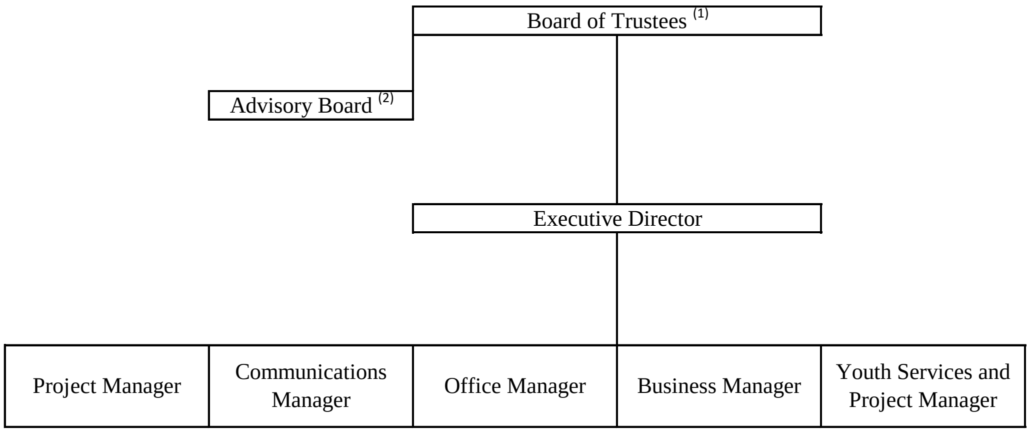
METROPOLITAN LIBRARY SERVICE AGENCY
ST. PAUL, MINNESOTA

Organizational Chart
December 31, 2021



(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, 2021

BOARD OF TRUSTEES

	Term Expires	
Robyn West, Treasurer	December 2022	Anoka County Commissioner
Matt Udermann	December 2023	Carver County Commissioner
Laurie Halverson	December 2023	Dakota County Commissioner
Debbie Goettel	December 2023	Hennepin County Commissioner
Mary Jo McGuire, President	December 2021	Ramsey County Commissioner
Beth Burns	December 2022	Mayoral Appointment Representing Saint Paul Public Library
Barb Weckman Brekke, Vice President	December 2022	Scott County Commissioner
Wayne A. Johnson	December 2021	Washington County Commissioner

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FINANCIAL SECTION

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT

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

OPINIONS

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, 2021, and the related notes to the financial statements, which collectively comprise MELSA's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of MELSA as of December 31, 2021, 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.

BASIS FOR OPINIONS

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MELSA and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

RESPONSIBILITIES OF MANAGEMENT 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MELSA's ability to continue as a going concern within for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

(continued)

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MELSA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 is the responsibility of management and, 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.

(continued)

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and other supplemental information, as listed in the table of contents, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Prior Year Comparative Information

We have previously audited MELSA's 2020 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 May 7, 2021. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2022, 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 11, 2022

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As management of the Metropolitan Library Service Agency (MELSA), we hereby provide readers of MELSA's financial statements with this narrative overview and analysis of the financial activities of MELSA for the fiscal year ended December 31, 2021.

FINANCIAL HIGHLIGHTS

MELSA's staff, Board of Trustees, and member library systems worked cooperatively in 2021 to once again achieve success as defined in our strategic plan and mission statement. As outlined in MELSA's 2017–2020 strategic plan, extended through 2021, 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 2021, 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 various 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, interlibrary loan, and a base factor. In 2021, MELSA allocated $1,000,000 to member systems to help fund local cooperative efforts. Distributions to each system were: $101,713 to Anoka County, $89,967 to Carver County, $142,984 to Dakota County, $231,068 to Hennepin County, $158,967 to Ramsey County, $108,262 to Saint Paul Public, $67,663 to Scott County, and $99,376 to Washington County. The MELSA fund balance provided an additional $4,536 to Hennepin County Library and $38,597 to Ramsey County Library to hold these systems harmless for decreases in the crossover circulation component of the 2021 formula calculations.

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 $560,400 in state fiscal year 2022 (half of fiscal year 2022 funds are recognized in 2021). Ten percent of the Equalization funds awarded regionally to MELSA are distributed to the earning entities. In 2021, Anoka County Library received $28,897 and Saint Paul Public Library received $49,432 through funds targeted at eligible areas within Anoka and Ramsey Counties. Remaining Equalization funding is used for collaborative projects and purchases, such as content for MELSA's eBook 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:

- Migration of the shared eBook, eAudiobook, and eMagazine collections to the OverDrive platform continued into 2021. The 2021 budget included $500,000 to purchase content, primarily focusing on high demand, high interest titles; additional content was purchased with a $150,000 fund balance assignment to meet increased demand, due to the COVID-19 pandemic. At year-end, MELSA shared collection includes 3,288 magazine titles, 71,893 copies of eBook titles and 25,806 copies of eAudiobook titles. eBook and eAudiobook checkouts of MELSA and systems' collections combined exceeded seven million in 2021, the highest public library consortium world-wide for OverDrive circulation.

- 2021 was the fifth 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. There were 76 new title submissions by metro area authors in 2021. In addition, select high-quality titles are made available to readers across the country, supporting local authors by increasing their visibility and allowing those to earn royalties through commercial collection sales on OverDrive, DPLA, Axis360, and cloudLibrary. In the last 6 months of 2021, Minnesota authors' titles in the commercial collections circulated 16,544 times and authors earned $2,825 in royalties. MN Writes MN Reads is made possible by a collaboration between Minitex, which supports the Create component via the Pressbooks software, and the regional public library systems of Minnesota, which supports the Share and Read components via the Indie Author Project and BiblioBoard Library. In 2021, partners, including the Minnesota Library Foundation, Minnesota Library Association, and BiblioLabs (the vendor of the service), hosted the 4th annual Minnesota Author Project, a statewide contest to highlight MN Writes MN Reads and recognize authors in the categories of adult and young adult fiction, with winners from Carver County 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, genealogy research, auto repair, foreign language learning, homework help, job search and resume creation assistance, and tutorials on a variety of subjects. 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 2021: Syndetics, a catalog enrichment product that provides cover images, professional reviews, and other elements; LibCal, an event, room, and equipment reservations system; BLUEcloud Mobile, a mobile app; and Niche Academy, which offers video instructional materials to enhance the licensed online resources offered by the library systems and can also be used as an online platform for staff training.

