

Management Report
for
Metropolitan Library Service Agency
December 31, 2025



Certified Public Accountants Business Consultants

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To the Board of Trustees and Management
Metropolitan Library Service Agency
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, 2025. We have organized this report into the following sections:

- Audit Summary
- General Fund Overview
- Government-Wide Financial Statements
- 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.

Respectfully submitted,

A handwritten signature in cursive script that reads 'LB Carlson, LLP'.

LB CARLSON, LLP
Minneapolis, Minnesota

April 30, 2026

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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, each major fund, and the aggregate remaining fund information of MELSA as of and for the year ended December 31, 2025. 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 and in our audit engagement letter. Professional standards also require that we communicate the following information to you 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 OPINIONS AND FINDINGS

Based on our audit of MELSA's financial statements for the year ended December 31, 2025:

- We have issued unmodified opinions 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 based on our testing of MELSA's compliance with Minnesota laws and regulations.

FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

During our 2025 audit, we performed procedures to follow-up on the findings and recommendations that resulted from our prior year audit. We reported one Minnesota legal compliance finding in 2024 that was corrected in the current year. In the prior year, we reported that due to a statutorily required claim declaration having been inadvertently left off an order of MELSA's preprinted check stock, MELSA paid claims in 2024 without obtaining the required signed declaration. This was corrected by MELSA ordering new check stock and destroying the unused stock that lacked the required declaration.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Internal Controls Over Vendors

A relatively common method of attempting to defraud local governments involves inducing them to pay claims from fictitious vendors for goods or services that were never provided. Strong safeguards over adding new vendors or making changes to existing vendors within the government's accounts payable system is an important control to mitigate this risk. Some considerations in this area include:

- Limiting the number of employees with access to add or alter vendor records within the accounts payable system,
- Requiring vendor additions or changes to be reviewed and approved by supervisory personnel, preferably one not directly involved in processing accounts payable,
- Verifying the legitimacy of vendors by obtaining a W-9 or other means,
- Verifying any changes to vendor address or banking information prior to processing payments, and
- Periodically reviewing the vendor listing to remove inactive vendors from the system.

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, 2025.

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 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 and amortization 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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management 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 April 30, 2026.

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

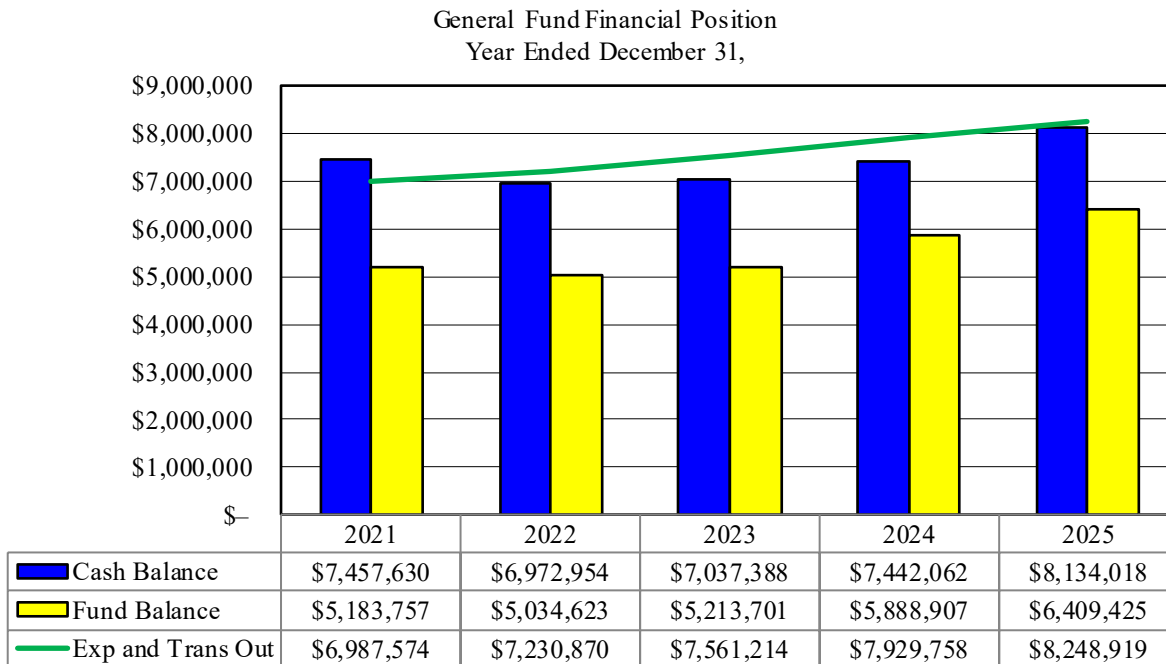
We applied certain limited procedures to management's discussion and analysis and the pension-related required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing 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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GENERAL FUND OVERVIEW

