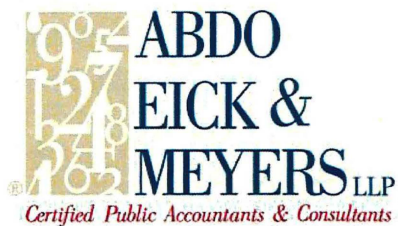


Management Letter

Minnesota House of Representatives

St. Paul, Minnesota

For the Year Ended
June 30, 2016



People
+ Process.
Going
Beyond the
Numbers

January 12, 2017

Committee on Rules and Legislative Administration
Minnesota House of Representatives
St. Paul, Minnesota

We have audited the financial statements of the governmental activities and General fund of the Minnesota House of Representatives (the House), of the State of Minnesota, for the year ended June 30, 2016 and have issued our report thereon dated January 12, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 22, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control over financial reporting of the House. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control over financial reporting. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

In planning and performing our audit, we considered the House's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the House's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the House's internal control over financial reporting.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions. We noted no instances of noncompliance.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the House are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the House during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

The most sensitive estimate affecting the financial statements was depreciation on capital assets. Management's estimate of depreciation is based on estimated useful lives of the assets. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Management Representations

We have requested certain representations from management that are included in the management representations letter dated January 12, 2017.

Disagreements with Management

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

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

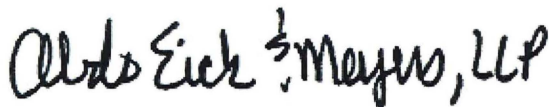
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Restriction on Use

This communication is intended solely for the information and use of the Committee on Rules and Legislative Administration of the Minnesota House of Representatives, management, and the State of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service and for the courtesy and cooperation extended to us by your staff.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
January 12, 2017

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2016

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ST. PAUL, MINNESOTA
FINANCIAL STATEMENTS
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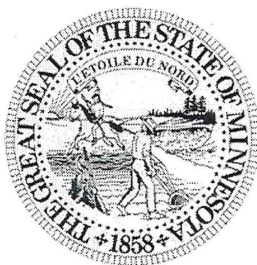
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Budget and Accounting Office

45 State Office Building
100 Rev Dr Martin Luther King Jr Blvd
St. Paul, Minnesota 55155
651-296-4281

Jim Reinholdz, Controller\CFO



Minnesota House of Representatives

Kurt Daudt, Speaker

To: Representative Joyce Peppin. Chair, Committee on Rules and Legislative Administration

From: Jim Reinholdz, House Controller\CFO

A handwritten signature in dark ink, appearing to read "Jim Reinholdz", is written over the "From:" line.

Date: February 2, 2017

Re: Report of the Independent Auditor

The House has received the audit report for the fiscal year ending June 30, 2016. In accordance with Minnesota Statutes, Section 3.196, the House contracted with Abdo, Eick & Meyers, LLP to perform a financial audit of the House of Representatives, including a report on compliance and on internal control over financial reporting. Twenty-five copies of these reports are hereby transmitted to you for your consideration and for distribution to the Committee on Rules and Legislative Administration.

The report consists of the Financial Statements and the Management Letter dated January 12, 2016.

Helen Arend, CPA, House Accounting Officer, led the staff work, coordinated the information requests from the auditors and provided the auditors access to documents, financial reports and records.

In the opinion of the auditors; "the financial statements...present fairly, in all material respects, the respective financial position of the governmental activities and General fund of the House." In addition, the audit report states; "during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses."

I am available to provide further information and to answer any questions you or members of the committee may have regarding the financial statements or audit results.

Cc. Kurt Daudt, Speaker

memo

House of Representatives

To: Kacie Petersen
From: Jim Reinholdz
CC: Representative Joyce Peppin
Date: 2/2/2017
Re: House Audit Report

Comments: Kacie,

I am giving you 25 copies of the 2016 House audit. These have historically been distributed to the members of the Rules Committee.

No official committee action on the report is required. It is up to Representative Peppin if she wants to distribute to each member, distribute in committee, or have it as an agenda item. Let me know if it will be in committee.

I sent Representative Peppin's copy directly to her. Also sent one directly to the Speaker and Ben Golnik.

