

METROPOLITAN LIBRARY SERVICE AGENCY  
ST. PAUL, MINNESOTA

Financial Statements  
and Supplementary Information

Year Ended  
December 31, 2025



Certified Public Accountants Business Consultants

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METROPOLITAN LIBRARY SERVICE AGENCY  
ST. PAUL, MINNESOTA

**Table of Contents**

	Page
<b>INTRODUCTORY SECTION</b>	
<b>ORGANIZATIONAL CHART</b>	1
<b>ELECTED AND APPOINTED OFFICIALS</b>	2
<b>FINANCIAL SECTION</b>	
<b>INDEPENDENT AUDITOR’S REPORT</b>	3–5
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	6–17
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-Wide Financial Statements	
Statement of Net Position	18
Statement of Activities	19
Fund Financial Statements	
Governmental Funds	
Balance Sheet – General Fund	20
Reconciliation of the Balance Sheet to the Statement of Net Position	21
Statement of Revenue, Expenditures, and Changes in Fund Balances – General Fund	22
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	23
Statement of Revenue, Expenditures, and Changes in Fund Balances – General Fund – Budget and Actual	24–25
Fiduciary Funds	
Statement of Fiduciary Net Position	26
Statement of Changes in Fiduciary Net Position	26
Notes to Basic Financial Statements	27–43

METROPOLITAN LIBRARY SERVICE AGENCY  
ST. PAUL, MINNESOTA

**Table of Contents (continued)**

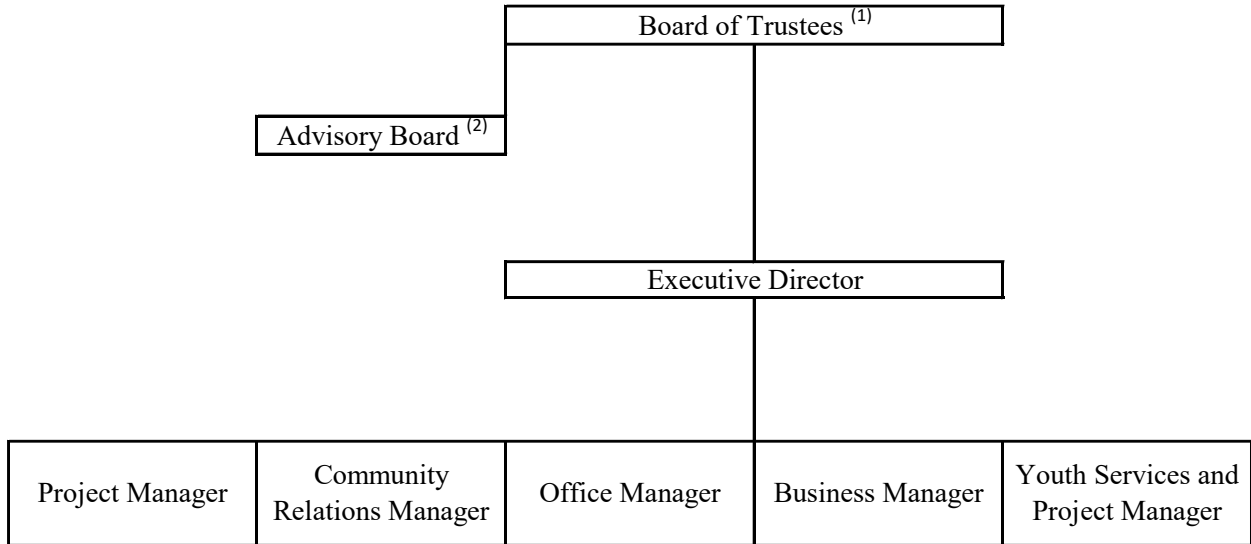
	Page
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
PERA – General Employees Retirement Fund	
Schedule of MELSA’s and Nonemployer Proportionate Share of Net Pension Liability	44
Schedule of MELSA Contributions	44
Notes to Required Supplementary Information	45–47
<b>OTHER SUPPLEMENTAL INFORMATION</b>	
Schedules of Selected Expenditures	48
<b>OTHER REQUIRED REPORTS</b>	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	49–50
Independent Auditor’s Report on Minnesota Legal Compliance	51
Schedule of Findings	52–53

INTRODUCTORY SECTION

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METROPOLITAN LIBRARY SERVICE AGENCY  
ST. PAUL, MINNESOTA

Organizational Chart  
December 31, 2025



<sup>(1)</sup> The Board of Trustees receives input and guidance from the Advisory Board.

<sup>(2)</sup> The Advisory Board makes recommendations to the Board of Trustees and MELSA staff.

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METROPOLITAN LIBRARY SERVICE AGENCY  
ST. PAUL, MINNESOTA

Elected and Appointed Officials  
Year Ended December 31, 2025

**BOARD OF TRUSTEES**

	<u>Term Expires</u>	
Julie Jeppson, Vice President	December 2028	Anoka County Commissioner
Matt Udermann	December 2026	Carver County Commissioner
Laurie Halverson, President	December 2026	Dakota County Commissioner
Debbie Goettel	December 2026	Hennepin County Commissioner
Garrison McMurtrey	December 2027	Ramsey County Commissioner
Beth Burns, Treasurer	December 2025	Mayoral Appointment Representing Saint Paul Public Library
Jody Brennan	December 2026	Scott County Commissioner
Michelle Clasen	December 2027	Washington County Commissioner

**ADMINISTRATION**

Sherry Wichitchu	Executive Director
Mona Scott	Business Manager

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FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

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

### **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

#### **OPINIONS**

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Metropolitan Library Service Agency (MELSA) as of and for the year ended December 31, 2025, 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, the major fund, and the aggregate remaining fund information of MELSA as of December 31, 2025, 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 the 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 for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

(continued)

## 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 judgment 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 section 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 previously audited MELSA's 2024 financial statements, and expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated May 7, 2025. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2024 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 April 30, 2026, 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.

Respectfully submitted,



LB CARLSON, LLP  
Minneapolis, Minnesota

April 30, 2026

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# METROPOLITAN LIBRARY SERVICE AGENCY

## Management's Discussion and Analysis Year Ended December 31, 2025

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, 2025.

### **FINANCIAL HIGHLIGHTS**

MELSA staff, Board of Trustees, Advisory Board, and staff at member library systems worked cooperatively in 2025 to benefit metro library users and advance the goals outlined in MELSA's 2022–2025 strategic plan:

- MELSA communicates the value and impact of public libraries in the metro area.
- MELSA programs and services support racial and social equity, inclusion, and diversity.
- Member libraries have the resources, support, and training needed to address changing library workforce needs.
- MELSA leverages its resources to enhance shared access to library services across the metro area.
- MELSA is a leader in fostering innovation, collaboration, and experimentation in metro area library services.

In late 2025, staff from MELSA and member library systems, board members, and other stakeholders collaborated to develop a new 2026–2028 strategic plan, approved in January 2026. Additional information will be provided in the narrative overview with the 2026 financial reports.

With funding received from three primary sources, Regional Library Basic System Support (RLBSS), Regional Library Telecommunications Aid (RLTA), and the Arts and Cultural Heritage Fund (ACHF, also known as the Legacy Amendment), MELSA continues to develop regionwide projects and programming, leverage its size to purchase resources and services, allocate funding to member libraries for operational and technology needs, and provide a collaborative platform for information sharing among MELSA boards and library staff. Demonstrating good stewardship of these public dollars remains a core principle of MELSA's mission.

This summary highlights examples of MELSA's efforts to support member library systems and enhance services to library users from the RLBSS grant and other revenue sources in 2025.

## **Regional Library Basic System Support (RLBSS)**

Changes in the RLBSS grant for regional public library systems that were passed by the Legislature in 2023 continued to impact MELSA libraries in 2025. Increases in the appropriation, the first since 2008, allowed MELSA to increase support for member library systems in various budget areas, such as the shared eCollection, youth services programming, staff training and development, and general library operations. Also included was an inflationary component to aid library systems with increasing costs to provide services to library users.

