

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2012

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MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
FINANCIAL STATEMENTS
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INTRODUCTORY SECTION

**MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA**

**FOR THE YEAR ENDED
JUNE 30, 2012**

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MINNESOTA HOUSE OF REPRESENTATIVES
ST PAUL, MINNESOTA
ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2012

COMMITTEE ON RULES AND LEGISLATIVE ADMINISTRATION

<u>Name</u>	<u>Title</u>
Matt Dean	Chair
Kurt Daudt	Vice Chair
Gene Pelowski	DFL Lead
Sarah Anderson	Member
King Banaian	Member
John Benson	Member
Kathy Brynaert	Member
Rod Hamilton	Member
Debra Hilstrom	Member
Joe Hoppe	Member
Larry Howes	Member
Tim Kelly	Member
Kate Knuth	Member
Carolyn Laine	Member
Leon Lillie	Member
Tara Mack	Member
Denny McNamara	Member
Erin Murphy	Member
Bud Nornes	Member
Kim Norton	Member
Michael Paymar	Member
Joyce Peppin	Member
Peggy Scott	Member
Paul Thissen	Member
Torrey Westrom	Member

ADMINISTRATION

James Reinholdz	Controller
Helen Arend, CPA	Accounting Officer

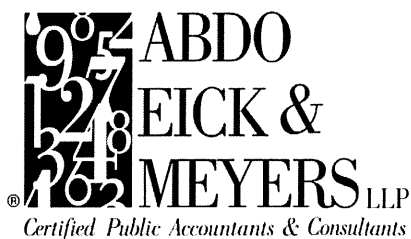
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FINANCIAL SECTION

**MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA**

**FOR THE YEAR ENDED
JUNE 30, 2012**

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5201 Eden Avenue
Suite 250
Edina, MN 55436

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Minnesota House of Representatives (the House), of the State of Minnesota, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the House's management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1A, the financial statements of the House are intended to present the financial position and the changes in financial position where applicable, of only that portion of the governmental activities that is attributable to the transactions of the House. They do not purport to, and do not, present fairly the financial position of the State of Minnesota, as of June 30, 2012, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the House, of the State of Minnesota, as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2013, on our consideration of the House's internal control over financial reporting and 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in conjunction with this report in considering the results of our audit.

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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.

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 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.

February 12, 2013
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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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, 2012.

Financial Highlights

- The assets of the House exceeded its liabilities by \$2,875,369.
- The House's total net assets increased by \$1,480,877.
- The House's General fund reported an ending fund balance of \$5,773,788, an increase of \$1,331,122 in comparison with the prior fiscal year.

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

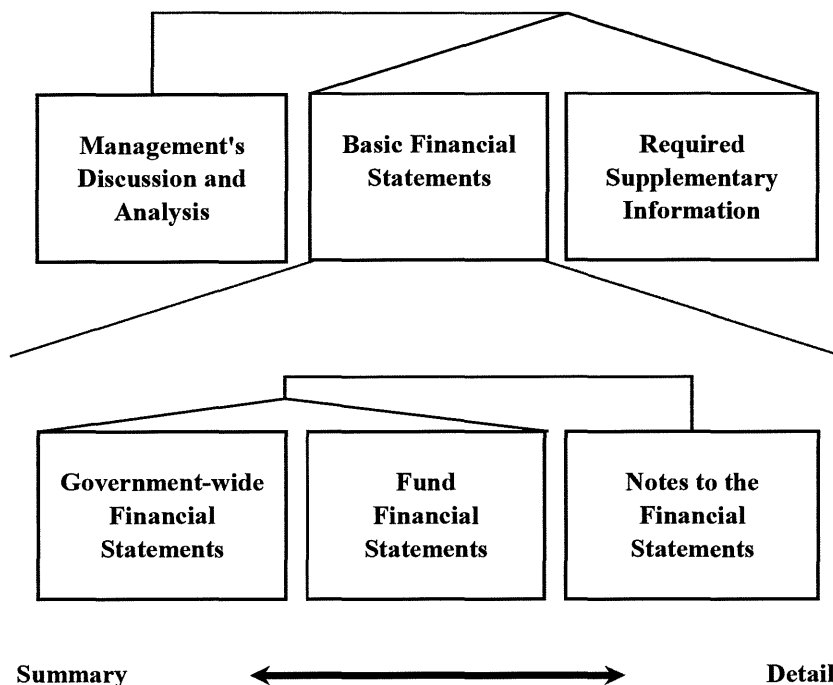


Figure 2 summarizes the major features of the House's financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

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

	Government-wide Statements	Fund Financial Statements Governmental Funds
	Entire government	The total activities of the House
Scope	Entire government	The total activities of the House
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • 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 assets* and the *statement of activities*, and are prepared using an accrual basis of accounting.