INTRODUCTORY SECTION

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2016

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MINNESOTA HOUSE OF REPRESENTATIVES
ST PAUL, MINNESOTA
FOR THE YEAR ENDED JUNE 30, 2016

COMMITTEE ON RULES AND LEGISLATIVE ADMINISTRATION

<u>Name</u>	<u>Title</u>
Joyce Peppin	Chair
Kelly Fenton	Vice Chair
Paul Thissen	DFL Lead
Tony Albright	Member
Connie Bernardy	Member
Peggy Flanagan	Member
Mike Freiberg	Member
Pat Garofalo	Member
Bob Gunther	Member
Joe Hoppe	Member
Melissa Hortman	Member
Jason Isaacson	Member
Tim Kelly	Member
Ron Kresha	Member
Tara Mack	Member
Michael Nelson	Member
Tim O'Driscoll	Member
Marion O'Neill	Member
Gene Pelowski Jr.	Member
Dave Pinto	Member
Tim Sanders	Member
Peggy Scott	Member
Chris Swedzinski	Member

ADMINISTRATION

James Reinholdz	Controller
Helen Arend, CPA	Accounting Officer

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FINANCIAL SECTION

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Committee on Rules and Legislative Administration
Minnesota House of Representatives
St. Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and General fund of the Minnesota House of Representatives (the House), of the State of Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the House's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and General fund of the House, of the State of Minnesota as of June 30, 2016, and the respective changes in financial position thereof, and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

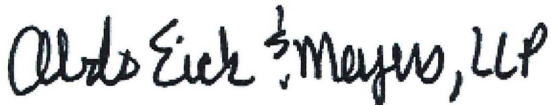
Other information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the House's basic financial statements. The introductory section and schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2017, on our consideration of the House's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 the House's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
January 12, 2017

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Management's Discussion and Analysis

As management of the Minnesota House of Representatives (the House), of the State of Minnesota, we offer readers of the House's financial statements this narrative overview and analysis of the financial activities of the House for the fiscal year ended June 30, 2016.

Financial Highlights

- The assets of the House exceeded its liabilities by \$7,264,286.
- The House's total net position increased by \$2,680,008 due to appropriations exceeding expenditures.
- The House's General fund reported an increase of \$2,681,688 in comparison the fiscal year ending June 30, 2014.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the House's basic financial statements. These statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The financial statement notes explain some of the information in the financial statements and provide more detailed data. Also, this discussion and analysis contains other supplemental information in addition to the basic financial statements themselves.

Figure 1 shows how the required parts of this annual report are arranged and relate to one another.

Figure 1
Required Components of the
Minnesota House of Representatives' Annual Financial Report

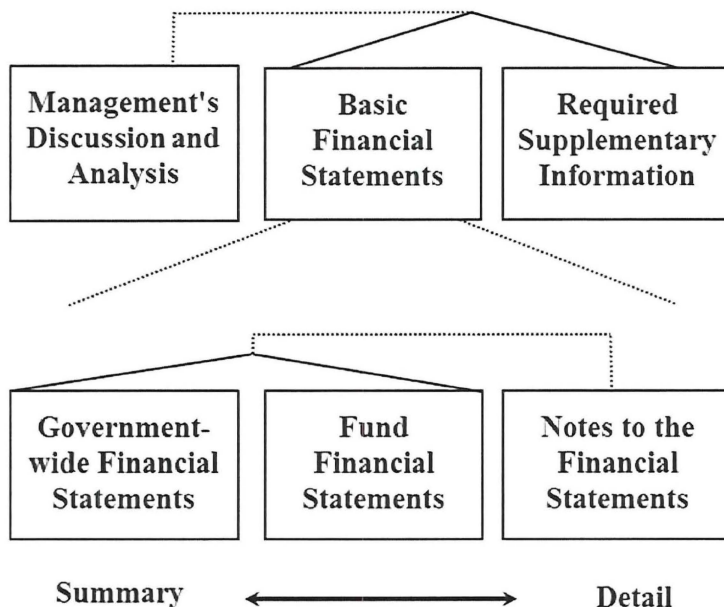


Figure 2 summarizes the major features of the House's financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements Governmental Funds
Scope	Entire government	The total activities of the House
Required financial statements	<ul style="list-style-type: none"> Statement of Net Position Statement of Activities 	<ul style="list-style-type: none"> Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide financial statements. The *government-wide financial statements* provide a general overview of the House's operations in a manner similar to a private sector business. These statements consist of the *statement of net position* and the *statement of activities*, and are prepared using an accrual basis of accounting.