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:



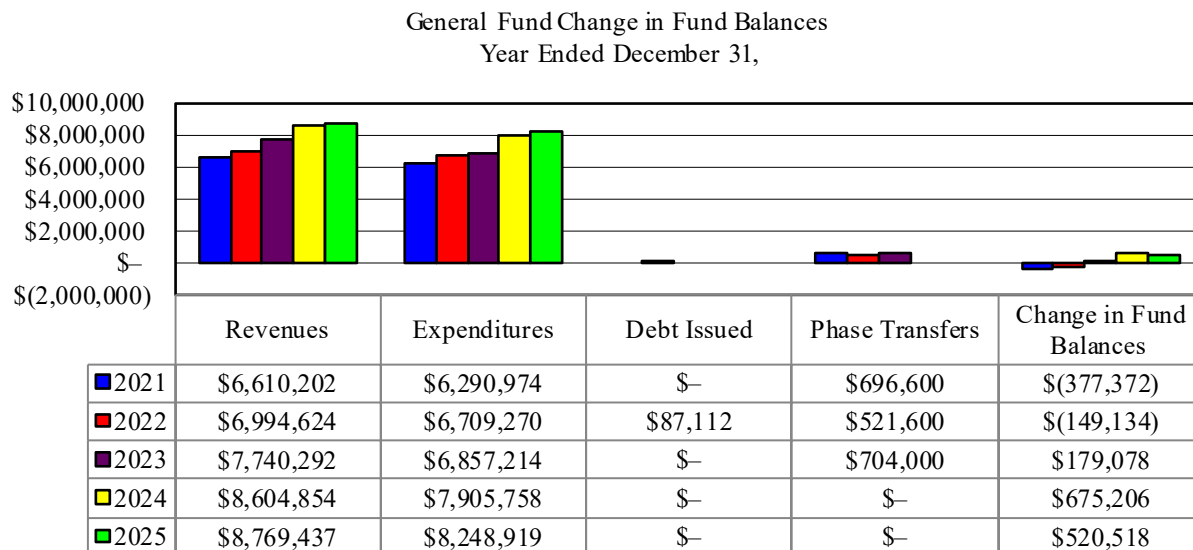
MELSA’s General Fund remains in healthy financial condition with total fund balances of \$6,409,425 at December 31, 2025. A healthy fund balance is important because a government, like any organization, requires a certain amount of equity to operate. Generally, a healthy financial position allows MELSA 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 2025:

General Fund Change in Fund Balances			
	Fund Balance as of December 31,		Change
	2025	2024	
Fund balances			
Nonspendable	\$ 754,803	\$ 692,657	\$ 62,146
Assigned	5,578,956	5,120,433	458,523
Unassigned	75,666	75,817	(151)
Total – General Fund	<u>\$ 6,409,425</u>	<u>\$ 5,888,907</u>	<u>\$ 520,518</u>