Another change to the RLBSS formula was an adjustment within the factors used to calculate the allocations to regional systems. One of these factors, Equalization, which allows counties with low per capita tax bases to earn a portion of the grant dollars due to their adjusted net tax capacity, had become increasingly volatile with the fluctuation of property values throughout the state. In the new state formula, the base factor was increased, and the Equalization factor was decreased in order to provide a more stable source of funding for regional systems. 10 percent of the Equalization funds awarded regionally to MELSA are distributed to the earning library systems; Saint Paul Public Library (via Ramsey County) earned \$42,528 from these funds in 2025.

The following programs and services are supported by RLBSS funding:

- In 2025, MELSA library systems began collaborating on a major initiative to address literacy gaps—early learning, school-age, adult, digital, etc.—within their service areas. Member library systems will develop and enhance programs and services to meet local community needs. MELSA will provide support for the systems with promotions and community awareness campaigns, connection with external partners and resources, and other efforts as needed over the three-year project.
- Library systems received operational support from MELSA with the second year of the Library Systems Allocations Funds (LSAF). Prior distribution programs were combined and restructured in 2024 with a new formula, and additional RLBSS funds increased the total available for the systems to \$2 million. In 2025, a one-time increase from interest earned was also added. The LSAF has two components: the bulk of the allocations are available for general library operations with a smaller equity share reserved for efforts to identify and remove barriers to library services for communities who have experienced historical marginalization.

Total LSAF distributions in 2025 were: \$268,795 to Anoka County, \$210,332 to Carver County, \$284,117 to Dakota County, \$481,272 to Hennepin County, \$263,981 to Ramsey County (including an additional \$22,177 for a hold harmless transition from the prior formula), \$267,357 to Saint Paul Public, \$219,882 to Scott County, and \$246,100 to Washington County.

- The shared eBook, eAudio, and eMagazine collections on OverDrive continue to grow in popularity and value to library users. The 2025 budget included \$650,000 to purchase content, primarily focusing on high demand and high interest titles, and \$180,000 for systems' platform fees (of which \$162,000 is also available for content credit). Additional content to meet holds on popular titles was purchased during the year with an assignment of \$300,000 from the fund balance and additions of \$94,700 from other lines in the annual budget. At year-end, the MELSA shared collection included 117,058 copies of eBook titles, 56,174 copies of eAudiobook titles, and 6,178 magazine titles. eBook and eAudiobook checkouts of MELSA and systems' collections combined exceeded 13 million in 2025, the highest public library consortium worldwide for OverDrive circulation.

- Use of MELSA funding for the collaborative purchase of electronic resources provided savings to member library systems and greater access for library users. The collection of resources offers a wide range of topics and services, such as local newspapers, reference databases, genealogy research, auto repair, foreign language learning, homework help, job search and resume assistance, and tutorials on a variety of subjects. Each year, a due diligence process is performed by the Electronic Resources Team to evaluate the quality of the resources, their cost effectiveness, and continued value to library users. Two resources were added in 2025: ConsumerReports.org and Craft & Hobby which offers video instructions for arts and crafts activities along with a broad range of topics such as cooking, woodworking, fitness and yoga.
- MELSA continued its support of these online tools for member libraries in 2025: Syndetics, a catalog enrichment product that provides cover images, professional reviews, and other features; LibCal, an event, room, and equipment reservations system; and Niche Academy, which offers video instructional materials to enhance the licensed online resources available at the library systems and can also be used as an online platform for staff training.
- Following an RFI process in 2024, MELSA purchased mobile apps for the library systems with the final two systems implemented in 2025. To meet systems' needs, two mobile apps were selected: SOLUS for five of the systems and BiblioApps for three of the systems.
- MELSA staff and a contracted consultant successfully applied for E-rate funds, a federal telecommunications reimbursement program, for the eight member libraries. The total amount received by member systems and the MELSA office in 2025 for E-rate funding year July 2024–June 2025 was \$412,012.
- In 2025, MELSA provided \$24,000 in total to the systems to support maintenance costs of NCIP, a national software protocol to increase efficiencies with library circulation and interlibrary loan.
- MELSA continues to facilitate delivery of library materials borrowed and returned and other information and communications among the eight member library systems and the MELSA office.
- MELSA funding continued for classes to support job seekers and small business owners in 2025. A total of \$85,000 was divided among the systems to meet programming needs. Ninety-six classes were contracted by MELSA and taught by instructors from Calliope Search and Consulting, Loft Literary Center, and Keer Keer Creative. In addition, 23 classes and events were contracted independently by the libraries with this funding. Classes were a blend of virtual and in-person to reach and offer flexibility for library users. Topics included search engine optimization, applications and resumes, writing for the web, and social media management. Over 2,000 library users attended MELSA- and library-contracted classes live and via recordings of the instruction. Unspent regional and system funds of \$8,621 were redirected to a one-time purchase of eBook content on related subjects.
- MELSA contributes to a state-wide program called Indie Author Project, a collaboration between Minitex and the regional public library systems of Minnesota. This program provides resources and tools for authors to create, publish, and share professional-quality eBooks and allows readers to access locally produced independent collections for free to Minnesota residents. The project also includes an annual contest to celebrate the winning indie titles in adult and young adult fiction.

- Member libraries offered the Winter Reads adult reading program for the 17th consecutive year. The program runs in January and February and is designed to encourage adults to read and submit book reviews. The library systems had a number of system-specific programs, activities, and giveaways, in addition to a giveaway provided by MELSA. MELSA also supported programming with Winter Reads posters and wrapping paper to use for displays and provided advertising support through startribune.com and social media ads. More than 20,000 adults participate metro-wide.
- MELSA continued the ninth year of smARTpass, a web-based arts access program for library users in partnership with local cultural organizations who donate free admissions to library users. Several new cultural organizations joined the program, and the number of free offers continued to exceed the pre-pandemic numbers. Funding for hosting and maintenance of the smARTpass website is provided by MELSA.
- In 2025, advertising focused on resources for students and job seekers, the eLibrary, and on free classes and resources to support hobbies/interests/skills offered by the library systems. MELSA continued the “Connect with Your Library” campaign to showcase the ways users connect at/with the libraries as community hubs. MELSA renewed its annual contract with startribune.com, which includes phone and iPad app advertising, in addition to the startribune.com website, print ads, and e-mails to subscribers. Print and digital advertising with La Vos Latina, Mpls/St. Paul magazine, the Minnesota Women’s Press, Minnesota Parent, and the Sahan Journal continued (with features introducing three library staff). MELSA continued their contract with the AM950 radio station, as well as an exclusive June 2025 sponsorship for MPR The Current’s Pride Stream to promote MELSA's presence at Twin Cities Pride. Outreach with new media partners in the local Latino and Somali communities began at the end of 2025.
- MELSA continued to sponsor two in-person events in 2025 staffed by MELSA and the library systems. MELSA’s table at the Twin Cities Book Festival featured several local authors signing books and distributed print information on the eLibrary and the Club Book author series, as well as give-away items and materials provided by library systems. At the Twin Cities Pride Festival, MELSA’s library ambassadors gave out Pride buttons and bookmarks, and distributed library information to thousands of attendees.
- MELSA continued annual marketing for Summer at Your Twin Cities Metro Public Library, the regional branding used by member library systems for creation of their local programming. 2025 saw a growing number of participants coming back to summer programs. With a goal to lessen the impact of summer learning loss for children, the libraries offered a variety of reading and learning engagement programming that included literary, music, and art activities, and live performances at library sites.
- A total of \$192,000 was allocated to the member library systems for summer reading programs, and other youth, teen, and STEM programming. These funds enhanced local initiatives from storytime for infants to training teens on coding and life skills. As in previous years, systems also used the funding for creation of welcoming and engaging spaces for young library users to gather for library programming and social interaction.
- Each year member libraries actively encourage library users to participate in three reader choice awards through the Minnesota Youth Reading Awards (MYRA) organization. These include: Maud Hart Lovelace Divisions I (Grades 3–5) and II (Grades 6–8), and the Star of the North picture book award. MELSA supported this activity by creating nominee trackers, posters, and making online voting available.