The *statement of net position* presents the House's assets and liabilities; the difference between the two is net position. Over time, an increase or decrease in net assets can serve as an indicator as to whether the House's financial position is improving or deteriorating.

The *statement of activities* presents information showing how the House's net assets have changed during the fiscal year. All changes in net assets 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 (e.g., earned but unused vacation leave).

The government-wide financial statements start on page 20 of this report.

Fund financial statements. Fund financial statements use the modified accrual basis of accounting and a financial resources measurement focus. They provide a detailed short-term view of the House's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the House. These statements consist of the *Balance Sheet*, and the *Statement of Revenues, Expenditures and Changes in Fund Balance*.

Because fund financial statement information does not encompass the long-term focus of the government-wide financial statements, a reconciliation has been included with the *Statement of Revenues, Expenditures and Changes in Fund Balance*. By doing so, readers may better understand the long-term impact of the State's and House's short-term financing decisions.

Also, the House adopts an annual budget using the same accounting method as fund financial statements. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 24 of this report.

Notes to the financial statements. The notes provide additional information that is essential to fully understand financial statements. The notes to the financial statements start on page 27 of this report.

Financial Analysis

Fiscal year 2016 was the first year of the State's two-year budget cycle. During the even-year sessions, the legislature meets for approximately fourteen weeks and considers bonding for statewide capital improvement projects and policy issues that were not addressed in the previous year.

During the second fiscal year of every two-year biennium, the legislature meets for approximately twenty weeks. During this odd-year session, which begins in January following the general election, the legislature sets the State budget for the next two fiscal years. This session is longer, so House expenses are greater.

Because of the House's operating cycle, meaningful financial analysis requires comparison of like financial years. During the fiscal year 2016, bonding and policy issues were considered. Because of the two year operating cycle of the legislature, fiscal year 2014 is the recent like fiscal year to compare financial results to fiscal year 2016. Therefore, comparison of net assets and activities between fiscal years 2016 and 2014 are presented.

As noted earlier, net assets may serve over time as a useful indicator of the House's financial position. As of June 30, 2016, the House's assets exceed its liabilities by \$7,264,286, an increase of \$2,680,008 from June 30, 2014.

A large portion of the House's net assets reflect a reserve available for future commitments and unanticipated costs. Future commitments include compensated absences and future unanticipated costs can include public outreach, efficiency opportunities, and a change in organization leadership.

Minnesota House of Representatives' Summary of Net Position

	Governmental Activities		
	2016	2014	Increase (Decrease)
Assets			
Current and other assets	\$ 11,348,856	\$ 8,528,381	\$ 2,820,475
Capital assets	356,137	189,682	166,455
Total assets	11,704,993	8,718,063	2,986,930
Liabilities			
Long-term liabilities outstanding	3,441,548	3,273,413	168,135
Other liabilities	999,159	860,372	138,787
Total liabilities	4,440,707	4,133,785	306,922
Net Position			
Investment in capital assets	356,137	189,682	166,455
Unrestricted	6,908,149	4,394,596	2,513,553
Total net positions	\$ 7,264,286	\$ 4,584,278	\$ 2,680,008

Minnesota House of Representatives' Change in Net Position

	Governmental Activities		
	2016	2014	Increase (Decrease)
Revenues			
Intergovernmental revenue			
State appropriation	\$ 31,439,000	\$ 30,524,000	\$ 915,000
Expenses			
General government			
Salaries and benefits	26,914,378	25,913,703	1,000,675
Travel, per diem, subsistence and registration	1,044,899	973,577	71,322
Office equipment	283,212	336,503	(53,291)
Communications	495,187	244,066	251,121
Purchased services	336,132	305,974	30,158
Depreciation	67,070	63,055	4,015
Supplies and materials	167,939	181,200	(13,261)
Total expenses	29,308,817	28,018,078	1,290,739
Increase in net			
assets before transfers	2,130,183	2,505,922	(375,739)
Transfers	62,446	63,307	(861)
Change in net position	2,192,629	2,569,229	(376,600)
Net position, July 1	5,071,657	2,015,049	3,056,608
Net position, June 30	\$ 7,264,286	\$ 4,584,278	\$ 2,680,008

Member and House employee's salaries and benefits represent 91.8 percent of all expenses for the year.

Budgetary Highlights

The House's budget for the 2016-2017 biennium is determined toward the end of the previous biennium. See Note 2 for narrative of the budget process.