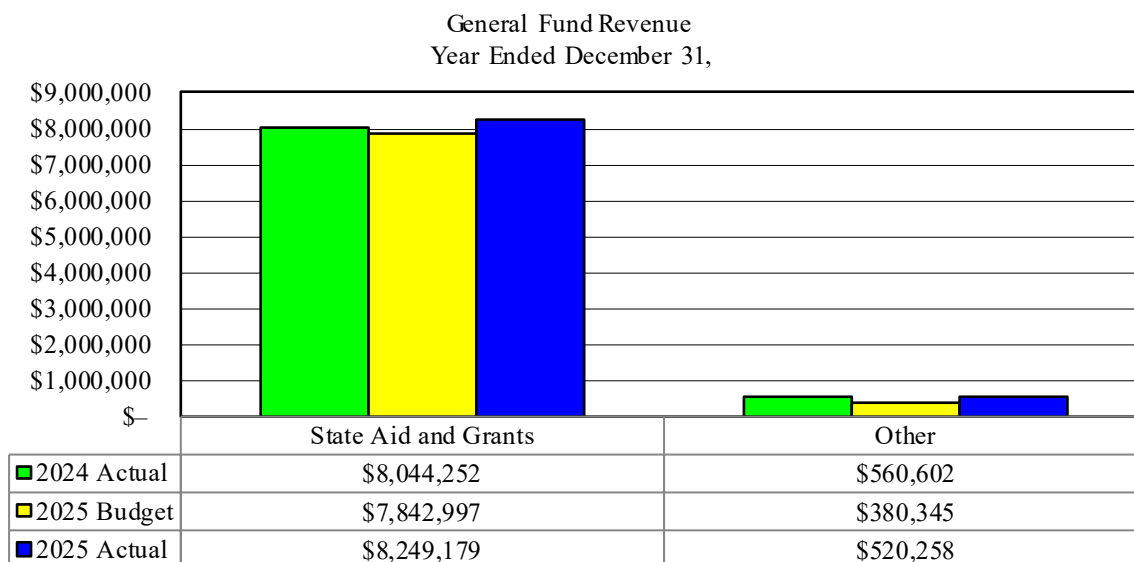
The \$754,803 nonspendable fund balance corresponds to MELSA’s prepaid expenditures at year-end. Assigned fund balances increased \$458,523, due to increases in assignments for working capital of \$175,000 and equalization carryforward of \$121,741. In addition, there were new assignments in 2025 for adult programming allocations and marketing and external support for the Literacy Collaborative Initiative in the amounts of \$42,000, \$75,000, and \$50,000 respectively. This was partially offset by a small decrease in the amount assigned for compensated absences (\$5,218). Unassigned fund balance decreased \$151 in fiscal 2025.

The following graph presents General Fund revenues, expenditures, and other changes in fund balances for the last five years:



MELSA’s General Fund balance increased \$520,518 in 2025, compared to a decrease of \$481,074 projected in the final budget. This variance resulted from revenues exceeding budget by \$546,095, while expenditures were \$455,497 less than anticipated. A significant portion of the variance is from unexpended funds designated as fund balance assignments for use in 2026 and beyond.