- Technology funding remained an important component for MELSA and its member libraries. The Phase Program provides $500,000 per year for member libraries to use for a variety of local technology needs. An additional $175,000 from the fund balance assigned for pandemic relief was also allocated to the program in 2021. 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 pandemic. The following disbursements were requested and approved by the Board of Trustees and released in 2021: $22,448 to Anoka County, $7,234 to Carver County, $45,000 to Dakota County, $120,502 to Hennepin County, $248,700 to Ramsey County, and $42,884 to Washington County Libraries. In 2021, 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 interlibrary 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 manages its own application process.) The amount received by member systems and MELSA’s office in 2021 for E-rate funding year July 2020–June 2021 was $472,743.

- MELSA funding continued for classes to support job seekers and small business owners with $85,000 allocated for this purpose in 2021. $45,000 was originally allocated for regionally coordinated classes and $40,000 for systems to spend to meet local programming needs. Almost 100 classes were taught by instructors from Twin Cities Media Alliance, Loft Literary Center, and Keer Creative. As in 2020, classes were held virtually, allowing member libraries to reach more users, due to the COVID-19 pandemic. Almost 700 library users attended classes live, while almost 200 were able to watch a recording of the instruction for a total of almost 900 library users served. Class topics included search engine optimization, e-commerce, writing for the web, and more. $30,630 in unspent regional and system funds was redirected to a one-time purchase of eBook and eAudiobook content in the shared digital library to support job seekers, career development, and small business and entrepreneurship.

- 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 13th 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 provided advertising support through StarTrib.com and Facebook ads, as well as regular appearances on KSTP-TV's Minnesota Live morning show. More than 20,000 adults participate metro-wide.

- MELSA continued the fifth year of smARTpass, a web-based arts access program for library users in partnership with local cultural organizations. Many smARTpass partners began offering in-person programs (under strict COVID-19 protocols), in addition to virtual programming, and during 2021, new partners were added to the program with several offers posted each week. 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 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. This continued to be an advertising focus in 2021, adding a wide assortment of Job and Career resources and MELSA's new shared eLibrary. MELSA continued print advertising with La Vos Latina and Mpls/St. Paul magazines. MELSA's ads appeared on FOX-9 (a new "welcome back" ad highlighting staff at a branch from each of the eight member libraries), KARE-11 (which again sponsored the summer learning program in its virtual format), and TPT. MELSA was the exclusive local sponsor for the Ken Burns Hemingway documentary on TPT, and MELSA also participated in TPT Learning's Be My Neighbor series, with youth services librarians from several member libraries creating Storytime times that aired on TPT.

- MELSA continued to sponsor the Twin Cities Book Festival, which was back to in-person format in 2021; MELSA's table promoted MN Writes MN Reads (with four Minnesota Author Contest winners signing their books) and the Indie Minnesota collection, as well as the Club Book author series.

- MELSA's continued regional summer marketing: Summer Learning, Summer Fun, Summer at Your Library. Under this brand, the eight unique system programs operate. Member libraries continued to focus on virtual programming, due to the ongoing pandemic. MELSA continued annual support allocations of $57,000 and worked with the Youth Services team to quickly create a virtual performer program series. Summer program offerings included reading engagement, hands-on art and STEM workshops, as well as arts and cultural performances in a virtual and take-and-make formats this summer. MELSA continued online marketing to promote member library programs.

- Member libraries actively encourage young library users to participate in the three reader choice awards through the Minnesota Youth Reading Awards organization, these include: Maud Hart Lovelace Divisions I (grades 3–5) and II (grades 6–8) and the Star of the North picture book award. MELSA supports these efforts by 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 2021. 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 2021, 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. Due to the pandemic, many training opportunities were virtual, as in 2020.

- From the technology training budget, MELSA provided a total of $38,000 in allocations to member library systems to meet individual training needs in 2021. Examples include ILS-specific workshops, various software/hardware educational opportunities, and library/government conferences and events focused on technology.

- MELSA facilitated one virtual workshop in 2021, an Outcomes-Based Planning and Evaluation training with Rachael Applegate, professor at Purdue University Indianapolis and part of the team that developed ShapingOutcomes.org. The half-day training, which utilized Legacy programs as examples, focused on planning, program design, and evaluation with consideration of stakeholders, observable outcomes and reporting.

- Other training events for library staff, including Storytime Palooza, an annual peer sharing event for youth services staff, were not held, due to the COVID-19 pandemic.

With facilitation by MELSA’s 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, collection development, summer programming, promotion, circulation, adult programming, volunteer coordination, jobs and small business initiatives, accessibility, facilities, and arts programming from the Legacy Amendment.

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 MELSA’s office. Based on actual costs submitted by the systems, less E-rate reimbursements, the distributions were: $30,306 to Anoka County, $30,240 to Carver County, $194,421 to Dakota County, $91,969 to Hennepin County, $33,681 to Ramsey County, $53,334 to Saint Paul Public, $13,066 to Scott County, $6,958 to Washington County, and $1,392 to MELSA.

For the second year, MELSA received Category 3 funds, funds remaining after Category 1 and 2 needs are met throughout the 12 regions in the state. 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.” A total of $177,389 was allocated to the systems to meet a variety of local spending needs, such as the purchase of equipment and computers, software, e-content, and other services and tools supporting digital services for library users.

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

Under the Arts and Cultural Heritage Fund (ACHF), Minnesota's 300+ public libraries receive funding distributed through the 12 regional public library systems to provide 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 $995,196 for state fiscal year 2021 (July 2020–June 2021) and an appropriation of $974,703 for state fiscal year 2022 (July 2021–June 2022). In fiscal year 2021, 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 2021, MELSA and member libraries continued to deliver Legacy programs through innovative partnerships with community artists and organizations, through live virtual programming, prerecorded content, take-and-make kits, and more. Over the course of 2021, MELSA and member libraries provided more than 290 programs with over 122,000 attendees.