The House's budgeted appropriation was increased from fiscal year 2014 to fiscal year 2016 by \$915,000.

The House amended the budget during fiscal year 2016. The expenditure budget increased \$1,549,070.

Overall, actual expenditures were under final budgeted expenditures by 2.5 percent. The largest favorable variances included the following:

- Salaries and benefits were under budget by \$434,600 primarily due to the delay in filling vacant positions, leaving some positions vacant, the budget for the salary savings having a positive variance, and lower than expected insurance costs.
- Office equipment was \$364,388 under budget due to delays in projects and cancellations including a video archive system and television studio equipment.

Page 26 has a comparison of budget expenditures to actual expenditures.

Capital Assets and Debt Administration

Capital assets. The House's investment in capital assets as of June 30, 2016 was \$356,137 (net of accumulated depreciation). This investment includes hearing room upgrades, chamber wiring, customized software, communication software and equipment, television production equipment, and computer network upgrades and installation.

Minnesota House of Representatives' Capital Assets

	Governmental Activities		
	2016	2014	Increase (Decrease)
Custom software in process	\$ -	\$ 111,766	\$ (111,766)
Improvements other than buildings	-	10,302	(10,302)
Equipment	356,137	67,614	288,523
Total	<u>\$ 356,137</u>	<u>\$ 189,682</u>	<u>\$ 166,455</u>

Overall, capital assets decreased during fiscal year 2016 at total of -\$166,455. The difference is made up of software additions, depreciation expenses in both years of the biennium, and replacement of equipment with less expensive equipment. Depreciation expense for fiscal year 2016 totaled \$67,070.

Additional information on the House's capital assets is included in Note 3A on page 30 of this report.

Minnesota House of Representatives' Outstanding Debt

	Governmental Activities		
	2016	2014	Increase (Decrease)
Compensated absences	<u>\$ 3,441,548</u>	<u>\$ 3,273,413</u>	<u>\$ 168,135</u>

The House's total debt increased \$168,135 (5.1 percent) compared to 2014. Accounting for the increase is the change in the House wages. Compensated absences are paid upon completion of employment.

Additional information on the House's long-term debt can be found in Note 3B on page 30 of this report.

Next Year's Funding and Budget

The House's fiscal year 2017 appropriation will increase from the 2016 appropriation by 3 percent. Planned spending for the fiscal year 2017 includes higher legislative costs due to salary and benefit increases along with a reduction in all other spending.

The biennial budget for fiscal years 2018 and 2019 is currently being determined.

Requests for Information

This financial report is designed to provide an overview of the House finances and to demonstrate the House's accountability for the money it receives.

Questions about information in this report or requests for additional financial information should be addressed to James Reinholdz, Controller, Minnesota House of Representatives, 40 State Office Building, 100 Rev. Dr. Martin Luther King Jr. Blvd., St. Paul, Minnesota 55155.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2016

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS

Unliquidated appropriation	\$ 11,348,856
Capital assets, net of accumulated depreciation	<u>356,137</u>
 TOTAL ASSETS	 <u>11,704,993</u>

LIABILITIES

Accounts and salaries payable	999,159
Noncurrent liabilities	
Compensated absences payable due within one year	1,903,504
Compensated absences payable due in more than one year	<u>1,538,044</u>
 TOTAL LIABILITIES	 <u>4,440,707</u>

NET POSITION

Investment in capital assets	356,137
Unrestricted	<u>6,908,149</u>
 TOTAL NET POSITION	 <u><u>\$ 7,264,286</u></u>

The notes to the financial statements are an integral part of this statement.

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

EXPENSES

Governmental activities

General government

Salaries and benefits	\$ 26,914,378
Travel, per diem, subsistence and registration	1,044,899
Communications	495,187
Office equipment	283,212
Purchased services	336,132
Depreciation	67,070
Supplies and materials	<u>167,939</u>

TOTAL GOVERNMENTAL ACTIVITIES	29,308,817
-------------------------------	------------

GENERAL REVENUES

Intergovernmental

State appropriation

Transfer in

31,439,000
<u>62,446</u>

TOTAL GENERAL REVENUES	<u>31,501,446</u>
------------------------	-------------------

CHANGE IN NET POSITION	2,192,629
------------------------	-----------

NET POSITION, JULY 1, 2015	<u>5,071,657</u>
----------------------------	------------------

NET POSITION, JUNE 30, 2016	<u><u>\$ 7,264,286</u></u>
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The notes to the financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2016