The *statement of net assets* presents the House's assets and liabilities; the difference between the two is net assets. 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 22 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 26 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 31 of this report.

Financial Analysis

Fiscal year 2012 was the first year of the State's two-year budget cycle. During the even-year sessions, the legislature meets for approximately fifteen 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 2012, bonding and policy issues were considered. Because of the two year operating cycle of the legislature, fiscal year 2010 is the recent like fiscal year to compare financial results to fiscal year 2012. Therefore, comparison of net assets and activities between fiscal years 2012 and 2010 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, 2012, the House's assets exceed its liabilities by \$2,875,369, an increase of \$641,343 from June 30, 2010.

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 Assets

	Governmental Activities		
	2012	2010	Increase (Decrease)
Assets			
Current and other assets	\$ 6,256,823	\$ 6,367,316	\$ (110,493)
Capital assets	216,987	307,008	(90,021)
Total assets	6,473,810	6,674,324	(200,514)
Liabilities			
Long-term liabilities outstanding	3,115,406	3,579,400	(463,994)
Other liabilities	483,035	860,898	(377,863)
Total liabilities	3,598,441	4,440,298	(841,857)
Net Assets			
Invested in capital assets	216,987	307,008	(90,021)
Unrestricted	2,658,382	1,927,018	731,364
Total net assets	\$ 2,875,369	\$ 2,234,026	\$ 641,343

Key elements of the \$641,343 increase in net assets are as follows:

	Governmental Activities		
	2012	2010	Increase (Decrease)
Revenues			
Intergovernmental revenue			
State appropriation	\$ 27,874,000	\$ 29,940,000	\$ (2,066,000)
Less: Statutory reduction	-	(395,000)	395,000
Total revenues	<u>27,874,000</u>	<u>29,545,000</u>	<u>(1,671,000)</u>
Expenses			
General government			
Salaries and benefits	24,477,915	26,325,688	(1,847,773)
Travel, per diem, subsistence and registration	885,315	1,286,680	(401,365)
Office equipment	305,309	416,664	(111,355)
Communications	323,556	376,832	(53,276)
Purchased services	297,292	398,683	(101,391)
Depreciation	116,566	309,219	(192,653)
Supplies and materials	<u>151,170</u>	<u>206,683</u>	<u>(55,513)</u>
Total expenses	<u>26,557,123</u>	<u>29,320,449</u>	<u>(2,763,326)</u>
Increase in net assets before transfers	1,316,877	224,551	1,092,326
Transfers	<u>164,000</u>	<u>-</u>	<u>164,000</u>
Change in net assets	1,480,877	224,551	1,256,326
Net assets, July 1	<u>1,394,492</u>	<u>2,009,475</u>	<u>(614,983)</u>
Net assets, June 30	<u>\$ 2,875,369</u>	<u>\$ 2,234,026</u>	<u>\$ 641,343</u>

Member and House employee's salaries and benefits represent 92.2 percent of all expenditures for the year.

Budgetary Highlights

The House's budget for the 2012-2013 biennium is determined during the later part of the previous biennium. See Note 2 for narrative of the budget process.

The House's budgeted appropriation was reduced from fiscal year 2010 to fiscal year 2012 by \$204,000.

The House's budgeted carryforward balance decreased from fiscal year 2010 to fiscal year 2012 by a \$299,000 budgetary reduction. Carryforward funds of \$284,998 were used during fiscal year 2012 to meet early retirement and transition costs.

Overall, actual expenditures were under budgeted expenditures by 3.7 percent. All categories of expenses had expenditures below budgeted levels. The largest favorable variances included the following:

- Salaries and benefits were under budget by \$551,833 primarily due to the transition of House control, delays in filling vacant positions, and leaving some positions vacant.
- Travel, per diem, subsistence and registration was \$170,721 under budget due to reductions in the reimbursement policies adopted as part of fiscal years 2012-2013 budget.

Page 29 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, 2012 was \$216,987 (net of accumulated depreciation). This investment includes hearing room upgrades, chamber wiring, television production equipment and computer network upgrades and installation.

Minnesota House of Representatives' Capital Assets

	Governmental Activities		
	2012	2010	Increase (Decrease)
Improvements other than buildings	\$ 33,201	\$ 151,248	\$ (118,047)
Equipment	183,786	155,760	28,026
Total	<u>\$ 216,987</u>	<u>\$ 307,008</u>	<u>\$ (90,021)</u>

There were no additions to capital assets during fiscal year 2012. Depreciation expense for the year totaled \$116,566.

Additional information on the House's capital assets is included in Note 3A on page 34 of this report.