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 2021, 22 virtual events drew 1,353 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 2021 programs to date is 1,468.

- MELSA uses Legacy funds to support History Day in Minnesota across the region through Hullabaloos and Research Field Trips (no Research Field Trips were held in 2021, due to the COVID-19 pandemic). Hullabaloos are research open houses where middle and high school students visit public and academic libraries (virtually in 2021) 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. 318 students from 45 schools attended one of the 15 Hullaballoos held from December 2020–February 2021. Teachers reported that Hullaballoos and Research Field Trips increase students' ability to analyze and interpret historical sources (95 percent).

- Teen Lit Con 2021 was cancelled, due to the COVID-19 pandemic. Participation in Read & Ride Day at the Minnesota State Fair was also tabled, due to safety and staffing concerns relating to the pandemic.

Library Services and Technology Act (LSTA)

MELSA applied for and received $33,950 from an LSTA grant, administered through State Library Services, to provide live, virtual training for library staff in American Sign Language to better server deaf and hard of hearing library users. MELSA contracted with a freelance trainer who has taught ASL courses for the American Libraries Association for many years. The training, which began in 4th quarter 2021 and will continue into 2nd quarter 2022, provides a solid foundation of signs, knowledge of deaf culture, and options for live practice and deeper learning opportunities. In three months in 2021, there were 125 registrations for the 7 beginner, intermediate, and Storytime time sessions offered.

In 2021, MELSA also received an additional $20,000 in LSTA funding for the purchase of Chromebooks for the libraries to check out or distribute with the hotspots from the 2020 LSTA grant.

Institute of Museum and Library Services (IMLS)

In 2021, MELSA applied for and received a $50,000 IMLS grant to explore new models for lending digital content to better achieve MELSA and member libraries' equity goals for patron use of materials. MELSA and its member libraries will pilot a project to support cost-per-circ as an additional lending model for eBook and eAudiobook purchases for the OverDrive digital library. Cost-per-circ titles can be borrowed simultaneously by an unlimited number of users until a budget cap is met, increasing MELSA's ability to provide equitable access across the broad base of Twin Cities metro public library users. MELSA also contributed $50,000 from fund balance to the project, which began in December 2021 and continues into 2022.

American Rescue Plan Act (ARPA)

Regional systems in Minnesota received an allocation of ARPA funds from State Library Services in 2021; MELSA's share was $298,284. $98,281 was designated for a one-time relief purchase of digital content for MELSA's Twin Cities Metro eLibrary, primarily focusing on reducing holds to increase equitable access among metro public library users.

Up to $200,000 from the grant will be used for a regionwide community survey to gather information on digital inclusion barriers and technology use, and the impact on library services. Data from this assessment will inform MELSA member library systems about current needs in the community and how best to maximize library resources. Compiled survey results will be available at the local system level and aggregated at the regional level. As with the earlier survey, this information will be used for strategic and technology planning, discussions with stakeholders, and partnering with community organizations and funding sources. The selection process for the research firm began in 2021, with project planning and expenditures to occur in 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 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 general revenues, such as state RLBSS funding from those with specific funding sources. The governmental activities functions presented include Legacy Grant Programs, RLTA Grant Programs, LSTA Grant Programs, ARPA Grant Programs, cooperative and other programs, member 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, 2021 and 2020

	2021	2020	Annual Change
Assets			
Current and other assets	$ 9,991,363	$ 9,347,820	$ 643,543
Capital assets, net	809,729	843,297	(33,568)
Total assets	$ 10,801,092	$ 10,191,117	$ 609,975
Deferred outflows of resources			
Pension plan deferments	$ 181,216	$ 20,615	$ 160,601
Liabilities			
Other liabilities	$ 671,763	$ 389,813	$ 281,950
Net pension liability	264,768	395,700	(130,932)
Compensated absences	93,439	81,504	11,935
Total liabilities	$ 1,029,970	$ 867,017	$ 162,953
Deferred inflows of resources			
Grants received for subsequent year	$ 2,395,827	$ 1,866,694	$ 529,133
Pension plan deferments	284,041	57,376	226,665
Total deferred inflows of resources	$ 2,679,868	$ 1,924,070	$ 755,798
Net position			
Net investment in capital assets	$ 809,729	$ 843,297	$ (33,568)
Unrestricted	6,462,741	6,577,348	(114,607)
Total net position	$ 7,272,470	$ 7,420,645	$ (148,175)

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 $7,272,470 at the close of the most recent fiscal year, a decrease of $148,175 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 $6,462,741 may be used to meet MELSA's ongoing obligations to citizens and creditors.

Governmental Activities – Governmental activities decreased MELSA's net position by $148,175 during the year ended December 31, 2021. Key elements of this decrease are as follows:

Table 2
Change in Net Position
for the Years Ended December 31, 2021 and 2020

	2021	2020	Annual Change
Revenues			
Program revenues			
Operating grants and contributions	$ 1,469,744	$ 1,600,056	$ (130,312)
General revenues			
Unrestricted grants	5,128,228	5,285,620	(157,392)
Other	12,883	79,288	(66,405)
Total revenues	6,610,855	6,964,964	(354,109)
Expenses			
Legacy Grant Programs	703,497	635,739	67,758
RLTA Grant Programs	631,364	912,187	(280,823)
LSTA Grant Programs	34,557	49,659	(15,102)
ARPA Grant Programs	98,281	–	98,281
Cooperative and other programs	4,084,636	4,076,369	8,267
Member technology distributions	486,768	692,774	(206,006)
Administration	719,927	755,996	(36,069)
Total expenses	6,759,030	7,122,724	(363,694)
Changes in net position	(148,175)	(157,760)	9,585
Net position – beginning	7,420,645	7,578,405	(157,760)
Net position – ending	$ 7,272,470	$ 7,420,645	$ (148,175)

Overall, MELSA's government-wide revenue decreased $354,109 from the previous year, which is comprised of changes in the following revenue line items:

- Operating grants and contributions were $130,312 lower than last year, mainly due to a $280,823 decrease in RLTA Grant revenue as requested by the member library systems, partially offset by increases of $67,758 in Legacy Grant revenue and $98,281 in federal ARPA Grant revenue.