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General</u>
ASSETS	
Unliquidated appropriation	<u>\$ 11,348,856</u>
LIABILITIES	
Accounts and salaries payable	\$ 999,159
FUND BALANCE	
Restricted for statutory items (see Note 3C)	<u>10,349,697</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 11,348,856</u>
 Amounts reported for governmental activities in the statement of net position are different because	
Total fund balance - governmental fund	\$ 10,349,697
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Improvements other than buildings	2,042,004
Accumulated depreciation, buildings and improvements	(2,042,004)
Equipment	1,784,228
Accumulated depreciation, equipment	(1,428,091)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	
	<u>(3,441,548)</u>
Total net position - governmental activities	<u>\$ 7,264,286</u>

The notes to the financial statements are an integral part of this statement.

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>
REVENUES	
Intergovernmental	
State appropriation	<u>\$ 31,439,000</u>
EXPENDITURES	
General government	
Salaries and benefits	27,075,396
Travel, per diem, subsistence and registration	1,044,899
Communications	495,187
Office equipment	283,212
Purchased services	479,843
Supplies and materials	<u>167,939</u>
TOTAL EXPENDITURES	<u>29,546,476</u>
EXCESS OF REVENUES OVER EXPENDITURES	1,892,524
OTHER FINANCING SOURCES	
Transfer in	<u>62,446</u>
NET CHANGE IN FUND BALANCE	1,954,970
FUND BALANCE, JULY 1, 2015	<u>8,394,727</u>
FUND BALANCE, JUNE 30, 2016	<u><u>\$ 10,349,697</u></u>
Amounts reported for governmental activities in the statement of activities are different because	
Total net change in fund balance - governmental fund	\$ 1,954,970
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlays	143,711
Depreciation expense	(67,070)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Compensated absences	<u>161,018</u>
Change in net position - governmental activities	<u><u>\$ 2,192,629</u></u>

The notes to the financial statements are an integral part of this statement.

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Intergovernmental				
State appropriation	\$ 31,439,000	\$ 31,439,000	\$ 31,439,000	\$ -
EXPENDITURES				
General government				
Salaries and benefits	26,295,576	27,509,996	27,075,396	434,600
Travel, per diem, subsistence and registration	1,116,120	1,117,620	1,044,899	72,721
Communications	371,500	375,100	495,187	(120,087)
Office equipment	436,000	647,600	283,212	364,388
Purchased services	351,000	468,950	479,843	(10,893)
Supplies and materials	180,000	180,000	167,939	12,061
TOTAL EXPENDITURES	28,750,196	30,299,266	29,546,476	752,790
EXCESS OF REVENUES OVER EXPENDITURES	2,688,804	1,139,734	1,892,524	752,790
OTHER FINANCING SOURCES				
Transfer in	-	-	62,446	62,446
NET CHANGE IN FUND BALANCE	2,688,804	1,139,734	1,954,970	815,236
FUND BALANCE, JULY 1, 2015	8,394,727	8,394,727	8,394,727	-
FUND BALANCE, JUNE 30, 2016	\$ 11,083,531	\$ 9,534,461	\$ 10,349,697	\$ 815,236

The notes to the financial statements are an integral part of this statement.

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial reporting entity

The Minnesota House of Representatives (the House) was established in 1858. It consists of 134 members who are elected by Minnesota voters to serve two-year terms making laws for the State of Minnesota (the State) and its people and proposing amendments to the state constitution. It is governed by the House Committee on Rules and Legislative Administration. The House has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the House are such that exclusion would cause the House's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The House has no component units.

The House is part of the legislative branch of the State and, as such, its financial transactions are included in the State's General fund as part of the State's financial reporting entity. The financial statements of the General fund of the State are examined by the Office of the Legislative Auditor.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement activities) report information on all of the activities of the House.

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. Amounts reported as *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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*. The House has no program revenues.

C. Measurement focus, basis of accounting, and financial statement presentation

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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the House considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. House funds are disbursed by the Minnesota Management and Budget agency.

The House is funded by an appropriation from the General fund of the State. The unspent portion of the appropriation is carried forward at the end of a biennium indefinitely in accordance with the Laws of Minnesota. The cumulative amount of the unspent portion of the appropriations is included in the balance sheet and is reserved for purposes as described in Note 3C.