- Library staff training and education continued to be a focus for MELSA and its member library systems. Systems share a total professional development budget of \$190,000, allocated with a formula using factors of population, total FTEs, and a base amount. Systems spent their allocations in a variety of ways to enhance staff performance, such as local, state, and national library conferences, classes at educational and community institutions, consultants for leadership development and organizational strategy, annual staff development events at their libraries, and memberships with library organizations that offer training.
- MELSA staff coordinated two regional training events for library staff in 2025. In October, 50 staff from the library systems participated in two remote sessions of the Welle de-escalation training. In November, 132 library staff attend several remote and in-person trainings on various patron-facing and management topics, including de-escalation, culturally responsive practices, stress, burnout, and resiliency, coaching employees, and change polarity for managers.

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. Some teams are responsible for determining optimal use of sections of the MELSA budget to provide recommendations to the Advisory Board. Current groups focus on electronic resources, collection development, technology, youth and teen services, promotion, circulation, cataloging, 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 aid program, which supplements the E-rate program for internet and line access costs (Priority 1). Once Priority 1 costs are met for the 12 regional library systems in the state, remaining funds (Priority 2) are allocated to the regional systems using a formula with weighted population, broadband, and poverty factors. Priority 2 funding is used for E-rate eligible equipment and/or for purchases 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.” MELSA member library systems used Priority 2 funds to meet a variety of local technology needs, such as the purchase of equipment and computers, software, e-content, and other services and tools supporting digital services for library users.

Using actual costs submitted by the systems for Priority 1, and a formula calculation with 20 percent base and 80 percent population for Priority 2 funds, combined Priority 1 and 2 RLTA distributions to the systems were \$464,235.

### **Arts and Cultural Heritage Fund (ACHF, also called the 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 and to preserve Minnesota’s history and cultural heritage. MELSA received an appropriation of \$1,073,155 for state fiscal year 2025 (July 2024–June 2025) and an appropriation of \$1,042,094 for state fiscal year 2026 (July 2025–June 2026). In state fiscal years 2025 and 2026, MELSA’s allocation was distributed in three areas:

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

In 2025, MELSA and member libraries continued to deliver Legacy programs through innovative partnerships with community artists and organizations, in-person programming, live virtual programming, prerecorded content, take-and-make kits, and more. MELSA and member libraries provided more than 310 programs with over 790 events and over 61,800 attendees.

Examples of programming supported by regional ACHF funds:

- The Club Book author program features best-selling and award-winning authors from across the country, as well as highlighting local talent. In 2025, 16 virtual and in-person events drew 1,898 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 2025 programs was over 3,400. The total number of podcast views of all programs since 2014 has grown to over 69,000 views.
- MELSA uses Legacy funds to support History Day in Minnesota across the region through Hullabalooos. Hullabalooos are research open houses where middle and high school students visit public and academic libraries to receive help on their History Day projects, including working with librarians to locate relevant resources, accessing library databases and resources, receiving one-on-one feedback about their projects, and attending mini workshops about various aspects of History Day projects. 384 students from 47 schools attended one of the 12 Hullabalooos held from December 2024–February 2025.
- The Teen Lit Con event, funded primarily by Legacy, was held at Two Rivers High School again in 2025. This collaborative event is coordinated by MELSA with support from Youth Services and Teen Services groups; planning partners from school and public libraries; a bookseller partner, Mackin Educational Resources; and the multitype library system, Metronet. Teen Lit Con connects teens with favorite authors, introduces them to new authors and books, and provides a space to interact with peers interested in reading. Teens can participate in a variety of activities, including author talks, book related games and arts, writing workshops, book talk breakout sessions, and an exhibit hall. Attendance was estimated at 900.
- In 2025, MELSA's Youth Services Team launched an early childhood initiative from Arts & Cultural Heritage funding to highlight significant picture books by Minnesota authors and illustrators. Featured in 2025 were two titles by David LaRochelle and illustrator Mike Wohnoutka, *Mr. Fox's Game of "No"* and *Go and Get with Rex*. Rochelle and Wohnoutka entertained families at two programs for each of the member library systems. Incorporated with a read aloud of each book were interactive games, drawing and learning opportunities, and storywalks of each title were on display at the library systems.

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, cooperative and other programs, member technology distributions, and administration.

**Fund Financial Statements** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MELSA, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. MELSA maintains two fund types – governmental and fiduciary 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 one governmental fund to account for its operations. 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 General Fund Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balances provide reconciliations to facilitate this comparison between governmental funds and governmental activities.

MELSA maintains a fiduciary (custodial) fund to account for certain funds MELSA allocates to and holds for its member libraries. MELSA is the trustee, or fiduciary, for these assets that belong to its member libraries, and is responsible for ensuring the assets are used only for their intended purposes and by those to whom the assets belong. MELSA's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the government-wide financial statements because MELSA cannot use these assets to finance its operations.

**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:

	<u>2025</u>	<u>2024</u>	<u>Annual Change</u>
<b>Assets</b>			
Current and other assets	\$ 8,901,233	\$ 8,429,420	\$ 471,813
Capital assets, net	<u>2,081,008</u>	<u>2,419,594</u>	<u>(338,586)</u>
Total assets	<u>\$ 10,982,241</u>	<u>\$ 10,849,014</u>	<u>\$ 133,227</u>
<b>Deferred outflows of resources</b>			
Pension plan deferments	<u>\$ 48,301</u>	<u>\$ 52,697</u>	<u>\$ (4,396)</u>
<b>Liabilities</b>			
Other liabilities	\$ 273,162	\$ 258,669	\$ 14,493
Net pension liability	203,061	235,314	(32,253)
Long-term liabilities, including due within one year	<u>84,141</u>	<u>115,168</u>	<u>(31,027)</u>
Total liabilities	<u>\$ 560,364</u>	<u>\$ 609,151</u>	<u>\$ (48,787)</u>
<b>Deferred inflows of resources</b>			
Grants received for subsequent year	\$ 2,218,646	\$ 2,281,844	\$ (63,198)
Pension plan deferments	<u>144,412</u>	<u>168,334</u>	<u>(23,922)</u>
Total deferred inflows of resources	<u>\$ 2,363,058</u>	<u>\$ 2,450,178</u>	<u>\$ (87,120)</u>
<b>Net position</b>			
Net investment in capital assets	\$ 2,081,008	\$ 2,393,785	\$ (312,777)
Unrestricted	<u>6,026,112</u>	<u>5,448,597</u>	<u>577,515</u>
Total net position	<u>\$ 8,107,120</u>	<u>\$ 7,842,382</u>	<u>\$ 264,738</u>

MELSA's financial position is the product of many factors. For example, the determination of MELSA's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation/amortization amounts. Differences in estimated useful lives and 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 \$8,107,120 at the close of the most recent fiscal year, an increase of \$264,738 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 at the previous year-end. Approximately 25.7 percent of MELSA's net position reflects its net investment in capital assets (e.g., archival database, leases, furniture and equipment, and software subscriptions). These long-term assets are used to provide services to MELSA's stakeholders, and are consequently not available for future spending. The remaining unrestricted net position of \$6,026,112 may be used to meet MELSA's ongoing obligations to citizens and creditors.