- Unrestricted grants decreased $157,392. 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 2021 reflects a net decrease in the entitlements for the state fiscal year ending June 30, 2022 and fiscal year ended June 30, 2021, compared to the entitlements for state fiscal years ended June 30, 2021 and June 30, 2020.

- The $66,405 decrease in other general revenues was primarily the result of decreased investment income, due to market conditions.

MELSA's government-wide expenses for 2021 were $363,694 less than 2020, as detailed in the following major expense areas:

- Legacy Grant expenditures increased $67,758, corresponding with the increase in Legacy Grant revenue.

- RLTA Grant expenditures as submitted by member library systems, excluding the portion used to reimburse MELSA office internet, were $280,823 less than last year.

- LSTA Grant expenditures decreased $15,102, with a corresponding decrease in federal LSTA Grant revenue.

- ARPA Grant expenditures increased $98,281, as this is the first year receiving this grant award.

- Formula payments to member library systems increased by $43,132 to $1,043,133 in 2021, as MELSA's Board of Trustees approved a one-time use of the fund balance to hold Hennepin County and Ramsey County harmless for unexpected formula allocation decreases, as compared to 2020.

- Anoka County and Saint Paul Public share 10 percent of the total Equalization component of RLBSS funds. Equalization paid to these earning library systems decreased $10,171 in 2021, corresponding to the decrease in RLBSS revenue.

- Database expenditures decreased $81,095 in 2021, compared to 2020.

- Technology distributions requested by member libraries from Phase Program allocations were $486,768 for the 2021 fiscal year, a decrease of $206,006 from 2020.

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 $5,183,757. 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 $67,854 at year-end represents 1.1 percent of the total General Fund expenditures for 2021.

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 2021 fiscal year-end was $1,740,016, an increase of $209,832 from the 2020 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, 2021 and 2020

	Original Budget	Final Budget	Actual	Over (Under) Budget	Prior Year Actual
Revenue	$ 5,956,425	$ 6,821,959	$ 6,610,202	$ (211,757)	$ 6,963,903
Expenditures	6,126,896	7,180,007	6,290,974	(889,033)	6,409,561
Excess (deficiency) of revenue over expenditures	(170,471)	(358,048)	319,228	677,276	554,342
Other financing (uses)	(521,600)	(696,600)	(696,600)	–	(663,369)
Net change in fund balances	$ (692,071)	$ (1,054,648)	(377,372)	$ 677,276	(109,027)
Fund balances					
Beginning of year			5,561,129		5,670,156
End of year			$ 5,183,757		$ 5,561,129

The MELSA Board of Trustees adopted mid-year budget amendments to reflect increased federal awards available through the LSTA and ARPA Grant programs, actual revenue to be received from RLBSS and Legacy Grants, increased member usage of available RLTA funding, and declining investment income. Corresponding adjustments were made to the expenditures budget reflecting the use of these funds, anticipated fund balance carryovers, and other estimated accruals.

- Federal grants revenue was under budget by $185,446, mainly due to budgeting for the full ARPA award in 2021, $200,000 of which will be recognized and spent in 2022. Corresponding ARPA expenditures were under budget by $200,003.

- Legacy Grant expenditures were $281,434 under budget, due to conservative spending by some member libraries.

- Total expenditures for cooperative programs were $359,612 less than budgeted, including:

  - Electronic database expenditures were under budget by $169,281, due to conservative budgeting and a $50,000 fund balance assignment included in the budget for anticipated database cost increases that were not needed.
  - Staff and board training expenditures for member libraries were $60,012 under budget, as various planned seminars, conferences, and trainings did not take place or were held virtually in 2021 because of the ongoing COVID-19 pandemic.
  - Cultural pass costs were $55,678 less than budget, due to prior year carryover funds remaining unspent (unspent funds to be included in fund balance assignments for expenditures in 2022).
  - Other collaborative projects were under budget by $33,975, for various anticipated projects being delayed or cancelled, due to the COVID-19 pandemic. Any delayed projects will be included in fiscal year 2022 budget.

- Actual administration expenditures were $134,065 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, 2021, amounted to $809,729 (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, 2021 and 2020

	2021	2020
Archival database	$ 2,001,013	$ 1,937,606
Furniture and other equipment	117,565	107,896
Total capital assets	2,118,578	2,045,502
Accumulated depreciation	(1,308,849)	(1,202,205)
Total capital assets, net of depreciation	$ 809,729	$ 843,297
Depreciation expense	$ 106,644	$ 103,698

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, 2021, which is unchanged from the prior year. MELSA reported long-term liabilities at year-end of $93,439 for compensated absences payable and a Public Employees Retirement Association net pension liability of $264,768. 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 continued to have a significant impact the operations of MELSA and its member library systems in 2021. At this time, governmental entities, including MELSA, are unable to determine what effect the pandemic may have on future operations and finances.

MELSA remains dependent on the state of Minnesota for the majority of its funding. Consequently, changes in the state's future financial outlook or legislative priorities may impact MELSA's finances. MELSA continues to seek out additional funding opportunities to address the evolving needs of its member library systems.

