MINNESOTA STATE SENATE

YEAR ENDED JUNE 30, 2004

FINANCIAL STATEMENTS

MINNESOTA STATE SENATE

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JUNE 30, 2004

Virchow Krause & company

INDEPENDENT AUDITORS' REPORT

Minnesota State Senate
State of Minnesota
St. Paul, Minnesota

We have audited the accompanying balance sheet, statement of revenues, expenditures and changes in fund balance – budget and actual, and statement of expenditures of the Minnesota State Senate, State of Minnesota for the year ended June 30, 2004. These financial statements are the responsibility of the Senate's management. Our responsibility is to express an opinion on the 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 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1B, the financial statements of the Minnesota State Senate, which is a department of the general fund of the State of Minnesota, are intended to present the financial position, and the change in financial position of only that portion of the general fund of the State of Minnesota that is attributable to the transactions of the Minnesota State Senate. They do not purport to and do not present fairly the financial position of the State of Minnesota as of June 30, 2004 and the changes in its financial position 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 financial position of the Minnesota State Senate, State of Minnesota as of June 30, 2004 and the changes in its financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Minnesota State Senate, State of Minnesota, has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not required to be part of, the financial statements.

MINNESOTA STATE SENATE

BALANCE SHEET
June 30, 2004

ASSETS	
Unliquidated appropriation	$ 6,369,543
Prepaid items	29,936
TOTAL ASSETS	$ 6,399,479
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable and accrued expenditures	$ 661,185
Fund Balance	
Reserved	3,728,407
Unreserved - undesignated	2,009,887
Total Fund Balance	5,738,294
TOTAL LIABILITIES AND FUND BALANCE	$ 6,399,479

See accompanying notes to financial statements.

MINNESOTA STATE SENATE
STATE OF MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004

	Final Budget	Actual	Variance With Final Budget
REVENUES			
General appropriation	$ 19,319,000	$ 19,319,000	$ -
Other receipts	-	115,478	115,478
Total Revenues	19,319,000	19,434,478	115,478
EXPENDITURES			
Current			
Salaries and benefits	16,729,454	15,404,653	1,324,801
Services	611,000	792,348	(181,348)
Subsistence	1,600,046	1,340,772	259,274
Furniture, supplies, equipment and capital outlay	378,500	297,872	80,628
Total Expenditures	19,319,000	17,835,645	1,483,355
EXCESS OF REVENUES OVER EXPENDITURES	$ -	1,598,833	$ 1,598,833
FUND BALANCE, Beginning of Year		4,139,461	
FUND BALANCE, END OF YEAR		$ 5,738,294	

See accompanying notes to financial statements.

MINNESOTA STATE SENATE

STATEMENT OF EXPENDITURES
YEAR ENDED JUNE 30, 2004

Salaries and Benefits:	
Salaries - senators	$ 2,117,599
Salaries - staff	9,812,446
MSRS and FICA, and other benefits	1,474,649
Insurance - staff	1,378,475
Insurance - senators	578,721
Unemployment compensation	28,641
Workers' compensation	14,122
Total Salaries and Benefits	15,404,653
Services:	
Rents, leases and maintenance (includes copy equipment)	234,954
Furniture and maintenance repairs	22,331
Maintenance agreements	189,878
Printing	26,625
Micrographics	23
Consultant	18,563
EDP-ISB	9,936
EDP-software	47,064
EDP-development (includes equipment)	199,438
Dry cleaning/carpet cleaning	310
Interns	43,226
Total Services	792,348
Subsistence:	
Postage	97,244
Telephones	203,437
Delivery service	8,067
Mileage	164,455
In-state travel/lodging	294,546
Per diem	518,214
Registration	17,728
Out-state travel	15,267
Tuitions/memberships/admissions/fees	21,814
Total Subsistence	1,340,772
Furniture, Supplies, Equipment and Capital Outlay:	
Photographic	22,171
Furniture and equipment	9,220
Capital outlay	14,737
Office supplies/stationery	96,059
Newspaper and publications	96,529
Water and coolers	17,372
Cleaning supplies	16,112
Miscellaneous	25,672
Total Furniture, Supplies, Equipment and Capital Outlay	297,872
TOTAL	$ 17,835,645

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Minnesota State Senate (Senate) was established in 1858. It consists of 67 members who are elected by Minnesota voters to serve four-year terms making laws of the State of Minnesota (the State) and its people, and proposing amendments to the State constitution.