**Governmental Activities** – Governmental activities increased MELSA’s net position by \$264,738 during the year ended December 31, 2025. Key elements of this increase are as follows:

	<u>2025</u>	<u>2024</u>	<u>Annual Change</u>
<b>Revenues</b>			
Program revenues			
Operating grants and contributions	\$ 1,676,125	\$ 1,623,704	\$ 52,421
General revenues			
Unrestricted grants	6,573,058	6,431,538	141,520
Other	520,254	560,602	(40,348)
Total revenues	<u>8,769,437</u>	<u>8,615,844</u>	<u>153,593</u>
<b>Expenses</b>			
Legacy Grant Programs	1,175,222	1,123,681	51,541
RLTA Grant Programs	500,903	476,167	24,736
Cooperative and other programs	5,931,470	5,048,964	882,506
Member technology distributions	–	264,393	(264,393)
Administration	896,688	914,552	(17,864)
Lease interest	416	1,463	(1,047)
Total expenses	<u>8,504,699</u>	<u>7,829,220</u>	<u>675,479</u>
Change in net position	264,738	786,624	(521,886)
Net position – beginning	<u>7,842,382</u>	<u>7,055,758</u>	<u>786,624</u>
Net position – ending	<u>\$ 8,107,120</u>	<u>\$ 7,842,382</u>	<u>\$ 264,738</u>

Overall, MELSA’s government-wide revenue increased \$153,593 from the previous year, which is comprised of changes in the following revenue line items:

- Operating grants and contributions were \$52,421 higher than last year, mainly due to an increase in Legacy revenue.
- Unrestricted grants increased \$141,520. 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 increase in MELSA’s 2025 RLBSS revenue reflects a net increase in these entitlements for state fiscal years ending June 30, 2026 and 2025, compared to entitlements for state fiscal years ending June 30, 2025 and 2024.
- The \$40,348 decrease in other general revenues primarily resulted from a decrease in investment income compared to the previous year.

MELSA's government-wide expenses for 2025 were \$675,479 more than 2024, as detailed in the following major expense areas:

- Legacy Grant expenses increased \$51,541, corresponding with the increase in Legacy Grant revenue.
- RLTA Grant expenses as submitted by member library systems, excluding the portion used to reimburse MELSA office internet, were \$24,736 more than last year.
- The \$882,506 increase in cooperative and other programs expense was primarily attributable to the disposal of an archival database capital asset with a net book value of \$609,814. The Library Systems Allocations Funds (LSAF) also increased by \$203,090 in 2025.
- Membership technology distributions were discontinued due to allocation changes adopted by MELSA's Board of Trustees in 2024.

## **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.

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 \$6,409,425. 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 \$75,666 at year-end represents 0.9 percent of the total General Fund expenditures for 2025.

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

	2025			2024	
	Original Budget	Final Budget	Actual	Over (Under) Budget	Actual
Revenue	\$ 7,853,226	\$ 8,223,342	\$ 8,769,437	\$ 546,095	\$ 8,604,854
Expenditures	<u>8,034,299</u>	<u>8,704,416</u>	<u>8,248,919</u>	<u>(455,497)</u>	<u>7,905,758</u>
Excess (deficiency) of revenue over expenditures	(181,073)	(481,074)	520,518	1,001,592	699,096
Other financing sources	–	–	–	–	110
Other financing (uses)	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(24,000)</u>
Net change in fund balances	<u>\$ (181,073)</u>	<u>\$ (481,074)</u>	520,518	<u>\$ 1,001,592</u>	675,206
Fund balances					
Beginning of year			<u>5,888,907</u>		<u>5,213,701</u>
End of year			<u>\$ 6,409,425</u>		<u>\$ 5,888,907</u>

MELSA’s Board of Trustees adopted mid-year budget amendments to reflect actual revenue to be received from the RLBSS State Grant and increased investment income. Corresponding adjustments were made to the expenditures budget, reflecting the use of these funds, anticipated fund balance carryovers, and other estimated accruals.

- Total revenue was \$164,583 higher than last year, mainly due to increases in RLBSS funding.
- State aid and grants revenue was over budget by \$406,182, primarily because a portion of RLBSS funds (Equalization) is carried over to the subsequent year and intentionally not included in the current year budget.
- Investment income exceeded budget by \$138,410, due to more favorable interest rates and market conditions than anticipated.
- Legacy Grant expenditures were \$102,067 over budget (the budget is based on current year appropriations), due to increased spending by some member library systems.
- Total expenditures for cooperative programs were \$408,396 less than budgeted, including:
  - Electronic database expenditures were under budget by \$167,783, primarily due to cancellation of the New York Times archival database.
  - Other member library services were \$166,357 under budget, with the largest variances in adult programming, technology measures tools, promotions, and undesignated collaborative spending.
- Actual administration expenditures were \$151,979 less than budgeted, due to conservative budgeting and the Community Relations Manager position being vacant for part of the year.

## CAPITAL ASSETS AND LONG-TERM LIABILITIES

**Capital Assets** – MELSA’s investment in capital assets for its governmental activities as of December 31, 2025, amounted to \$2,081,008 (net of accumulated depreciation/amortization). This investment in capital assets includes intangible assets – eCollection, eMaterials subscriptions, and furniture and equipment. Capital asset changes during the current fiscal year included the following:

	<u>2025</u>	<u>2024</u>
Capital assets, not depreciated/amortized		
Intangible assets – eCollection	\$ 1,594,878	\$ 1,294,809
Capital assets, depreciated/amortized		
Archival databases	–	1,478,734
Furniture and other equipment	46,637	45,786
Lease – office space	–	87,112
eMaterials subscriptions	914,163	687,301
Accumulated depreciation/amortization	<u>(474,670)</u>	<u>(1,174,148)</u>
Net capital assets, depreciated/amortized	<u>486,130</u>	<u>1,124,785</u>
 Total capital assets, net of depreciation/amortization	 <u>\$ 2,081,008</u>	 <u>\$ 2,419,594</u>
 Depreciation/amortization expense	 <u>\$ 512,380</u>	 <u>\$ 419,953</u>

MELSA purchased \$783,608 of capital assets in the current year, consisting primarily of additions to its eCollection and eMaterials subscriptions.

MELSA library systems discontinued use of the New York Times archival database. The lease for MELSA’s administrative space ended during the year, and MELSA opted to continue to occupy the space under a new short-term rental agreement while exploring options for the future.

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

**Long-Term Liabilities** – MELSA reported long-term employee benefits liabilities at year-end of \$84,141 for compensated absences and a Public Employees Retirement Association net pension liability of \$203,061. Additional information on MELSA’s long-term liabilities can be found in the notes to basic financial statements.

## REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Net Position  
as of December 31, 2025  
(With Partial Comparative Information as of December 31, 2024)

	Governmental Activities	
	2025	2024
Assets		
Cash and investments	\$ 8,134,018	\$ 7,442,062
Receivables		
Interest	–	26,420
Accounts	–	4,657
Due from fiduciary fund	12,412	263,624
Prepays	754,803	692,657
Capital assets		
Not depreciated/amortized	1,594,878	1,294,809
Depreciated/amortized, net	486,130	1,124,785
Total assets	<u>10,982,241</u>	<u>10,849,014</u>
Deferred outflows of resources		
Pension plan deferments	<u>48,301</u>	<u>52,697</u>
Total assets and deferred outflows of resources	<u>\$ 11,030,542</u>	<u>\$ 10,901,711</u>
Liabilities		
Accounts payable	\$ 168,862	\$ 140,453
Due to member libraries	–	2,820
Unearned revenue	104,300	115,396
Net pension liability, due in more than one year	203,061	235,314
Long-term liabilities		
Due within one year	50,419	84,926
Due in more than one year	33,722	30,242
Total liabilities	<u>560,364</u>	<u>609,151</u>
Deferred inflows of resources		
Grants received for subsequent year	2,218,646	2,281,844
Pension plan deferments	144,412	168,334
Total deferred inflows of resources	<u>2,363,058</u>	<u>2,450,178</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>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 11,030,542</u>	<u>\$ 10,901,711</u>

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Activities  
 Year Ended December 31, 2025  
 (With Partial Comparative Information for the Year Ended December 31, 2024)

Functions/Programs	2025		2024	
	Expenses	Program Revenues Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position Governmental Activities	Net (Expenses) Revenue and Changes in Net Position Governmental Activities
Governmental activities				
Legacy Grant Programs	\$ 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)
Total governmental activities	<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			264,738	786,624
Net position – beginning of year			<u>7,842,382</u>	<u>7,055,758</u>
Net position – end of year			<u>\$ 8,107,120</u>	<u>\$ 7,842,382</u>

METROPOLITAN LIBRARY SERVICE AGENCY

Balance Sheet

General Fund

as of December 31, 2025

(With Partial Comparative Information as of December 31, 2024)