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, 2021
(With Partial Comparative Information as of December 31, 2020)

	Governmental Activities	
	2021	2020
Assets		
Cash and cash equivalents	$ 9,437,817	$ 8,842,786
Receivables		
Accrued interest	896	5,297
Accounts	1,467	75
Due from other governmental units	17,952	2,372
Prepaids	533,231	497,290
Capital assets, net	809,729	843,297
Total assets	10,801,092	10,191,117
Deferred outflows of resources		
Pension plan deferments	181,216	20,615
Total assets and deferred outflows of resources	$ 10,982,308	$ 10,211,732
Liabilities		
Accounts payable	$ 210,798	$ 7,528
Due to member libraries	239,407	239,408
Unearned revenue	221,558	142,877
Net pension liability, due in more than one year	264,768	395,700
Compensated absences		
Due within one year	40,559	39,502
Due in more than one year	52,880	42,002
Total liabilities	1,029,970	867,017
Deferred inflows of resources		
Grants received for subsequent year	2,395,827	1,866,694
Pension plan deferments	284,041	57,376
Total deferred inflows of resources	2,679,868	1,924,070
Net position		
Net investment in capital assets	809,729	843,297
Unrestricted	6,462,741	6,577,348
Total net position	7,272,470	7,420,645
Total liabilities, deferred inflows of resources, and net position	$ 10,982,308	$ 10,211,732

See notes to basic financial statements

Statement of Activities
Year Ended December 31, 2021
(With Partial Comparative Information for the Year Ended December 31, 2020)

Functions/Programs	2021 Expenses	2021 Program Revenues Operating Grants and Contributions	2021 Net (Expenses) Revenue and Changes in Net Position Governmental Activities	2020 Net (Expenses) Revenue and Changes in Net Position Governmental Activities
Governmental activities				
Legacy Grant Programs	$ 703,497	$ 703,497	$ –	$ –
RLTA Grant Programs	631,364	631,364	–	–
LSTA Grant Programs	34,557	34,557	–	–
ARPA Grant Programs	98,281	98,281	–	–
Cooperative and other programs	4,084,636	–	(4,084,636)	(4,076,369)
Member technology distributions	486,768	–	(486,768)	(692,774)
Administration	719,927	2,045	(717,882)	(753,525)
Total governmental activities	$ 6,759,030	$ 1,469,744	(5,289,286)	(5,522,668)
General revenues				
Unrestricted grants			5,128,228	5,285,620
Investment income			5,911	69,038
Other general revenues			6,972	10,250
Total general revenues			5,141,111	5,364,908
Change in net position			(148,175)	(157,760)
Net position – beginning of year			7,420,645	7,578,405
Net position – end of year			$ 7,272,470	$ 7,420,645

METROPOLITAN LIBRARY SERVICE AGENCY

Balance Sheet
Governmental Funds
as of December 31, 2021
(With Partial Comparative Information as of December 31, 2020)

	General	Member Library Allocations Special Revenue	Totals 2021	Totals 2020
Assets				
Cash and cash equivalents	$ 7,457,630	$ 1,980,187	$ 9,437,817	$ 8,842,786
Receivables				
Accrued interest	896	–	896	5,297
Accounts receivable	1,467	–	1,467	75
Due from other funds	764	–	764	29
Due from other governmental units	17,952	–	17,952	2,372
Prepaids				
Databases	453,303	–	453,303	421,921
Other	79,928	–	79,928	75,369
Total assets	$ 8,011,940	$ 1,980,187	$ 9,992,127	$ 9,347,849
Liabilities				
Accounts payable	$ 210,798	$ –	$ 210,798	$ 7,528
Due to other funds	–	764	764	29
Due to member libraries	–	239,407	239,407	239,408
Unearned revenue	221,558	–	221,558	142,877
Total liabilities	432,356	240,171	672,527	389,842
Deferred inflows of resources				
Grants received for subsequent year	2,395,827	–	2,395,827	1,866,694
Fund balances				
Nonspendable for prepaids	533,231	–	533,231	497,290
Committed for member libraries – Phase Program	–	1,740,016	1,740,016	1,530,184
Assigned for compensated absences	93,439	–	93,439	81,504
Assigned for contingencies	1,500,000	–	1,500,000	1,500,000
Assigned for eBook collaborative project	510,000	–	510,000	510,000
Assigned for Equalization carryforward	335,923	–	335,923	417,070
Assigned for indie author project and BiblioBoard	50,000	–	50,000	50,000
Assigned for e-Resource purchases and renewals	–	–	–	50,000
Assigned for one-time collaborative purchase	–	–	–	175,000
Assigned for cultural pass collaborative project	55,678	–	55,678	57,578
Assigned for RLBSS funding stabilization	750,000	–	750,000	750,000
Assigned for working capital	987,632	–	987,632	987,632
Assigned for collaborative initiatives	300,000	–	300,000	300,000
Unassigned	67,854	–	67,854	185,055
Total fund balances	5,183,757	1,740,016	6,923,773	7,091,313
Total liabilities, deferred inflows of resources, and fund balances	$ 8,011,940	$ 1,980,187	$ 9,992,127	$ 9,347,849

See notes to basic financial statements

METROPOLITAN LIBRARY SERVICE AGENCY

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of December 31, 2021
(With Partial Comparative Information as of December 31, 2020)

	2021	2020
Total fund balances – total governmental funds	$ 6,923,773	$ 7,091,313
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	2,118,578	2,045,502
Less accumulated depreciation	(1,308,849)	(1,202,205)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
Compensated absences payable	(93,439)	(81,504)
Net pension liability – PERA	(264,768)	(395,700)
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	181,216	20,615
Deferred inflows of resources – pension plan deferments	(284,041)	(57,376)
Total net position – governmental activities	$ 7,272,470	$ 7,420,645

See notes to basic financial statements

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2021
(With Partial Comparative Information for the Year Ended December 31, 2020)

	General	Member Library Allocations Special Revenue	Totals 2021	Totals 2020
Revenue				
State aid and grants	$ 6,464,481	$ –	$ 6,464,481	$ 6,834,956
Federal grants	132,838	–	132,838	49,659
Investment income	5,911	–	5,911	69,038
Other	6,972	–	6,972	10,250
Total revenue	6,610,202	–	6,610,202	6,963,903
Expenditures				
Current				
LSTA Grant Programs	34,557	–	34,557	49,659
ARPA Grant Programs	98,281	–	98,281	–
Legacy Grant Programs	703,497	–	703,497	635,739
RLTA Grant Programs	631,364	–	631,364	912,187
Cooperative programs	3,984,585	–	3,984,585	3,979,489
Administration	765,614	–	765,614	766,619
Member technology distributions	–	486,768	486,768	692,774
Capital outlay	73,076	–	73,076	65,868
Total expenditures	6,290,974	486,768	6,777,742	7,102,335
Excess (deficiency) of revenue over expenditures	319,228	(486,768)	(167,540)	(138,432)
Other financing sources (uses)				
Transfers in	–	696,600	696,600	663,369
Transfers (out)	(696,600)	–	(696,600)	(663,369)
Total other financing sources (uses)	(696,600)	696,600	–	–
Net change in fund balances	(377,372)	209,832	(167,540)	(138,432)
Fund balances				
Beginning of year	5,561,129	1,530,184	7,091,313	7,229,745
End of year	$ 5,183,757	$ 1,740,016	$ 6,923,773	$ 7,091,313