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

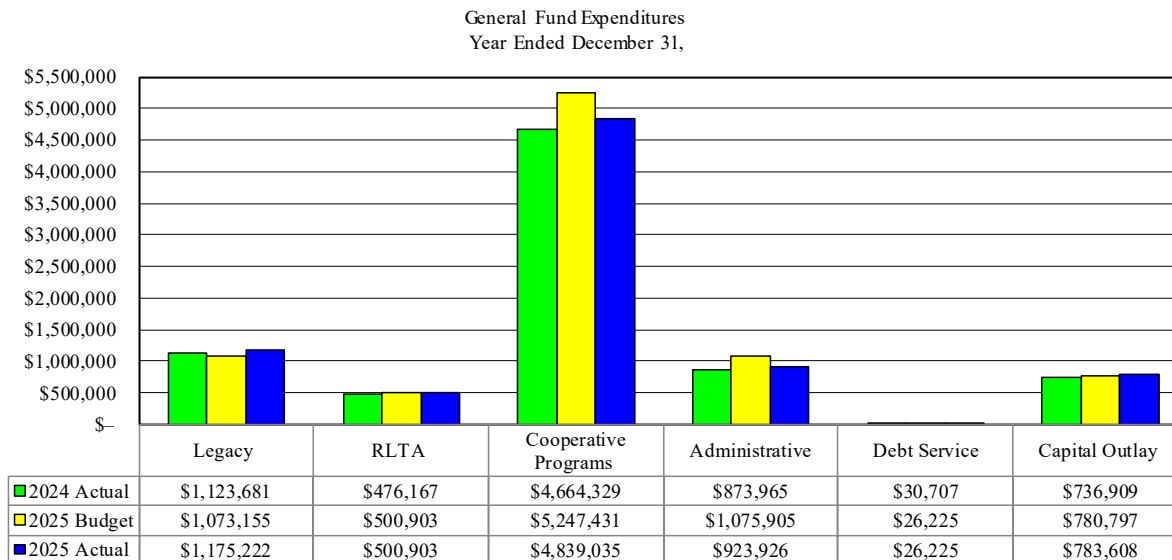


The graph above reflects MELSA’s reliance on state aid as its primary funding source. State aid and grants totaled \$8,249,179 for 2025, representing 94.1 percent of MELSA’s total General Fund revenue.

Total General Fund revenue was \$8,769,437 for 2025, an increase of \$164,583 (1.9 percent) from 2024. Revenue from state aid and grants was \$204,927 higher than last year, mainly due to a \$141,520 increase in RLBSS entitlement revenue recognized. Revenue from “other” sources, as shown above, decreased \$40,344 from the prior year, mainly due to a decrease in investment income.

Total General Fund revenue was over budget by \$546,095. State aid and grants were \$406,182 over budget. This was mainly due to RLBS revenue exceeding budget by \$304,119, as the portion of 2024 RLBS Equalization funding intended to be carried over as assigned fund balance for 2025 was not included in the revenue budget. Revenue from “other” sources was \$139,913 higher than budget, mainly due to conservative budgeting for investment income.

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



Total General Fund expenditures were \$8,248,919 for 2025, an increase of \$343,161 from the prior year. The increase was spread across all categories shown above, other than a small decrease in debt service. The largest increase was in cooperative programs, which were \$174,706 higher than last year.

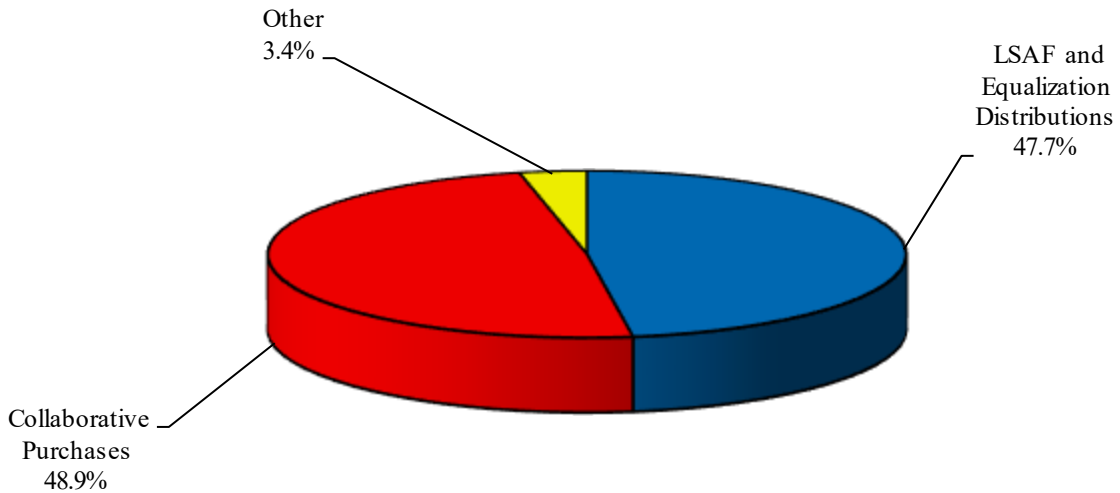
Total expenditures for 2025 were \$455,497 (5.2 percent) under budget. The largest variance to budget was in expenditures for various cooperative programs and projects, which were \$408,396 under budget. Some of the larger areas of underspending included electronic databases which were \$167,783 under budget due to cancellation of the New York Times database, and other services for member libraries such as; adult programming allocations (\$42,000 under budget), technology measures tools (\$24,544 under budget), promotions (\$42,168 under budget), and undesignated collaborative spending (\$46,401 under budget). 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 \$151,979, with savings distributed across all administrative categories.