B. Basis of Presentation and Basis of Accounting

The Minnesota State Senate is part of the general fund of the State of Minnesota. The general fund appropriations for the Senate, the use of the appropriations, and the balances of current expendable resources and related current liabilities are reported in the financial statements. Noncurrent assets and liabilities resulting from agency activities are assets and liabilities of the State of Minnesota as a whole and are not included in this report.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The financial statements of the Minnesota State Senate have been prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to governmental units. The State of Minnesota general fund appropriations to the Senate for the fiscal year ended June 30, 2004 have been recorded as revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include accumulated unpaid vacation, sick pay and other employee benefits, which are recorded as expenditures when they are paid.

The unspent portion of the appropriation is carried forward indefinitely and, in accordance with specific approval procedures, is available currently for unbudgeted, major expenditures. The cumulative amount of the unspent portion of appropriations is included in the balance sheet. Unspent appropriations not carried forward and unencumbered at the end of a biennium shall be returned to the fund from which appropriated (see Note 4). The Senate's expenditures are classified according to the State administrative guidelines. Senate funds are disbursed by the State's Department of Finance.

C. Measurement Focus

The measurement focus of all governmental funds is the flow of current financial resources concept. Under this concept, sources and uses of financial resources, including capital outlays, debt proceeds, and debt retirements are reflected in operations. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or a reservation of fund equity. Liabilities for claims, judgments, compensated absences, and pension contributions which will not be currently liquidated using expendable available financial resources are not recorded as expenditures or current liabilities. The related expenditures are recognized when the liabilities are liquidated.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

D. Budgetary Accounting

The Senate adopts a budget for each year of the State's fiscal biennium that reflects the total amount that can be expended by the Senate. Budgets for each year in a biennium are prepared by the Senate's administrative staff. The budget is first reviewed and approved by the Rules and Administration Senate Budget Subcommittee. Based on the Subcommittee's recommendation, the Rules and Administration Committee adopts an operating budget for the Senate. The budget is then referred to the Senate Finance Committee. The budget must be approved by the Senate Finance Committee, the Senate and the State House of Representatives. The approved budget is submitted to the State's Department of Finance and an appropriation for the budgeted amount is awarded for each year in the biennium.

Expenditures cannot legally exceed the total initially appropriated unless supplemental appropriations are approved by the State Commissioner of Finance or unspent appropriations carried forward from previous years are available.

The budget is prepared in accordance with generally accepted accounting principles. Budgetary control is at the appropriation level. Unexpended appropriations from the first year (year ended June 30, 2004) of the biennium are carried over and are available for operations in the second year of the biennium.

E. Compensated Absences

Permanent employees accrue vacation and sick leave according to State administrative guidelines. Senators and temporary employees do not accrue vacation or sick leave. Upon severance, permanent employees are compensated for all of their earned but unused vacation up to a maximum of 275 hours and a percentage of their accumulated sick leave depending upon length of State service and the nature of their severance (voluntary or involuntary).

F. Capital Assets

Capital asset acquisitions, consisting of furniture and equipment, are recorded as expenditures, consistent with the procedures for governmental fund-type accounting. These capital assets are property of the State of Minnesota and are reported in the State's basic financial statements.

G. Accounting Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of status of appropriations at the date of the financial statements, the reported amounts of appropriations and other receipts and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – RETIREMENT PLANS

Except as described below, Senators are covered by the Legislative Retirement Plan, a defined benefit plan established and administered in accordance with Minnesota Statutes Chapter 3A, which is administered by the Minnesota State Retirement System (MSRS). Senators contribute nine percent of their salaries to the plan. These contributions are deposited into the State's General Fund. Upon retirement of a senator, funds equal to the present value of future benefits to be paid to that senator are transferred from the General Fund to the Minnesota Post Retirement Investment Fund. The Senate makes no direct contribution to the plan and is not responsible for any unfunded liability of the plan. In fiscal year 2000, this Plan was amended to serve only existing members. No new participants are allowed. New Senators are covered by the Unclassified Retirement Plan described below.