See notes to basic financial statements

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended December 31, 2021
(With Partial Comparative Information for the Year Ended December 31, 2020)

	2021	2020
Total net change in fund balances – total governmental funds	$ (167,540)	$ (138,432)
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	73,076	65,868
Depreciation expense	(106,644)	(103,698)
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	(11,935)	(10,876)
Net pension liability – PERA	130,932	(14,214)
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	160,601	(20,455)
Deferred inflows of resources – pension plan deferments	(226,665)	64,047
Change in net position – governmental activities	$ (148,175)	$ (157,760)

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Revenue, Expenditures, and Changes in Fund Balances
General Fund
Budget and Actual
Year Ended December 31, 2021

	Budget			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
State aid and grants	$ 5,941,640	$ 6,493,840	$ 6,464,481	$ (29,359)
Federal grants	–	318,284	132,838	(185,446)
Investment income	10,000	5,050	5,911	861
Other revenue				
e-Rate reimbursement revenues	4,785	4,785	5,563	778
Miscellaneous	–	–	1,409	1,409
Total revenue	5,956,425	6,821,959	6,610,202	(211,757)
Expenditures				
Current				
LSTA Grant Programs	–	20,000	34,557	14,557
ARPA Grant Programs	–	298,284	98,281	(200,003)
Legacy Grant Programs	855,868	984,931	703,497	(281,434)
RLTA Grant Programs	235,036	632,916	631,364	(1,552)
Cooperative programs				
Distributions – member libraries				
Formula payments	1,000,000	1,000,000	1,043,133	43,133
Equalization to earning libraries	78,329	78,329	78,329	–
Collaborative region-wide purchases				
Electronic databases	1,133,265	1,109,822	940,541	(169,281)
Homework help	250,000	250,000	250,000	–
Employment help	45,000	33,000	33,000	–
Downloadable books	169,155	–	–	–
e-Books collaborative project	580,000	903,443	917,094	13,651
Electronic self-publishing project	25,000	25,000	19,371	(5,629)
Catalog enhancements	140,265	140,265	126,102	(14,163)
Calendar software	25,000	25,000	20,585	(4,415)
Mobile application	68,000	68,000	65,840	(2,160)
Contracted services for member libraries				
Delivery service	52,828	52,828	46,209	(6,619)
Printing and copying	12,000	12,000	2,524	(9,476)
E-rate consulting	10,000	10,000	9,200	(800)
Staff and board training – member libraries				
Workshops and leadership seminars	21,000	21,000	300	(20,700)
Professional development	88,000	88,000	69,510	(18,490)
Technology training	40,000	40,000	21,978	(18,022)
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	59,800	59,855	55
Youth services literacy initiative	38,000	50,500	48,788	(1,712)
Teen services literacy initiative	24,000	24,000	24,001	1
STEM programming	25,000	25,000	25,000	–
Other services – member libraries				
Jobs and small business initiative	85,000	85,000	84,900	(100)
Inclusion initiatives	8,000	8,000	–	(8,000)
Technology measures tools	27,769	27,769	–	(27,769)
Cultural pass	5,000	62,578	6,900	(55,678)
Promotions	100,000	100,000	83,337	(16,663)
Other collaborative projects	5,976	41,413	7,438	(33,975)
Total cooperative programs	4,132,337	4,344,197	3,984,585	(359,612)

See notes to basic financial statements

(continued)

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Revenue, Expenditures, and Changes in Fund Balances
General Fund
Budget and Actual (continued)
Year Ended December 31, 2021

	Budget Original	Budget Final	Actual	Over (Under) Final Budget
Expenditures (continued)				
Current (continued)				
Administration				
Salaries and benefits				
Salaries	500,751	500,751	464,503	(36,248)
Fringe benefits	162,681	162,681	135,335	(27,346)
Other payroll expense	3,200	3,200	2,797	(403)
Staff travel and training				
Local travel	4,000	1,500	407	(1,093)
Staff education/conferences	12,000	5,000	1,034	(3,966)
Supplies and printing				
Office supplies	5,000	5,000	706	(4,294)
Printing, copying, and postage	4,300	4,300	430	(3,870)
Contracted services				
Technology support	17,116	10,440	6,377	(4,063)
Website and hosting	9,740	9,740	1,981	(7,759)
Legal services	10,000	10,000	1,479	(8,521)
Accounting services	21,300	21,300	19,800	(1,500)
Consulting services	–	19,200	19,277	77
Other administrative				
Equipment, software, and maintenance	23,500	23,500	5,405	(18,095)
Meetings	9,000	2,000	307	(1,693)
Rent	71,167	71,167	63,656	(7,511)
Internet access	7,200	7,200	7,551	351
Telephone	1,500	1,500	907	(593)
Insurance	15,000	15,000	13,076	(1,924)
Dues and memberships	3,400	3,400	655	(2,745)
CRPLSA expenditures	21,500	21,500	19,931	(1,569)
Other	1,300	1,300	–	(1,300)
Total administration	903,655	899,679	765,614	(134,065)
Capital outlay	–	–	73,076	73,076
Total expenditures	6,126,896	7,180,007	6,290,974	(889,033)
Excess (deficiency) of revenue over expenditures	(170,471)	(358,048)	319,228	677,276
Other financing (uses)				
Transfers (out) – Phase funds	(500,000)	(675,000)	(675,000)	–
Transfers (out) – NCIP maintenance	(21,600)	(21,600)	(21,600)	–
Total other financing (uses)	(521,600)	(696,600)	(696,600)	–
Net change in fund balances	$ (692,071)	$ (1,054,648)	(377,372)	$ 677,276
Fund balances				
Beginning of year			5,561,129	
End of year			$ 5,183,757	