	<u>2025</u>	<u>2024</u>
<b>Assets</b>		
Cash and investments	\$ 8,134,018	\$ 7,442,062
Receivables		
Interest	–	26,420
Accounts receivable	–	4,657
Due from fiduciary fund	12,412	263,624
Prepays		
Databases	506,124	464,060
Other	<u>248,679</u>	<u>228,597</u>
Total assets	<u><u>\$ 8,901,233</u></u>	<u><u>\$ 8,429,420</u></u>
<b>Liabilities</b>		
Accounts payable	\$ 168,862	\$ 140,453
Due to member libraries	–	2,820
Unearned revenue	<u>104,300</u>	<u>115,396</u>
Total liabilities	273,162	258,669
<b>Deferred inflows of resources</b>		
Grants received for subsequent year	2,218,646	2,281,844
<b>Fund balances</b>		
Nonspendable for prepaids	754,803	692,657
Assigned for compensated absences	84,142	89,360
Assigned for contingencies	2,000,000	2,000,000
Assigned for shared e-book/e-audio collection	300,000	300,000
Assigned for adult programming allocations	42,000	–
Assigned for Equalization carryforward	302,814	181,073
Assigned for RLBSS funding stabilization	250,000	250,000
Assigned for working capital	1,275,000	1,100,000
Assigned for collaborative initiatives	1,200,000	1,200,000
Assigned for marketing support for initiatives	75,000	–
Assigned for external support for initiatives	50,000	–
Unassigned	<u>75,666</u>	<u>75,817</u>
Total fund balances	<u><u>6,409,425</u></u>	<u><u>5,888,907</u></u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 8,901,233</u></u>	<u><u>\$ 8,429,420</u></u>

METROPOLITAN LIBRARY SERVICE AGENCY

Reconciliation of the Balance Sheet to the  
Statement of Net Position  
Governmental Funds  
as of December 31, 2025  
(With Partial Comparative Information as of December 31, 2024)

	<u>2025</u>	<u>2024</u>
Total fund balances – total governmental funds	\$ 6,409,425	\$ 5,888,907
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	2,555,678	3,593,742
Less accumulated depreciation/amortization	(474,670)	(1,174,148)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
Lease liability	–	(25,809)
Compensated absences	(84,141)	(89,359)
Net pension liability – PERA	(203,061)	(235,314)
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	48,301	52,697
Deferred inflows of resources – pension plan deferments	<u>(144,412)</u>	<u>(168,334)</u>
Total net position – governmental activities	<u>\$ 8,107,120</u>	<u>\$ 7,842,382</u>

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Revenue, Expenditures, and Changes in Fund Balances  
General Fund

Year Ended December 31, 2025

(With Partial Comparative Information for the Year Ended December 31, 2024)

	<u>2025</u>	<u>2024</u>
Revenue		
State aid and grants	\$ 8,249,179	\$ 8,044,252
Investment income	514,195	555,354
Other	6,063	5,248
Total revenue	<u>8,769,437</u>	<u>8,604,854</u>
Expenditures		
Current		
Legacy Grant Programs	1,175,222	1,123,681
RLTA Grant Programs	500,903	476,167
Cooperative programs	4,839,035	4,664,329
Administration	923,926	873,965
Debt service		
Principal	25,809	29,244
Interest	416	1,463
Capital outlay	783,608	736,909
Total expenditures	<u>8,248,919</u>	<u>7,905,758</u>
Excess of revenue over expenditures	520,518	699,096
Other financing sources (uses)		
Transfers in – residual funding	–	110
Transfers (out) – NCIP maintenance	–	(24,000)
Total other financing sources (uses)	<u>–</u>	<u>(23,890)</u>
Net change in fund balances	520,518	675,206
Fund balances		
Beginning of year	<u>5,888,907</u>	<u>5,213,701</u>
End of year	<u>\$ 6,409,425</u>	<u>\$ 5,888,907</u>

METROPOLITAN LIBRARY SERVICE AGENCY

Reconciliation of the Statement of  
Revenue, Expenditures, and Changes in Fund Balances  
to the Statement of Activities  
Governmental Funds  
Year Ended December 31, 2025

(With Partial Comparative Information for the Year Ended December 31, 2024)

	<u>2025</u>	<u>2024</u>
Total net change in fund balances – total governmental funds	\$ 520,518	\$ 434,703
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/amortization expense.		
Capital outlays	783,608	736,909
Depreciation/amortization expense	(512,380)	(419,953)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.		
	(609,814)	(34,876)
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.		
Lease liability	25,809	29,244
Compensated absences	5,218	7,664
Net pension liability – PERA	32,253	133,750
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	(4,396)	(52,053)
Deferred inflows of resources – pension plan deferments	23,922	(48,764)
Change in net position – governmental activities	<u>\$ 264,738</u>	<u>\$ 786,624</u>

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Revenue, Expenditures, and Changes in Fund Balances  
 General Fund  
 Budget and Actual  
 Year Ended December 31, 2025

	Budget		Actual	Over (Under)
	Original	Final		Final Budget
<b>Revenue</b>				
State aid and grants	\$ 7,650,746	\$ 7,842,997	\$ 8,249,179	\$ 406,182
Investment income	197,920	375,785	514,195	138,410
<b>Other revenue</b>				
e-Rate reimbursement revenues	4,560	4,560	5,131	571
Miscellaneous	—	—	932	932
Total revenue	<u>7,853,226</u>	<u>8,223,342</u>	<u>8,769,437</u>	<u>546,095</u>
<b>Expenditures</b>				
<b>Current</b>				
Legacy Grant Programs	1,073,155	1,073,155	1,175,222	102,067
RLTA Grant Programs	500,903	500,903	500,903	—
<b>Cooperative programs</b>				
<b>Distributions – member libraries</b>				
Library system allocation funds	2,000,000	2,241,836	2,241,836	—
Equalization to earning libraries	42,528	42,528	42,528	—
NCIP maintenance	24,000	24,000	24,000	—
<b>Collaborative region-wide purchases</b>				
Electronic databases	1,097,078	1,097,078	929,295	(167,783)
Homework help	250,000	250,000	250,000	—
Employment help	33,000	33,000	30,250	(2,750)
Collaborative e-book and e-audio collection	49,203	399,203	398,051	(1,152)
Electronic self-publishing project	25,000	25,000	19,045	(5,955)
Catalog enhancements	140,265	140,265	126,953	(13,312)
Calendar software	25,000	25,000	22,823	(2,177)
Mobile application	135,000	135,000	121,991	(13,009)
<b>Contracted services for member libraries</b>				
Delivery service	60,801	60,801	59,980	(821)
Printing and copying	8,000	8,000	3,370	(4,630)
E-rate consulting	10,000	11,500	8,400	(3,100)
<b>Staff and board training – member libraries</b>				
Workshops and leadership seminars	25,000	25,000	12,495	(12,505)
Professional development	190,000	190,000	185,775	(4,225)
Urban Library Council membership	750	750	1,000	250
<b>Youth service programs – member libraries</b>				
Youth and teen programming	156,000	156,000	156,072	72
Youth services literacy initiative	53,300	53,300	42,358	(10,942)
<b>Other services – member libraries</b>				
Jobs and small business initiative	85,000	85,000	79,988	(5,012)
Adult programming allocations	—	42,000	—	(42,000)
Inclusion initiatives	8,000	8,000	—	(8,000)
Technology measures tools	27,769	27,769	3,225	(24,544)
Cultural pass	7,500	10,000	7,730	(2,270)
Promotions	110,000	110,000	67,832	(42,168)
Event participation costs	—	—	4,038	4,038
Undesignated collaborative spending	63,971	46,401	—	(46,401)
Total cooperative programs	<u>4,627,165</u>	<u>5,247,431</u>	<u>4,839,035</u>	<u>(408,396)</u>

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Revenue, Expenditures, and Changes in Fund Balances  
 General Fund  
 Budget and Actual (continued)  
 Year Ended December 31, 2025