All permanent employees and members of the Senate are covered by the Unclassified Retirement Plan, a defined contribution plan, established by Minnesota Statutes Chapter 352D, which is also administered by MSRS. Employees contributed 4% of their salaries and the Senate contributed 6% of salaries each year to the plan. The employees' and Senate's contributions were $431,444 and $645,097 in 2004. The Senate made all required contributions.

The permanent employees and members of the Senate are eligible to participate in the Senate's deferred compensation plan as permitted by Minnesota statutes. Eligible employees may elect to have a percentage of their pay contributed to the plan. Contributions are invested in MSRS or qualifying annuity contracts selected by plan participants. Eligible employees can elect to contribute up to 40 hours of vacation pay to the plan or have the Senate match the first $300 contributed to the plan each fiscal year. Employee contributions for 2004 were $757,343. The vacation pay and Senate matching contributions totaled $31,512 and $47,921 for the fiscal year ended June 30, 2004. The Senate made all required matching contributions.

NOTE 3 – COMPENSATED ABSENCES

The Senate's liability for unpaid vacation and sick leave is reported in the State's basic financial statements. The Senate recognizes expenses for compensated absences as they are paid.

The accrued liabilities at June 30, 2004 for vacation and sick leave, which would be payable as severance pay, are as follows:

Vacation	$	870,349
Sick Leave		893,443
	$	1,763,792

NOTE 4 – RECONCILIATION OF SENATE STATEMENTS TO DEPARTMENT OF FINANCE BUDGETARY REPORTS

The accompanying financial statements are prepared on a different basis of accounting than the budgetary reports of the State's Department of Finance. The Senate statements are presented on the modified accrual basis and the Department of Finance reports are presented on a cash basis, except that at year end encumbered amounts are included in expenditures. As a result, differences exist between expenditures reported in the Senate financial statements and expenditures reported by the Department of Finance. The following is a reconciliation of expenditures reported in the Senate statements to the expenditures included in the budgetary reports:

	Department of Finance Reports	Accrual Basis Adjustments	Senate Financial Statements
Appropriation carryforward to fiscal year 2004 – Reserved	$ 4,655,678	$ (516,217)	$ 4,139,461
Appropriation	19,319,000	-	19,319,000
Other receipts	115,478	-	115,478
Expenditures	(18,039,390)	(203,745)	(17,835,645)
Appropriation carryforward			
Reserved	4,058,896	(330,489)	3,728,407
Unreserved	1,991,870	18,017	2,009,887
Appropriation carryforward to fiscal year 2005	$ 6,050,766	$ (312,472)	$ 5,738,294

Under Minnesota State Law 16A.281, an appropriation, if not spent during the first year, may be spent during the second year of a biennium. The unreserved appropriation carryforward at June 30, 2003 represents the remainder of the 2003 appropriation. An unexpended appropriation balance not carried forward and remaining unexpended and unencumbered at the end of the biennium shall be returned to the fund from which appropriated. Balances carried forward into the next biennium are to be credited to special accounts to be used for non-recurring expenditures on investments that enhance efficiency or improve effectiveness; to pay expenses associated with special session, interim activities, public hearings, or public outreach efforts and related activities; and to pay severance costs of involuntary terminations. The unexpended and unencumbered fund balances credited to the special accounts at June 30, 2004 are as follows:

Investment expenditures	$ 2,044,287
Special session, interim activity, public hearings and public outreach costs	200,000
Severance costs	1,484,120
	$ 3,728,407

NOTE 4 – RISK MANAGEMENT

The Minnesota State Senate is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions, injuries to employees and natural disasters. The Minnesota State Senate is self insured through the State of Minnesota for all types of losses. An administrative fee is paid annually for workers' compensation, but no other premiums are paid.