Minnesota House of Representatives' Outstanding Debt

	Governmental Activities		
	2012	2010	Increase (Decrease)
Compensated absences	<u>\$ 3,115,406</u>	<u>\$ 3,579,400</u>	<u>\$ (463,994)</u>

The House's total debt decreased \$463,994 (13 percent) compared to 2010. Accounting for the difference is the change in the House control as well as overall reductions in the number of employees. 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 34 of this report.

Next Year's Funding and Budget

The House's fiscal year 2013 appropriation is \$27,847,000. Planned spending for the fiscal year include higher legislative costs due to the longer legislative session.

The biennial budget for fiscal years 2014 and 2015 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.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA**

**FOR THE YEAR ENDED
JUNE 30, 2012**

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS	
Unliquidated appropriation	\$ 6,256,823
Depreciable capital assets (net)	
Improvements other than buildings	33,201
Equipment	<u>183,786</u>
 TOTAL ASSETS	 <u>6,473,810</u>
LIABILITIES	
Accounts and salaries payable	483,035
Noncurrent liabilities	
Compensated absences payable due within one year	1,637,782
Compensated absences payable due in more than one year	<u>1,477,624</u>
 TOTAL LIABILITIES	 <u>3,598,441</u>
NET ASSETS	
Invested in capital assets	216,987
Unrestricted	<u>2,658,382</u>
 TOTAL NET ASSETS	 <u>\$ 2,875,369</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, 2012

EXPENSES

Governmental activities

General government

Salaries and benefits	\$ 24,477,915
Travel, per diem, subsistence and registration	885,315
Communications	323,556
Office equipment	305,309
Purchased services	297,292
Depreciation	116,566
Supplies and materials	<u>151,170</u>

TOTAL GOVERNMENTAL ACTIVITIES

26,557,123

GENERAL REVENUES

Intergovernmental

State appropriation	27,874,000
Transfer in	<u>164,000</u>

TOTAL GENERAL REVENUES

28,038,000

CHANGE IN NET ASSETS

1,480,877

NET ASSETS, JULY 1, 2011

1,394,492

NET ASSETS, JUNE 30, 2012

\$ 2,875,369

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, 2012**

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>
ASSETS	
Unliquidated appropriation	<u>\$ 6,256,823</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts and salaries payable	\$ 483,035
FUND BALANCE	
Restricted for statutory items (see Note 3C)	<u>5,773,788</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 6,256,823</u>
Total fund balance - governmental fund	\$ 5,773,788
Amounts reported for governmental activities in the Statement of Net Assets are different because	
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	(2,008,803)
Equipment	1,910,809
Accumulated depreciation, equipment	(1,727,023)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	<u>(3,115,406)</u>
Total net assets - governmental activities	<u>\$ 2,875,369</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, 2012

	<u>General</u>
REVENUES	
Intergovernmental	
State appropriation	<u>\$ 27,874,000</u>
EXPENDITURES	
General government	
Salaries and benefits	24,744,236
Travel, per diem, subsistence and registration	885,315
Communications	323,556
Office equipment	305,309
Purchased services	297,292
Supplies and materials	<u>151,170</u>
TOTAL EXPENDITURES	<u>26,706,878</u>
EXCESS OF REVENUES OVER EXPENDITURES	1,167,122
OTHER FINANCING SOURCES	
Transfer in	<u>164,000</u>
NET CHANGE IN FUND BALANCE	1,331,122
FUND BALANCE, JULY 1, 2011	<u>4,442,666</u>
FUND BALANCE, JUNE 30, 2012	<u><u>\$ 5,773,788</u></u>
Total net change in fund balance - governmental fund	\$ 1,331,122
Amounts reported for governmental activities in the Statement of Activities are different because	
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.	
Depreciation expense	(116,566)
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>266,321</u>
Change in net assets - governmental activities	<u><u>\$ 1,480,877</u></u>

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

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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, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
REVENUES				
Intergovernmental				
State appropriation	\$ 27,874,000	\$ 27,874,000	\$ 27,874,000	\$ -
EXPENDITURES				
General government				
Salaries and benefits	25,296,069	25,296,069	24,744,236	551,833
Travel, per diem, subsistence and registration	1,056,036	1,056,036	885,315	170,721
Communications	374,000	374,000	323,556	50,444
Office equipment	407,758	407,758	305,309	102,449
Purchased services	381,283	381,283	297,292	83,991
Supplies and materials	205,000	205,000	151,170	53,830
TOTAL EXPENDITURES	27,720,146	27,720,146	26,706,878	1,013,268
EXCESS OF REVENUES OVER EXPENDITURES	153,854	153,854	1,167,122	1,013,268
OTHER FINANCING SOURCES				
Transfer in	-	-	164,000	164,000
NET CHANGE IN FUND BALANCE	153,854	153,854	1,331,122	1,177,268
FUND BALANCE, JULY 1, 2011	4,442,666	4,442,666	4,442,666	-
FUND BALANCE, JUNE 30, 2012	\$ 4,596,520	\$ 4,596,520	\$ 5,773,788	\$ 1,177,268

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

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MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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 assets and the statement of changes in net assets) 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. *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, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

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.