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Operation

The Metropolitan Library Service Agency (MELSA) is a multi-jurisdictional federation of the city and county public libraries in the metropolitan Twin Cities area organized to provide cooperative services and cost-saving programs to the participants. MELSA is the administrative agency for receiving and equitable sharing of state and federal grant appropriations made available through State Library Services of the Minnesota Department of Education (MDE). MELSA was established in 1969 as a nonprofit governmental agency in accordance with the Minnesota Joint Powers Agreement, an agreement between the counties and city of the member libraries, and serves as 1 of 12 regional library systems in the state. It is governed by a Board of Trustees; one trustee is appointed by each party to the agreement. Since the merger of the Minneapolis Public Library with the Hennepin County Library in January 2008, the trustee from Hennepin County has two votes on the Board of Trustees. The trustees receive professional expertise from an Advisory Board composed of the directors 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.
- Purchase and management of a shared e-books/audiobooks/magazines collection.
- Access to a variety of cooperatively purchased electronic resources and tools, such as 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:

	Years
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, 2020, 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	$	9,437,802
Cash on hand		15
Total	$	9,437,817

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:

	Credit Risk		Fair Value Measurements	Interest Risk – Maturity		
Investment Type	Agency	Rating	Using	Duration		Total
Negotiable certificates of deposit	Not rated		Level 2	Less than 1 year	$	2,241,000
Investment pools/mutual funds						
4M Fund	Not rated		Not applicable	Not applicable		7,196,802
					$	9,437,802

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.

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, 2021, the General Fund had a receivable of $764 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 $696,000 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 ($675,000), and under the NISO Circulation Interchange Protocol (NCIP) Program ($21,600) 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, 2021 consisted of:

Regional Library Telecommunications Aid	$ 221,558

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, 2021 consisted of:

State aid and grants (RLBSS)	$ 702,081
State aid and grants (Legacy)	1,693,746
	$ 2,395,827

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2021 was as follows:

A. Governmental Activities

	December 31, 2020	Increases	Decreases	December 31, 2021
Capital assets, depreciated				
Archival database	$ 1,937,606	$ 63,407	$ –	$ 2,001,013
Furniture and other equipment	107,896	9,669	–	117,565
Total capital assets, depreciated	2,045,502	73,076	–	2,118,578
Less accumulated depreciation on				
Archival database	1,114,011	100,051	–	1,214,062
Furniture and other equipment	88,194	6,593	–	94,787
Total accumulated depreciation	1,202,205	106,644	–	1,308,849
Net capital assets	$ 843,297	$ (33,568)	$ –	$ 809,729

B. Depreciation Expense by Function

Depreciation expense for the year ended December 31, 2021 was charged to the following functions:

Cooperative and other programs	$ 100,051
Administration	6,593
Total	$ 106,644

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 $93,439 at year-end.

Changes in compensated absences during the year were as follows:

	December 31, 2020	Additions	Retirements	December 31, 2021	Due Within One Year
Compensated absences	$ 81,504	$ 55,208	$ 43,273	$ 93,439	$ 40,559

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 for each of the first 10 years of service, and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated Plan members is 1.7 percent 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.

Benefit increases are provided to benefit recipients each January. The post-retirement increase is 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. 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 2021. MELSA was required to contribute 7.50 percent for Coordinated Plan members. MELSA's contributions to the GERF for the year ended December 31, 2021, were $34,945. MELSA's contributions were equal to the required contributions as set by state statutes.

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

D. GERF Pension Costs

At December 31, 2021, MELSA reported a liability of $264,768 for its proportionate share of the GERF'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 state of Minnesota's proportionate share of the net pension liability associated with MELSA totaled $8,099. The net pension liability was measured as of June 30, 2021, 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, 2020 through June 30, 2021, relative to the total contributions received from all of the PERA's participating employers. MELSA's proportionate share was 0.0062 percent at the end of the measurement period and 0.0066 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	$	264,768
State's proportionate share of the net pension liability associated with MELSA	$	8,099

For the year ended December 31, 2021, MELSA recognized negative pension expense of $30,041 for its proportionate share of the GERF's pension expense. MELSA recognized an additional $653 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of $16.0 million to the GERF.

At December 31, 2021, MELSA reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,810	$ 8,163
Changes in actuarial assumptions	161,661	6,325
Net collective difference between projected and actual investment earnings	–	229,404
Changes in proportion	–	40,149
Contributions paid to the PERA subsequent to the measurement date	17,745	–
Total	$ 181,216	$ 284,041

A total of $17,745 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, 2022. 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
2022	$ (36,914)
2023	$ (13,635)
2024	$ (7,478)
2025	$ (62,543)

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

E. Long-Term Expected Return on Investments

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	33.50 %	5.10 %
International equity	16.50	5.30 %
Fixed income	25.00	0.75 %
Private markets	25.00	5.90 %
Total	100.00 %	

F. Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.50 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.00 percent after 29 years of service, and 6.00 percent per year thereafter.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit the PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan 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 occurred in 2021:

CHANGES IN ACTUARIAL ASSUMPTIONS

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

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

G. Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate 5.50%	Discount Rate 6.50%	1% Increase in Discount Rate 7.50%
MELSA's proportionate share of the GERF net pension liability	$ 539,991	$ 264,768	$ 38,930

I. 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 internet at www.mnpera.org.

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 2021, operating under the previous program guidelines.

Through 2021, cumulative allocations of $13,211,548 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 2021, 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 2021 totaled $11,471,532.