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumption that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The government reports the following major governmental fund:

The *General fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

D. Assets, liabilities and net position/fund balances

Capital assets

Capital assets, which include property, plant, and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$30,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building improvements	10
Equipment	5-10

Compensated absences

Permanent employees and temporary employees, after six months of continuous service, accrue vacation and sick leave according to State administrative guidelines set forth in the Legislative Plan for Employees Benefits and Policies. Representatives and other temporary employees do not accrue vacation, sick leave or compensation time. Upon severance, employees are compensated for their earned but unused vacation (generally, up to 275 hours), a percentage of their sick leave depending upon length of service and the nature of their severance (voluntary or involuntary), unused compensation time (up to 180 hours), and prior worked holidays. In the fund financial statements, the cost of these benefits is recognized when payments are made to the employees.

Fund balances

In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net positions

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

- a. Investment in capital assets - Consists of capital assets, net of accumulated depreciation.
- b. Restricted net position - Consist of net position balances restricted when there are limitations imposed on their use through external restriction imposed by creditors, grantors, laws or regulation of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "investment in capital assets".

When both restricted and unrestricted resources are available for use, it is the government's policy to use unrestricted resources first, and then restricted resources as they are needed.

Note 2: STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

Budget and budgetary accounting

The budget for each biennium is prepared by the House Controller, in consultation with House leadership. The budget is reviewed and approved by the House Committee on Rules and Legislative Administration. The budget is then submitted to the House State Government Finance Committee. Next, the budget is included in the omnibus state government finance bill and approved by the full Senate, the full House of Representatives and signed into law by the Governor. The approved budgetary appropriation is administered by the Minnesota Management and Budget agency and made available for each year in the biennium. The Speaker of the House has authority to modify the budget within the level of funds available. The House has the legal authority to carry forward unexpended appropriations. The budget was amended during the year. The expenditure budget increased \$1,549,070.

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 3: DETAIL ON ACCOUNTS

A. Capital assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Improvements other than buildings	\$ 2,042,004	\$ -	\$ -	\$ 2,042,004
Equipment	1,857,122	143,711	(216,605)	1,784,228
Total capital assets being depreciated	3,899,126	143,711	(216,605)	3,826,232
Less accumulated depreciation for				
Improvements other than buildings	(2,042,004)	-	-	(2,042,004)
Equipment	(1,577,626)	216,605	(67,070)	(1,428,091)
Total accumulated depreciation	(3,619,630)	216,605	(67,070)	(3,470,095)
Total capital assets being depreciated, net	279,496	360,316	(283,675)	356,137
Governmental activities capital assets, net	<u>\$ 279,496</u>	<u>\$ 360,316</u>	<u>\$ (283,675)</u>	<u>\$ 356,137</u>

B. Long-term debt

Changes in long-term liabilities

During the year ended June 30, 2016, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated absences	<u>\$ 3,602,566</u>	<u>\$ 2,160,623</u>	<u>\$ (2,321,641)</u>	<u>\$ 3,441,548</u>	<u>\$ 1,903,504</u>

C. Fund balance reconciliation

June 30, 2016 is the end of the first year of the House's biennial budget cycle. As of this date, the House had \$1,954,970 of unexpended funds available for the next fiscal year. The general carryforward of \$8,394,727 at June 30, 2016 must be used as follows (1) for non-recurring expenditures or investments which enhance efficiencies or (2) to pay expenses associated with sessions, interim activities, public hearings, or other outreach efforts and related activities or (3) to pay severance costs of involuntary terminations. The following schedule summarizes the components of the restricted fund balance as of June 30, 2016:

	Expenditures	General Carryforward	Total
Fund balance, July 1, 2015	\$ -	\$ 8,394,727	\$ 8,394,727
Plus: Appropriations	31,501,446	-	31,501,446
Less: Expenditures and reductions	29,546,476	-	29,546,476
Fund balance, June 30, 2016	<u>\$ 1,954,970</u>	<u>\$ 8,394,727</u>	<u>\$ 10,349,697</u>

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 4: PENSION PLANS

The House is involved in two pension programs as follows:

Legislative Retirement Plan

Approximately 10 percent of Representatives are covered by the Legislative Retirement Plan, a defined benefit plan that is administered by the Minnesota State Retirement System (MSRS). Representatives contribute nine percent of their salaries to the plan. These contributions are deposited into the MSRS's General fund. Upon retirement of a Representative, funds equal to the present value on future benefits to be paid to that Representative are transferred from the MSRS's General fund to the Minnesota Post Retirement Investment fund. The House makes no direct contribution to the plan and is not responsible for any unfunded liability to the plan.