COOPERATIVE PROGRAM

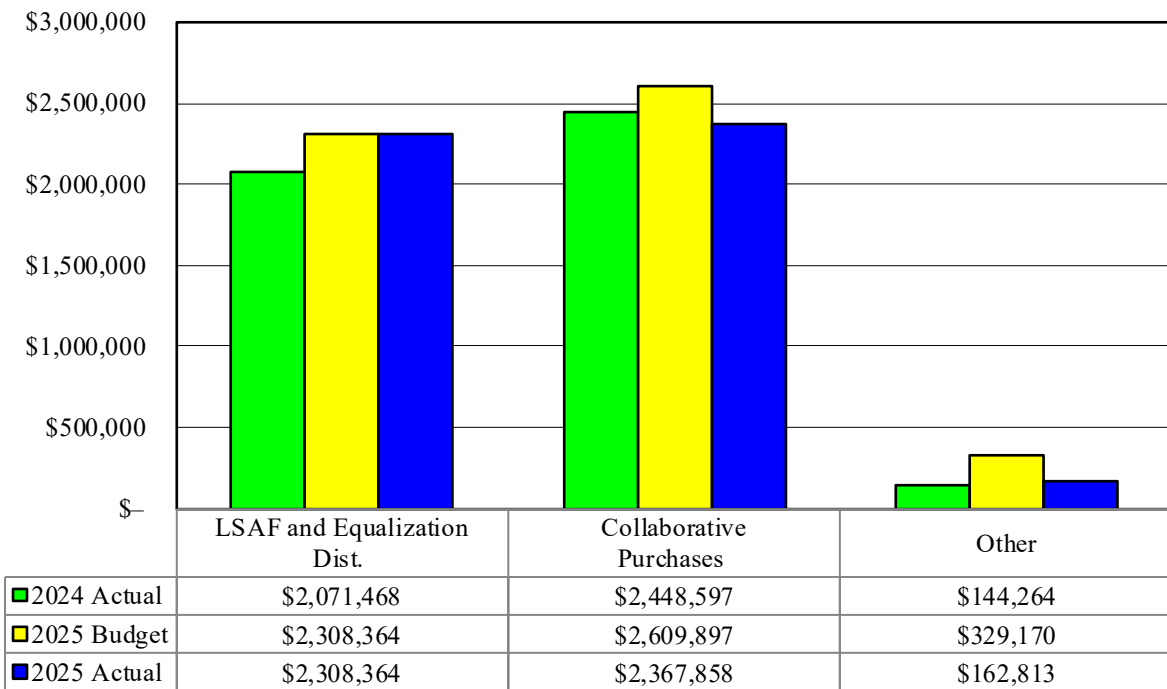
The following graphs illustrate the components of MELSA’s Cooperative Program expenditures:

Cooperative Program Expenditures – 2025



Cooperative Program expenditures for 2025 of \$4,839,035 were \$408,396 under budget. Expenditures were under budget in most areas, with the largest variances related to spending for electronic databases, promotions, and undesignated collaborative spending.