	Budget		Actual	Over (Under)
	Original	Final		Final Budget
Expenditures (continued)				
Current (continued)				
Administration				
Salaries and benefits				
Salaries	608,197	629,778	598,446	(31,332)
Fringe benefits	196,401	199,671	172,789	(26,882)
Other payroll expense	3,500	3,500	939	(2,561)
Staff travel and training				
Local travel	5,000	5,000	3,470	(1,530)
Staff education/conferences	15,000	15,000	3,731	(11,269)
Supplies and printing				
Office supplies	4,000	4,000	990	(3,010)
Printing, copying, and postage	3,500	3,500	299	(3,201)
Contracted services				
Technology support	20,000	20,000	11,179	(8,821)
Website and hosting	13,000	13,000	4,063	(8,937)
Legal services	8,500	8,500	4,820	(3,680)
Accounting services	25,000	25,000	23,900	(1,100)
Consulting services	25,000	50,000	31,490	(18,510)
Digitization services	1,000	1,000	-	(1,000)
Other administrative				
Equipment, software, and maintenance	26,000	26,000	8,103	(17,897)
Meetings	8,000	8,000	6,315	(1,685)
Rent	10,956	10,956	8,331	(2,625)
Internet access	6,700	6,700	5,131	(1,569)
Telephone	1,500	1,500	1,268	(232)
Insurance	17,000	17,000	15,784	(1,216)
Dues and memberships	5,000	5,000	2,127	(2,873)
CRPLSA expenditures	21,500	21,500	19,653	(1,847)
Other	1,300	1,300	1,098	(202)
Total administration	<u>1,026,054</u>	<u>1,075,905</u>	<u>923,926</u>	<u>(151,979)</u>
Total current expenditures	<u>7,227,277</u>	<u>7,897,394</u>	<u>7,439,086</u>	<u>(458,308)</u>
Debt service				
Principal	25,809	25,809	25,809	-
Interest	416	416	416	-
Total debt service	<u>26,225</u>	<u>26,225</u>	<u>26,225</u>	<u>-</u>
Capital outlay – eBooks and other	<u>780,797</u>	<u>780,797</u>	<u>783,608</u>	<u>2,811</u>
Total expenditures	<u>8,034,299</u>	<u>8,704,416</u>	<u>8,248,919</u>	<u>(455,497)</u>
Net change in fund balances	<u>\$ (181,073)</u>	<u>\$ (481,074)</u>	520,518	<u>\$ 1,001,592</u>
Fund balances				
Beginning of year			<u>5,888,907</u>	
End of year			<u>\$ 6,409,425</u>	

See notes to basic financial statements

METROPOLITAN LIBRARY SERVICE AGENCY

Statement of Fiduciary Net Position  
as of December 31, 2025

	Member Library Allocations Custodial Fund
	<u>                    </u>
Assets	
Cash and investments	\$ 3,857,776
Liabilities	
Due to General Fund	<u>12,412</u>
Net position	
Restricted for member libraries	<u><u>\$ 3,845,364</u></u>

Statement of Changes in Fiduciary Net Position  
Year Ended December 31, 2025

	Member Library Allocations Custodial Fund
	<u>                    </u>
Additions	
Contributions	
Library system allocation funds	\$ 1,360,839
Deductions	
Distributions	<u>831,424</u>
Change in net position	529,415
Net position	
Beginning of year	<u>3,315,949</u>
End of year	<u><u>\$ 3,845,364</u></u>

# METROPOLITAN LIBRARY SERVICE AGENCY

Notes to Basic Financial Statements  
Year Ended December 31, 2025

## 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. 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/e-audio/e-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 consumer 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 campaigns 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, except for the fiduciary funds.

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/amortization is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

### D. Fund Financial Statement Presentation

Separate fund financial statements are provided for MELSA's governmental and fiduciary funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

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 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, compensated absences, and pensions, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Fiduciary funds are reported in the fiduciary fund financial statements by type (custodial), using the economic resources measurement focus and accrual basis of accounting described earlier in these notes. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of MELSA, this fund is excluded from the government-wide financial statements.

A description of the funds included in this report is as follows:

### **Major Governmental Fund**

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

### **Fiduciary Funds**

**Member Library Allocations Custodial Fund** – This fund was established to account for resources distributed through Library Systems Allocation Funds (LSAF) allocations by MELSA’s Board of Trustees, held in a custodial capacity for use by its member library systems. Assets held in this fund are recorded separately in MELSA’s financial records and are held in an individual bank account. Any interest earned on these holdings is allocated to the General Fund.

### **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. Cash and Investments**

Cash and temporary investments are 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)

### G. 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.

### H. 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.

### I. Subscription-Based Information Technology Arrangements (SBITAs)

A SBITA is a contract that conveys control of the right to use another party’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. MELSA has entered into certain SBITAs for the use and hosting of digital library content. Capital assets associated with SBITAs are presented separately in Note 5. When applicable, a liability is reported for any future payments required by subscription agreements.

### 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 when actual historical cost is not available. Groups of similar assets acquired at or near the same time for a single objective, with individual costs below this threshold, are also capitalized if the aggregate cost of the assets is considered significant. Donated capital assets are recorded at their estimated acquisition value on the date of donation. Lease capital assets are recorded based on the measurement of payments applicable to the lease term. SBITA capital assets are recorded based on the measurement of any subscription liability plus any payments to a SBITA vendor at the commencement of the subscription term, including any applicable initial implementation costs as defined in the standard. 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.

Lease assets are amortized over the term of the lease or over the useful life of the applicable asset class described below if future ownership is anticipated. SBITAs are amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT assets. Intangible assets – eCollection deemed to have an inexhaustible life are not amortized. Depreciation and amortization are recorded on a government-wide basis using the straight-line method and the following estimated useful lives:

	<u>Years</u>
Archival databases	20
Furniture and other equipment	3–10

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **K. Compensated Absences**

MELSA recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or paid during or upon separation from employment. Based on the criteria listed, one type of leave qualifies for liability recognition for compensated absences – flex leave.

The liability for compensated absences is reported as incurred in the government-wide financial statements. A liability for compensated absences is recorded in the governmental funds only if the liability has matured because of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

### **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.

### **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.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### N. Net Position

In the government-wide and fiduciary fund 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 and amortization, reduced by outstanding debt 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.

### O. 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.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **P. 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, general commercial 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.

### **Q. 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.

### **R. 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, 2024, from which such partial information was derived. Amounts presented in the prior year data may be reclassified to be consistent with the current year's presentation. Also, in previous years MELSA reported a second major governmental fund, the Member Library Allocations Special Revenue Fund, which was closed in fiscal 2024. The financial activity of this fund has been reported only in certain prior year comparative amounts when necessary to make balances articulate between financial statements.

## NOTE 2 – CASH AND INVESTMENTS

### A. Components of Cash and Investments

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

Investments	\$ 11,991,779
Cash on hand	<u>15</u>
Total	<u>\$ 11,991,794</u>

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

Statement of Net Position	
Cash and investments	\$ 8,134,018
Statement of Fiduciary Net Position	
Cash and investments	<u>3,857,776</u>
Total	<u>\$ 11,991,794</u>

### B. Deposits

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

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

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

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

### C. Investments

MELSA has the following investments at year-end:

Investment Type	Credit Risk		Fair Value Measurements Using	Interest Risk	Total
	Agency	Rating		Maturity Duration	
Investment pools – 4M Fund	AAA	S&P	Amortized cost	Not applicable	<u>\$ 11,991,779</u>

## NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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

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

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

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

**Concentration Risk** – This is the risk associated with investing a significant portion of MELSA's investment (considered 5.0 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. MELSA does not have an investment policy that limits the concentration of investments.

**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, 2025, the General Fund had a receivable of \$12,412 due from the Member Library Allocations Custodial Fund, which represents interest due to be transferred from the Member Library Allocations Custodial Fund to the General Fund. The amounts are noninterest-bearing and are generally settled during the subsequent fiscal year.