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.

D. Assets, liabilities and net assets or equity

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

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 equity

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

Net assets

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

- a. Invested in capital assets - Consists of capital assets, net of accumulated depreciation.
- b. Restricted net assets - Consist of net assets 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 assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets".

Note 2: STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

Budget and budgetary accounting

Budgets for each year in a biennium are prepared by the House staff, using the Governor's suggested budget as a starting point. The budget is first reviewed and approved by the House Committee on Rules and Legislative Administration. The budget is then referred to the House State Government Finance Committee for approval. Next, the omnibus state government finance bill must be approved by the full Senate and House and signed into law by the Governor. The approved budget is administered by the Minnesota Management and Budget agency and an appropriation for the budgeted amount is made available for each year in the biennium. The House did not have any encumbrances at year end. The budget was not amended during 2012.

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Note 3: DETAIL ON ACCOUNTS

A. Capital assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Improvements other than buildings	\$ 2,042,004	\$ -	\$ -	\$ 2,042,004
Equipment	1,910,809	-	-	1,910,809
Total capital assets being depreciated	3,952,813	-	-	3,952,813
Less accumulated depreciation for				
Improvements other than buildings	(1,994,000)	(14,803)	-	(2,008,803)
Equipment	(1,625,260)	(101,763)	-	(1,727,023)
Total accumulated depreciation	(3,619,260)	(116,566)	-	(3,735,826)
Total capital assets being depreciated, net	<u>\$ 333,553</u>	<u>\$ (116,566)</u>	<u>\$ -</u>	<u>\$ 216,987</u>

B. Long-term debt

Changes in long-term liabilities

During the year ended June 30, 2012, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated absences	<u>\$ 3,381,727</u>	<u>\$ 2,055,814</u>	<u>\$ (2,322,135)</u>	<u>\$ 3,115,406</u>	<u>\$ 1,637,782</u>

C. Restricted fund balance

June 30, 2012 is the end of the first year of the House's biennial budget cycle. As of this date, the House had \$1,331,122 of unexpended funds available for the next fiscal year. The general carryforward of \$4,442,666 at June 30, 2012 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, 2012:

	Expenditures	General Carryforward	Total
Restricted fund balance, July 1, 2011	\$ -	\$ 4,442,666	\$ 4,442,666
Plus: Appropriations	28,038,000	-	28,038,000
Less: Expenditures and reductions	26,706,878	-	26,706,878
Restricted fund balance, June 30, 2012	<u>\$ 1,331,122</u>	<u>\$ 4,442,666</u>	<u>\$ 5,773,788</u>

MINNESOTA HOUSE OF REPRESENTATIVES
ST. PAUL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Note 4: PENSION PLANS

The House is involved in two pension programs as follows:

Legislative Retirement Plan

Approximately 16 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 85 percent of Representatives are covered under this plan. Representatives contribute five percent of their salaries and the House contributes six percent of salaries to the plan. The House's contribution was \$245,374 for the year ended June 30, 2012.

The majority of permanent employees of the House are, like some Representatives, covered by the Unclassified Retirement Plan. Employees contribute five percent of their salaries and the House contributes six percent of salaries to the plan. The House's contribution was \$778,309 for the year ended June 30, 2012.

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 \$400,000 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, 2012

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.

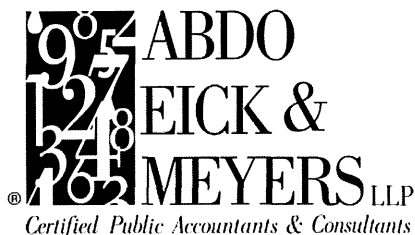
SEGIP provides benefits coverage to employees by contracting with carriers through a network of providers throughout the State. SEGIP has not had any settlements in excess of coverage and reserves for at least the past three years.

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, 2012**



5201 Eden Avenue
Suite 250
Edina, MN 55436

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 the financial statements of the Minnesota House of Representatives (the House), of the State of Minnesota, as of and for the year ended June 30, 2012, and have issued our report thereon dated February 12, 2013. 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.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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*.

This report 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.

February 12, 2013
Minneapolis, Minnesota

Abdo, Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Certified Public Accountants