Cooperative Program Expenditures
Year Ended December 31,

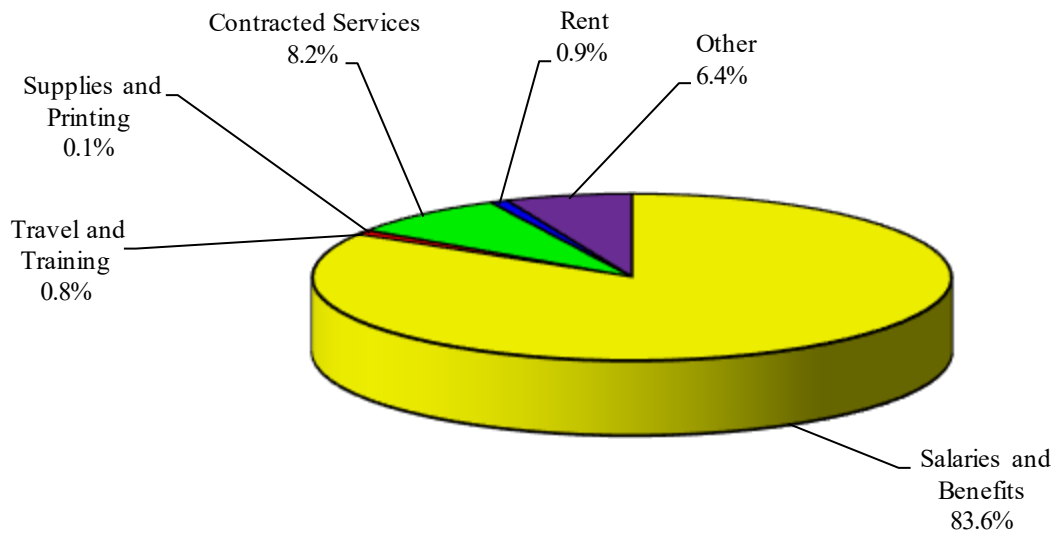


Total General Fund Cooperative Program expenditures increased \$174,706 (3.7 percent) from the prior year, mainly due to an increase of \$203,090 in MELSA’s LSAF program allocations.

ADMINISTRATION

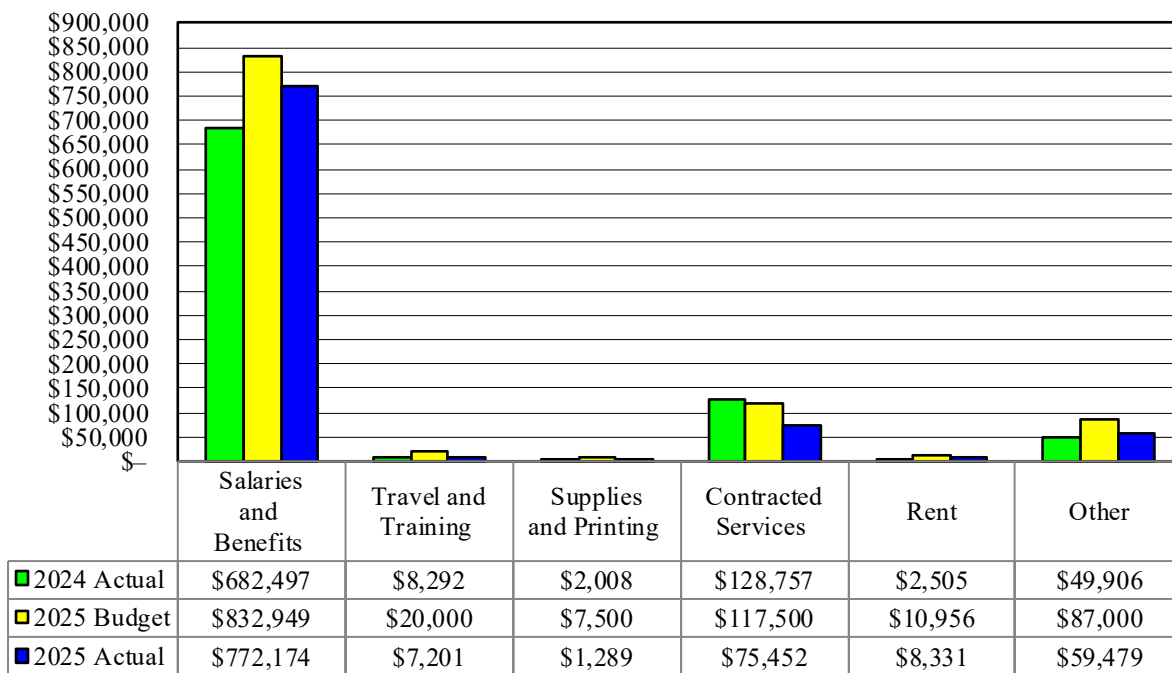
The following graphs illustrate the components of MELSA’s administrative expenditures:

Administrative Expenditures – 2025



Total General Fund administrative expenditures for 2025 were \$923,926, which was \$151,979 under budget. The variance was spread among all categories shown here, with the largest savings in salaries and benefits of \$60,775, due to the vacant Community Relations Director position for part of the year.

Administrative Expenditures
Year Ended December 31,



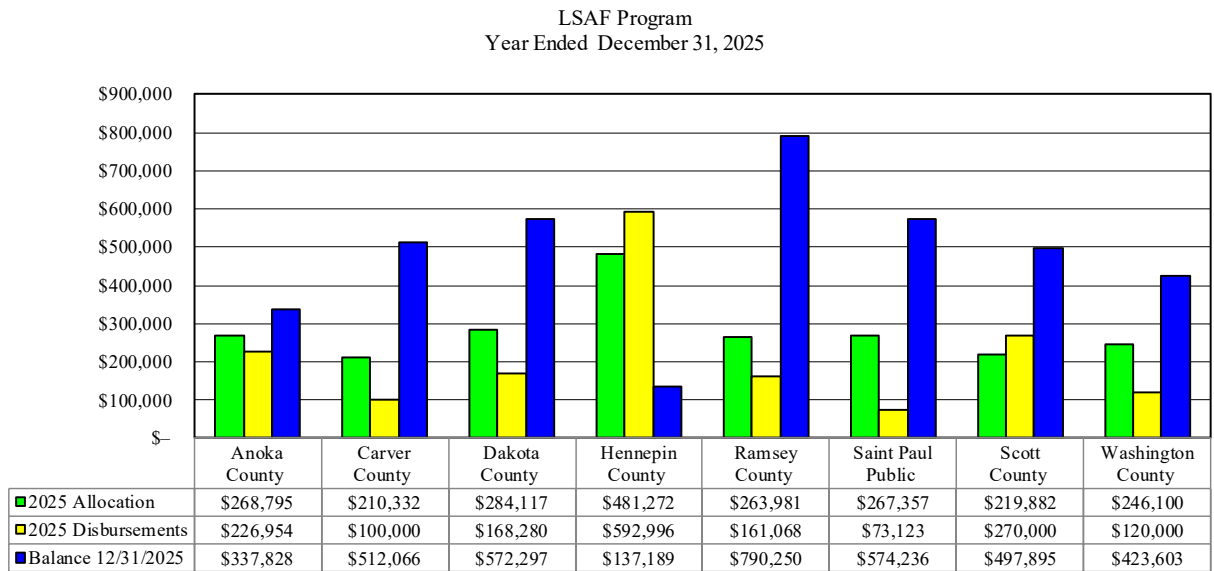
The total General Fund administrative expenditures were \$49,961 (5.7 percent) more than the previous year, predominantly in salaries and benefits which increased \$89,677, due to the Executive Director expenditures moving from contracted services to salary. The remaining categories decreased \$39,716, mainly due to the corresponding decrease in contracted services.

MEMBER LIBRARY ALLOCATIONS CUSTODIAL (FIDUCIARY) FUND

MELSA’s Member Library Allocations Custodial (fiduciary) Fund was established to hold funds allocated to its member library systems through its LSAF program for later expenditures. Allocations held in this fund belong to the member library systems, and are immediately available to be disbursed upon request, with no spending restrictions or approval requirements.