STATISTICAL INFORMATION (UNAUDITED)

MINNESOTA STATE SENATE

COMPARATIVE SCHEDULE OF EXPENDITURES
YEARS ENDED JUNE 30, 2004, 2003, 2002, 2001, and 2000
(UNAUDITIED)

	2004	2003	2002	2001	2000
Salaries and Benefits:					
Salaries - senators	$ 2,117,599	$ 2,125,120	$ 2,118,707	$ 2,122,106	$ 2,111,546
Salaries - staff	9,812,446	11,097,550	11,077,600	11,185,229	10,574,301
MSRS and FICA, and other benefits	1,474,649	1,666,798	1,620,118	1,576,281	1,452,102
Insurance - staff	1,378,475	1,564,598	1,335,048	1,220,427	1,044,339
Insurance - senators	578,721	578,171	449,460	450,861	337,763
Unemployment compensation	28,641	62,907	22,164	24,848	14,233
Workers' compensation	14,122	13,440	20,665	30,451	23,792
Total Salaries and Benefits	15,404,653	17,108,584	16,643,762	16,610,203	15,558,076
Services:					
Rents, leases and maintenance (includes copy equipment)	234,954	149,336	217,474	176,545	196,403
Employment and publicity advertisement	-	-	25,281	40,626	41,132
Furniture and maintenance repairs	22,331	48,316	27,590	62,147	51,390
Maintenance agreements	189,878	198,783	152,235	215,112	155,658
Printing	26,625	51,327	148,056	307,435	181,443
Micrographics	23	3,690	268	2,431	139
Consultant	18,563	30,763	43,818	59,431	46,347
EDP-ISB	9,936	17,094	20,284	20,469	24,413
EDP-software	47,064	208,770	57,430	41,021	35,198
EDP-development (includes equipment)	199,438	680,326	478,442	170,923	567,592
Dry cleaning/carpet cleaning	310	358	784	662	891
Interns	43,226	45,100	34,315	32,869	27,125
Total Services	792,348	1,433,863	1,205,977	1,129,671	1,327,731
Subsistence:					
Postage	97,244	92,940	116,250	171,697	129,558
Telephones	203,437	311,726	326,529	321,132	286,648
Delivery service	8,067	752	947	1,168	1,050
Mailing service	-	562	9,794	11,189	8,754
Mileage	164,455	127,841	159,782	120,685	147,467
In-state travel/lodging	294,546	267,982	281,605	249,849	215,777
Per diem	518,214	642,772	562,464	677,913	456,768
Registration	17,728	7,925	43,637	85,546	47,417
State vehicle	-	512	972	920	2,353
Out-state travel	15,267	5,268	104,248	137,691	129,398
Tuitions/memberships/admissions/fees	21,814	191,015	30,386	106,883	39,291
Total Subsistence	1,340,772	1,649,295	1,636,614	1,884,673	1,464,481

MINNESOTA STATE SENATE

COMPARATIVE SCHEDULE OF EXPENDITURES
YEARS ENDED JUNE 30, 2004, 2003, 2002, 2001, and 2000
(UNAUDITIED)

	2004	2003	2002	2001	2000
Furniture, Supplies, Equipment and Capital Outlay:					
Video	$ 22,171	$ 194,928	$ 342,290	$ 81,687	$ 1,178,978
Photographic	9,220	4,084	25,841	37,420	34,330
Furniture and equipment	14,737	18,747	34,826	68,604	36,246
Capital outlay	96,059	4,707	45,012	29,888	11,777
Office supplies/stationery	96,529	111,812	141,894	175,196	153,213
Newspaper and publications	17,372	32,398	48,500	57,772	46,447
Water and coolers	16,112	18,207	18,606	20,617	15,648
Cleaning supplies	-	-	169	98	1,951
Miscellaneous	25,672	59,921	32,221	49,539	42,834
Total Furniture, Supplies, Equipment and Capital Outlay	297,872	444,804	689,359	520,821	1,521,424
TOTAL	$ 17,835,645	$ 20,636,546	$ 20,175,712	$ 20,145,368	$ 19,871,712

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Virchow Krause & company

INDEPENDENT AUDITORS' 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*

Minnesota State Senate
State of Minnesota
St. Paul, Minnesota

We have audited the financial statements of the Minnesota State Senate, State of Minnesota as of and for the year ended June 30, 2004, and have issued our report thereon dated June 29, 2005. 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 Minnesota State Senate's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Minnesota State Senate'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*.

Minnesota State Senate
State of Minnesota
St. Paul, Minnesota

We noted certain matters that we reported to the management of the Minnesota State Senate, State of Minnesota, in a separate letter dated June 29, 2005.

This report is intended solely for the information and use of the Minnesota State Senate, management, and the State of Minnesota and is not intended to be, and should not be, used by anyone other than these specified parties.

Virchow Krause & Company LLP

Minneapolis, Minnesota
June 29, 2005