A summary of the Phase Program activity and committed fund balances by member library system as of and for the year ended December 31, 2021 is as follows:

Member Library System	Allocation Percentage	Available Balance – 12/31/2020	Allocation for Current Year	2021 Disbursements	Available Balance – 12/31/2021
Anoka County	10.17 %	$ 162,615	$ 71,170	$ 22,448	$ 211,337
Carver County	9.00	194,468	62,602	7,234	249,836
Dakota County	14.30	264,337	96,378	45,000	315,715
Hennepin County	23.11	117,821	159,464	120,502	156,783
Ramsey County	15.90	545,828	116,758	248,700	413,886
Saint Paul Public	10.83	67,945	75,461	–	143,406
Scott County	6.77	136,982	48,315	–	185,297
Washington County	9.94	40,188	66,452	42,884	63,756
Totals	100.00 %	$ 1,530,184	$ 696,600	$ 486,768	$ 1,740,016

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, 2021, the shared percentages were:

MELSA	72.0%
Metronet	28.0%

MELSA's rent expenditures for the year ended December 31, 2021, under this lease agreement and a preceding agreement for the same space that expired November 1, 2020, totaled $63,656.

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

Year Ending December 31,	Amount
2022	$ 81,610

NOTE 10 – SUBSEQUENT EVENTS

A. New Accounting Standards

A new standard has been issued by the Governmental Accounting Standards Board that will result in significant changes in the reporting of leases once it becomes effective for governmental entities. This standard will be adopted by MELSA beginning in 2022, and will require the restatement of certain balances reported as of December 31, 2021. The effects of this change have not yet been determined and are not reflected in these financial statements.

B. COVID-19 Pandemic

The COVID-19 pandemic has had significant financial and operational impacts on MELSA for the last two fiscal years. 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, 2021

MELSA Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	MELSA's Proportion of the Net Pension Liability	MELSA's Proportionate Share of the Net Pension Liability	MELSA's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and MELSA's Share of the State of Minnesota's Share of the Net Pension Liability	MELSA's Covered Payroll	MELSA's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/2015	06/30/2015	0.0070%	$ 362,776	$ –	$ 362,776	$ 414,445	87.53%	78.19%
12/31/2016	06/30/2016	0.0073%	$ 592,725	$ 7,746	$ 600,471	$ 458,272	129.34%	68.90%
12/31/2017	06/30/2017	0.0079%	$ 504,333	$ 6,380	$ 510,713	$ 512,010	98.50%	75.90%
12/31/2018	06/30/2018	0.0079%	$ 438,261	$ 14,448	$ 452,709	$ 532,113	82.36%	79.50%
12/31/2019	06/30/2019	0.0069%	$ 381,486	$ 11,999	$ 393,485	$ 491,560	77.61%	80.20%
12/31/2020	06/30/2020	0.0066%	$ 395,700	$ 12,196	$ 407,896	$ 473,388	83.59%	79.10%
12/31/2021	06/30/2021	0.0062%	$ 264,768	$ 8,099	$ 272,867	$ 448,526	59.03%	87.00%

PERA – General Employees Retirement Fund
Schedule of MELSA Contributions
Year Ended December 31, 2021

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%
12/31/2021	$ 34,945	$ 34,945	$ –	$ 465,929	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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PERA – GENERAL EMPLOYEES RETIREMENT FUND

2021 CHANGES IN ACTUARIAL ASSUMPTIONS

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

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.

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.

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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OTHER SUPPLEMENTAL INFORMATION

METROPOLITAN LIBRARY SERVICE AGENCY

Schedules of Selected Expenditures
for the Years Ended December 31, 2021 and 2020

	2021	2020
Legacy Grant Programs (1)		
Anoka County	$ 42,891	$ 16,514
Carver County	24,488	13,548
Dakota County	99,829	57,230
Hennepin County	179,702	249,620
Ramsey County	45,576	28,873
Saint Paul Public	78,085	89,649
Scott County	33,552	18,427
Washington County	30,792	57,267
Region-Wide	168,582	104,611
Total Legacy Grant Programs	$ 703,497	$ 635,739
Formula payments		
Anoka County	$ 101,713	$ 100,649
Carver County	89,967	85,251
Dakota County	142,984	126,774
Hennepin County	235,604	235,604
Ramsey County	197,564	197,564
Saint Paul Public	108,262	106,455
Scott County	67,663	67,336
Washington County	99,376	80,368
Total formula payments	$ 1,043,133	$ 1,000,001
Equalization to earning libraries		
Anoka County	$ 28,897	$ 37,066
Saint Paul Public	49,432	51,434
Total equalization to earning libraries	$ 78,329	$ 88,500
Electronic database expenditures (2)		
Gale Literature and Biography	$ 34,360	$ 40,514
Ancestry library addition	31,641	31,641
InfoUSA Marketing – Reference USA	96,865	95,000
ALLData	106,758	107,100
Morningstar	90,423	88,887
Newsbank	75,866	73,656
NoveList	74,592	72,420
New York Times	27,175	27,175
Transparent Languages	75,000	75,000
Zinio Magazines (RB Digital/Overdrive)	83,594	179,086
Scholastic BookFlix	90,254	96,607
LinkedIn Leaning	146,096	134,550
Udemy	7,917	–
Total electronic database expenditures	$ 940,541	$ 1,021,636

(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, 2021

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/underinsured motorist	Limits: $25,000 per claimant
	$50,000 per occurrence
Cyber suite	Annual aggregate limit: $50,001
	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	Limits: $500,000 each employee
Bodily injury by accident	$1,500,000 each accident
	Limits: $500,000 each employee
Bodily injury by disease	$1,500,000 each coverage document limit

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OTHER REQUIRED REPORTS

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MMKR
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ACCOUNTANTS

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William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA
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Kalen T. Karnowski, CPA

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, 2021, and the related notes to the financial statements, which collectively comprise MELSA's basic financial statements, and have issued our report thereon dated May 11, 2022.

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 2021-001 and 2021-002 that we consider to be material weaknesses.

(continued)

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COMPLIANCE AND OTHER MATTERS

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

Government Auditing Standards requires the auditor to perform limited procedures on MELSA's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. MELSA's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 11, 2022

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CERTIFIED PUBLIC ACCOUNTANTS

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Kalen T. Karnowski, CPA

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, 2021, and the related notes to the financial statements, which collectively comprise MELSA's basic financial statements, and have issued our report thereon dated May 11, 2022.

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 11, 2022

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FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING

2021-001 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, 2022.

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

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

FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

2021-002 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, 2022.

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.