During the year ended December 31, 2025, MELSA’s Board of Trustees allocated \$2,241,836 to its member library systems through the LSAF Program.

The following graph presents current year LSAF Program allocations, disbursements, and year-end balances held in the custodial fund by member library system:



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 presents 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 in capital assets, restricted, and unrestricted.

The following table presents the components of MELSA's net position as of December 31, 2025 and 2024 for governmental activities:

	Governmental Activities Net Position	
	2025	2024
Net position		
Total fund balances	\$ 6,409,425	\$ 5,888,907
Net book value of capital assets	2,081,008	2,419,594
Lease liability	-	(25,809)
Compensated absences	(84,141)	(89,359)
PERA pension liability and deferments	(299,172)	(350,951)
Total net position	<u>\$ 8,107,120</u>	<u>\$ 7,842,382</u>
Net position		
Net investment in capital assets	\$ 2,081,008	\$ 2,393,785
Unrestricted	<u>6,026,112</u>	<u>5,448,597</u>
Total net position	<u>\$ 8,107,120</u>	<u>\$ 7,842,382</u>

MELSA ended 2025 with total net position of \$8,107,120, an increase of \$264,738 from the prior year.

MELSA's investment in capital assets decreased \$312,777 from the prior year, mainly due to the disposal of the New York Times archival database during the year, which had a net book value of \$609,814. Unrestricted net position increased \$577,515 during 2025, mainly due to positive current year operating results.

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/amortization 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, 2025 and 2024:

	2025		2024	
	Expenses	Program Revenue	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
Legacy Grant Programs	\$ 1,175,222	\$ 1,175,222	\$ -	\$ -
RLTA Grant Programs	500,903	500,903	-	-
Cooperative and other programs	5,931,470	-	(5,931,470)	(5,048,964)
Member technology distributions	-	-	-	(264,393)
Administration	896,688	-	(896,688)	(890,696)
Lease interest	416	-	(416)	(1,463)
Subtotal	<u>\$ 8,504,699</u>	<u>\$ 1,676,125</u>	(6,828,574)	(6,205,516)
General revenues				
Unrestricted grants			6,573,058	6,431,538
Investment income			514,195	555,354
Other general revenues			6,059	5,248
Total general revenues			<u>7,093,312</u>	<u>6,992,140</u>
Change in net position			<u>\$ 264,738</u>	<u>\$ 786,624</u>

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.

MELSA experienced an increase in total net position of \$264,738 in 2025, compared to an increase of \$786,624 in the previous year. The majority of the difference was due to the archival database capital asset disposal, which increased 2025 cooperative and other programs expense by \$609,814. Membership technology distributions were discontinued, due to allocation changes adopted by MELSA's Board of Trustees in 2024; however, this \$264,393 decrease in expense was partially offset by a \$203,090 increase in LSAF allocations (included in cooperative and other programs).

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.

GASB STATEMENT NO. 103, *FINANCIAL REPORTING MODEL IMPROVEMENTS*

The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues.

This statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). This statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. In addition, this statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

This statement defines unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence, and requires governments to display the inflows and outflows related to each unusual or infrequent item separately.

This statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses.

This statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

This statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in the notes to RSI.

The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

GASB STATEMENT NO. 104, *DISCLOSURE OF CERTAIN CAPITAL ASSETS*

The objective of this statement is to provide users of government financial statements with essential information about certain types of capital assets.

This statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by GASB Statement No. 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this statement requires intangible assets other than those three types to be disclosed separately by major class.

This statement also requires additional disclosures for capital assets held for sale. A capital asset is considered held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. Capital assets held for sale are required to be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

GASB STATEMENT NO. 105, *SUBSEQUENT EVENTS*

The objective of this statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users.

This statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This statement also requires the date through which subsequent events have been evaluated to be disclosed.

This statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events.

The requirements of this statement are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. Earlier application is encouraged.