Unclassified Retirement Plan

Members elected in 1998 or later are covered under the Unclassified Retirement Plan, a defined contribution plan that is also administered by the MSRS. Approximately 90 percent of Representatives are covered under this plan. Representatives contribute 5.5 percent of their salaries and the House contributes 6 percent of salaries to the plan. The House's contribution was \$255,230 for the year ended June 30, 2016.

The majority of permanent employees of the House are, like most Representatives, covered by the Unclassified Retirement Plan. Employees contribute 5.5 percent of their salaries and the House contributes 6 percent of salaries to the plan. The House's retirement plan contribution was \$880,866 for the year ended June 30, 2016.

More information on the pension plans is included in the financial statements of the State.

Note 5: RISK MANAGEMENT

The House is exposed to various risks of loss related to torts; to theft of, damage to, or destruction of assets; to errors or omissions; and to the employer obligations. The State manages these risks through the Risk Management fund (internal service fund), a self-insurance fund, and other self-insurance mechanisms. All health plans are self-insured. The House is not required to contribute to the Risk Management fund.

Statutory provisions prohibit the State from insuring property against loss. The Commissioner of the Department of Administration may authorize the purchase of insurance on state properties should it be deemed necessary and appropriate to protect buildings and contents. All losses of state property are self-insured, covered by programs of the Risk Management fund or covered by insurance policies purchased by the Risk Management fund on behalf of state agencies.

Tort claims

Tort claims against the House are limited by statute to \$500,000 per person for property damage or bodily injury and \$1,500,000 per occurrence. These risks are not covered through insurance. The House is responsible to pay for the cost of claims from its funds. The legislature also makes an annual Tort Claim Appropriation to cover claims that would unduly impair agency operations. Agencies not able to cover claims through these two avenues must seek additional appropriations from the legislature.

Workers' compensation

The State, as a self-insured employer, assumes all risks for workers' compensation related claims and is required by state law to be a member of the Workers' Compensation Reinsurance Association (WCRA). The House remits premiums to the State. Settled claims have not exceeded coverage in any of the past three years.

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 5: RISK MANAGEMENT - CONTINUED

State Employee Group Insurance Program (SEGIP)

The Minnesota State Legislature created an employee insurance trust fund administered by the State Employee Group Insurance Program (SEGIP) to provide eligible employees and other eligible persons with life insurance and hospital, medical and dental benefits coverage through provider organizations. The insurance trust fund is not associated with any other public risk pools. The fund type used to account for SEGIP fiscal activities is an internal service fund dedicated solely for the purpose of this program. A contingency reserve is maintained within the trust fund to increase the controls over medical plan provisions and other insurance costs for the purpose of moderating premium and claim fluctuations, and to assume all inherent risk associated with the self-funded insurance programs, which would also include losses to the fund.

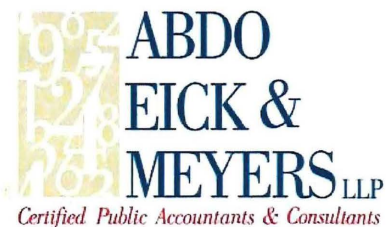
SEGIP provides benefits coverage to employees by contracting with carriers through a network of providers throughout the State. SEGIP has not had any settlements in excess of coverage and reserves for at least the past three years.

In January 2000, the fund became fully self-insured for medical coverage and assumes all liability for medical claims. The self-funded programs within the fund establish claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not paid, and of claims that have been incurred but not reported. These estimates are agreed to by the insurance carriers and the State and are reviewed for accuracy and reasonableness. The estimates are based on claim experience and claim lag timetables provided by the carriers and do not include additional estimates for subrogation, salvage or unallocated claim adjustments.

OTHER REQUIRED REPORT

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2016



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*

Committee on Rules and Legislative Administration
Minnesota House of Representatives
St. Paul, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General fund of the Minnesota House of Representatives (the House), of the State of Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the House's basic financial statements, and have issued our report thereon dated January 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the House's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the House's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the House's internal control over financial reporting.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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 the House's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the House's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
January 12, 2017