**B. 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 OF RESOURCES**

**A. Unearned Revenue**

Grants and entitlements received before all eligibility requirements are met are recorded as unearned revenue. Unearned revenue at December 31, 2025 consisted of:

State aid and grants (RLTA)	<u>\$ 104,300</u>
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**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, 2025 consisted of:

State aid and grants (RLBSS)	\$ 683,793
State aid and grants (Legacy)	<u>1,534,853</u>
	<u>\$ 2,218,646</u>

## NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2025 was as follows:

### A. Governmental Activities

	December 31, 2024	Increases	Decreases	December 31, 2025
Capital assets, not depreciated/amortized				
Intangible assets – eCollection	\$ 1,294,809	\$ 300,069	\$ –	\$ 1,594,878
Capital assets, depreciated/amortized				
Archival databases	1,478,734	–	1,478,734	–
Furniture and other equipment	45,786	2,811	1,960	46,637
Lease – office space	87,112	–	87,112	–
eMaterials subscriptions	687,301	480,728	253,866	914,163
Total capital assets, depreciated/amortized	<u>2,298,933</u>	<u>483,539</u>	<u>1,821,672</u>	<u>960,800</u>
Less accumulated depreciation/amortization on				
Archival databases	825,790	43,130	868,920	–
Furniture and other equipment	33,089	5,561	1,960	36,690
Lease – office space	62,914	24,198	87,112	–
eMaterials subscriptions	252,355	439,491	253,866	437,980
Total accumulated depreciation/amortization	<u>1,174,148</u>	<u>512,380</u>	<u>1,211,858</u>	<u>474,670</u>
Net capital assets, depreciated/amortized	<u>1,124,785</u>	<u>(28,841)</u>	<u>609,814</u>	<u>486,130</u>
Total capital assets, net	<u>\$ 2,419,594</u>	<u>\$ 271,228</u>	<u>\$ 609,814</u>	<u>\$ 2,081,008</u>

### B. Depreciation/Amortization Expense by Function

Depreciation/amortization expense for the year was charged to the following functions:

Cooperative and other programs	\$ 482,621
Administration	<u>29,759</u>
Total	<u>\$ 512,380</u>

## NOTE 6 – LONG-TERM LIABILITIES

### A. Lease Liability

MELSA rented office space through a 3-year lease financing arrangement that ended October 31, 2025. MELSA is continuing to rent the same office space under a new short-term agreement that began November 1, 2025.

### B. 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 their current rate of pay up to a maximum of 500 hours. The accrual for flex leave pay, including related employer-contributed payroll benefits, amounted to \$84,141 at year-end.

### C. Changes in Long-Term Liabilities

	December 31, 2024	Increases	Decreases	December 31, 2025	Due Within One Year
Lease liability	\$ 25,809	\$ –	\$ 25,809	\$ –	\$ –
Compensated absences	89,359	69,958	75,176	84,141	50,419
	<u>\$ 115,168</u>	<u>\$ 69,958</u>	<u>\$ 100,985</u>	<u>\$ 84,141</u>	<u>\$ 50,419</u>

## **NOTE 7 – DEFINED BENEFIT PENSION PLAN – STATE-WIDE**

### **A. Plan Description**

MELSA employees participate in the General Employees Retirement Fund (GERF), a cost-sharing, multiple-employer defined benefit pension plan administered by the PERA of Minnesota. The plan provisions are established and administered according to Minnesota Statutes, Chapters 353 and 356. Minnesota Statutes Chapter 356 defines the plan's financial reporting requirements. The PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

Membership in the GERF includes employees of counties, cities, townships, schools in noncertified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

### **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. When a member is "vested," they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

The GERF requires three years of service to vest. 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 GERF members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, GERF members receive 1.20 percent of the highest average salary for each of the first 10 years of service, and 1.70 percent for each additional year. Under the Level formula, GERF members receive 1.70 percent of highest average salary for all years of service. For members hired prior to July 1, 1989, a full retirement benefit is available when age plus years of service equal 90, and normal retirement age is 65. Members can receive a reduced retirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by 0.25 percent for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of 0.25 percent for each month the member is younger than age 62. The Level formula allows GERF members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

Benefit increases are provided to benefit recipients each January. The post-retirement increase is equal to 50.00 percent of the cost of living adjustment (COLA) announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and a maximum of 1.50 percent. The 2025 annual increase was 1.25 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 prorated increase.

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

**C. GERS Contributions**

Minnesota Statutes, Chapter 353 and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

General Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2025, and MELSA was required to contribute 7.50 percent for General Plan members. MELSA's contributions to the GERS for the year ended December 31, 2025 were \$44,584. MELSA's contributions were equal to the required contributions as set by state statutes.

**D. GERS Pension Costs**

At December 31, 2025, MELSA reported a liability of \$203,061 for its proportionate share of the GERS's net pension liability. MELSA's net pension liability reflected a reduction, due to the state of Minnesota's contribution of \$16.0 million. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with MELSA totaled \$4,898.

MELSA's proportionate share of the net pension liability	\$ 203,061
State's proportionate share of the net pension liability associated with MELSA	<u>4,898</u>
Total	<u>\$ 207,959</u>

The net pension liability was measured as of June 30, 2025, 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, 2024 through June 30, 2025, relative to the total employer contributions received from all of the PERA's participating employers. MELSA's proportionate share was 0.0061 percent at the end of the measurement period and 0.0064 percent for the beginning of the period.

For the year ended December 31, 2025, MELSA recognized negative pension expense of \$7,195 for its proportionate share of the GERS's pension expense. In addition, MELSA recognized an additional \$751 as negative pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16.0 million to the GERS.

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

At December 31, 2025, MELSA reported 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	\$ 19,347	\$ –
Changes in actuarial assumptions	4,893	46,724
Net difference between projected and actual earnings on pension plan investments	–	80,800
Changes in proportion	1,966	16,888
Employer contributions subsequent to the measurement date	22,095	–
Total	<u>\$ 48,301</u>	<u>\$ 144,412</u>

The \$22,095 reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2026. 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
2026	\$ (27,540)
2027	\$ (44,939)
2028	\$ (31,294)
2029	\$ (14,433)

**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	<u>100.00 %</u>	

## **NOTE 7 – DEFINED BENEFIT PENSION PLAN – STATE-WIDE (CONTINUED)**

### **F. Actuarial Methods and Assumptions**

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2025, using the 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 7.00 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 investment return rates considered reasonable by the actuary. An investment return of 7.00 percent is within that range.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.50 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 11.50 percent after one year of service to 3.00 percent after 27 years of service.

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 General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2025:

#### **CHANGES IN ACTUARIAL ASSUMPTIONS**

##### **CHANGES IN ACTUARIAL ASSUMPTIONS**

- The combined service annuity loading factors increased from 15.00 percent to 19.00 percent for vested terminated members and from 3.00 percent to 44.00 percent for nonvested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25 percent to 1.50 percent.

##### **CHANGES IN PLAN PROVISIONS**

- The post-retirement benefit increase formula changed to 100.00 percent of the Social Security annual increase, between 1.00 percent and 1.75 percent, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85.00 percent for the last two consecutive annual valuations or is less than 80.00 percent in the most recent actuarial valuation, the maximum is reduced to 1.50 percent. Previously, the benefit increase was 50.00 percent of the Social Security annual increase, between 1.00 percent and 1.50 percent.
- The 1.00 percent additional employer contribution is eliminated when the plan reaches 98.00 percent funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100.00 percent funded status.

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

**G. Discount Rate**

The discount rate used to measure the total pension liability in 2025 was 7.00 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 General Employees Fund 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 all plans it participates in, calculated using the discount rate disclosed in the preceding section, as well as what MELSA’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.00%)	Current Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
MELSA’s proportionate share of the GERF net pension liability (asset)	\$ 493,204	\$ 203,061	\$ (32,310)

**I. Pension Plan Fiduciary Net Position**

Detailed information about the GERF 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](http://www.mnpera.org).

**NOTE 8 – MEMBER LIBRARY SYSTEM ALLOCATIONS AND BALANCES**

A summary of LSAF Program activity (including allocations paid directly to the member library systems from the General Fund) and member library systems balances held in the Member Library Allocations Custodial Fund for the year ended December 31, 2025 is as follows:

Member Library System	Balances Available 12/31/2024	2025 LSAF Allocations	2025 Disbursements	Balances Available 12/31/2025
Anoka County	\$ 295,987	\$ 268,795	\$ 226,954	\$ 337,828
Carver County	401,734	210,332	100,000	512,066
Dakota County	456,460	284,117	168,280	572,297
Hennepin County	248,913	481,272	592,996	137,189
Ramsey County	687,337	263,981	161,068	790,250
Saint Paul Public	380,002	267,357	73,123	574,236
Scott County	548,013	219,882	270,000	497,895
Washington County	297,503	246,100	120,000	423,603
Totals	<u>\$ 3,315,949</u>	<u>\$ 2,241,836</u>	<u>\$ 1,712,421</u>	<u>\$ 3,845,364</u>

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REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN LIBRARY SERVICE AGENCY

PERA – General Employees Retirement Fund  
 Schedule of MELSA’s and Nonemployer Proportionate Share of Net Pension Liability  
 Year Ended December 31, 2025

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
12/31/2016	06/30/2016	0.0073%	\$ 592,725	\$ 7,746	\$ 600,471	\$ 458,272	129.34%	68.9%
12/31/2017	06/30/2017	0.0079%	\$ 504,333	\$ 6,380	\$ 510,713	\$ 512,010	98.50%	75.9%
12/31/2018	06/30/2018	0.0079%	\$ 438,261	\$ 14,448	\$ 452,709	\$ 532,113	82.36%	79.5%
12/31/2019	06/30/2019	0.0069%	\$ 381,486	\$ 11,999	\$ 393,485	\$ 491,560	77.61%	80.2%
12/31/2020	06/30/2020	0.0066%	\$ 395,700	\$ 12,196	\$ 407,896	\$ 473,388	83.59%	79.1%
12/31/2021	06/30/2021	0.0062%	\$ 264,768	\$ 8,099	\$ 272,867	\$ 448,526	59.03%	87.0%
12/31/2022	06/30/2022	0.0064%	\$ 506,882	\$ 14,888	\$ 521,770	\$ 482,410	105.07%	76.7%
12/31/2023	06/30/2023	0.0066%	\$ 369,064	\$ 10,201	\$ 379,265	\$ 522,576	70.62%	83.1%
12/31/2024	06/30/2024	0.0064%	\$ 235,314	\$ 6,085	\$ 241,399	\$ 538,713	43.68%	89.1%
12/31/2025	06/30/2025	0.0061%	\$ 203,061	\$ 4,898	\$ 207,959	\$ 554,966	36.59%	90.8%

PERA – General Employees Retirement Fund  
 Schedule of MELSA Contributions  
 Year Ended December 31, 2025

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
12/31/2016	\$ 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%
12/31/2022	\$ 37,604	\$ 37,604	\$ –	\$ 501,384	7.50%
12/31/2023	\$ 40,395	\$ 40,395	\$ –	\$ 538,597	7.50%
12/31/2024	\$ 39,167	\$ 39,167	\$ –	\$ 522,228	7.50%
12/31/2025	\$ 44,584	\$ 44,584	\$ –	\$ 594,460	7.50%

METROPOLITAN LIBRARY SERVICE AGENCY

Notes to Required Supplementary Information  
December 31, 2025

**PERA – GENERAL EMPLOYEES RETIREMENT FUND**

**2025 CHANGES IN ACTUARIAL ASSUMPTIONS**

- The combined service annuity loading factors increased from 15.00 percent to 19.00 percent for vested terminated members and from 3.00 percent to 44.00 percent for nonvested, terminated members.
- The assumed post-retirement benefit increase changed from 1.25 percent to 1.50 percent.

**2025 CHANGES IN PLAN PROVISIONS**

- The post-retirement benefit increase formula changed to 100.00 percent of the Social Security annual increase, between 1.00 percent and 1.75 percent, beginning January 1, 2026. If the funded ratio (on a market value of assets basis) is less than 85.00 percent for the last two consecutive annual valuations or is less than 80.00 percent in the most recent actuarial valuation, the maximum is reduced to 1.50 percent. Previously, the benefit increase was 50.00 percent of the Social Security annual increase, between 1.00 percent and 1.50 percent.
- The 1.00 percent additional employer contribution is eliminated when the plan reaches 98.00 percent funded status (on an actuarial value of assets basis); this contribution was previously scheduled to stop when the plan reached 100.00 percent funded status.

**2024 CHANGES IN ACTUARIAL ASSUMPTIONS**

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 General Mortality Table, with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

**2024 CHANGES IN PLAN PROVISIONS**

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors were updated to reflect the changes in assumptions.

**2023 CHANGES IN ACTUARIAL ASSUMPTIONS**

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.

**2023 CHANGES IN PLAN PROVISIONS**

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, noncompounding benefit increase of 2.50 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

## **PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)**

### **2022 CHANGES IN ACTUARIAL ASSUMPTIONS**

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

### **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.

### **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.

## **PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)**

### **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.

### **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.

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OTHER SUPPLEMENTAL INFORMATION

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METROPOLITAN LIBRARY SERVICE AGENCY

Schedules of Selected Expenditures  
for the Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Legacy Grant Programs (1)		
Anoka County	\$ 87,078	\$ 91,522
Carver County	9,332	39,015
Dakota County	119,487	96,071
Hennepin County	443,908	423,870
Ramsey County	53,427	70,388
Saint Paul Public	60,060	56,972
Scott County	42,590	45,402
Washington County	72,714	65,186
Region-Wide	<u>286,626</u>	<u>235,255</u>
Total Legacy Grant Programs	<u>\$ 1,175,222</u>	<u>\$ 1,123,681</u>
LSAF payments		
Anoka County	\$ 268,795	\$ 236,761
Carver County	210,332	185,606
Dakota County	284,117	260,510
Hennepin County	481,273	436,279
Ramsey County	263,981	271,872
Saint Paul Public	267,356	236,436
Scott County	219,882	194,544
Washington County	<u>246,100</u>	<u>216,738</u>
Total formula payments	<u>\$ 2,241,836</u>	<u>\$ 2,038,746</u>
Equalization to earning libraries		
Anoka County	\$ -	\$ 10,162
Saint Paul Public	<u>42,528</u>	<u>22,560</u>
Total equalization to earning libraries	<u>\$ 42,528</u>	<u>\$ 32,722</u>
Electronic database expenditures (2)		
Gale Literature and Biography	\$ -	\$ 2,892
Ancestry library addition	36,235	35,180
Data Axle	95,000	95,000
ALLData	107,383	107,199
Morningstar	-	8,510
Newsbank	108,705	105,538
NoveList	82,298	79,517
New York Times	14,977	26,550
Transparent Languages	77,063	75,000
Zinio Magazines (Overdrive)	80,000	80,000
Scholastic BookFlix	98,507	96,575
LinkedIn Learning	159,656	155,562
Udemy	20,031	19,638
ConsumerReports.org	45,207	-
Craft & Hobby	<u>4,233</u>	<u>-</u>
Total electronic database expenditures	<u>\$ 929,295</u>	<u>\$ 887,161</u>

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

(2) Representing coverage for January through December.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Metropolitan Library Service Agency (MELSA) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise MELSA’s basic financial statements, and have issued our report thereon dated April 30, 2026.

**REPORT ON 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 2025-001 and 2025-002 that we consider to be material weaknesses.

(continued)

## **REPORT ON 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.

Respectfully submitted,



LB CARLSON, LLP  
Minneapolis, Minnesota

April 30, 2026



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, the major fund, and the aggregate remaining fund information of the Metropolitan Library Service Agency (MELSA) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise MELSA's basic financial statements, and have issued our report thereon dated April 30, 2026.

**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 – bid laws, depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions 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.

Respectfully submitted,

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

LB CARLSON, LLP  
Minneapolis, Minnesota

April 30, 2026

METROPOLITAN LIBRARY SERVICE AGENCY

Schedule of Findings  
Year Ended December 31, 2025

**FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING**

**2025-001 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** – MELSA’s Executive Director.

**Planned Completion Date** – December 31, 2026.

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

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

METROPOLITAN LIBRARY SERVICE AGENCY

Schedule of Findings (continued)  
Year Ended December 31, 2025

**FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)**

**2025-002 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** – MELSA’s Executive Director.

**Planned Completion Date** – December 31, 2026.

**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.

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