

Financial Statements

Minnesota State Senate

St. Paul, Minnesota

For the Biennium Ended

June 30, 2017

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Minnesota State Senate
St. Paul, Minnesota
Financial Statements
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For the Biennium Ended June 30, 2017

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INTRODUCTORY SECTION
MINNESOTA STATE SENATE
ST. PAUL, MINNESOTA

FOR THE BIENNIUM ENDED
JUNE 30, 2017

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Minnesota State Senate
St. Paul, Minnesota
Organization
For the Biennium Ended June 30, 2017

Committee on Rules and Legislative Administration

Name	Title
Paul Gazelka	Chair
Michelle Benson	Vice Chair
Thomas Bakk	Ranking Minority Member
Richard Cohen	Committee Member
Gary Dahms	Committee Member
Warren Limmer	Committee Member
Scott Newman	Committee Member
Sandra Pappas	Committee Member
Eric Pratt	Committee Member
Ann Rest	Committee Member
Julie Rosen	Committee Member

Administration

Cal Ludeman	Secretary of the Senate
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FINANCIAL SECTION
MINNESOTA STATE SENATE
ST. PAUL, MINNESOTA

FOR THE BIENNIUM ENDED
JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Committee on Rules and Legislative Administration
Minnesota State Senate
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 State Senate (the Senate), of the State of Minnesota, as of and for the biennium ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Senate'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 Senate'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 Senate'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 Senate, of the State of Minnesota, as of June 30, 2017, and the respective changes in financial position thereof, and the budgetary comparison for the General fund for the biennium 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 15 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.

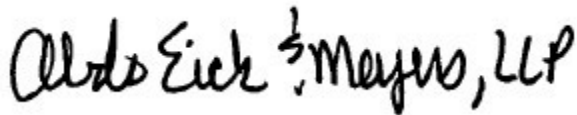
Other information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Senate'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 July 16, 2019, on our consideration of the Senate'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 Senate's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
July 16, 2019

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Management's Discussion and Analysis

As management of the Minnesota State Senate (the Senate), of the State of Minnesota, we offer readers of the Senate's financial statements this narrative overview and analysis of the financial activities of the Senate for the fiscal year ended June 30, 2017.

Financial Highlights

- The assets of the Senate exceeded its liabilities by \$3,682,298.
- The Senate's total net position increased by \$1,196,782 due to appropriations exceeding expenditures, which were roughly \$2 million less than budgeted for the biennium.
- The Senate's General fund reported an ending fund balance of \$5,706,730, an increase of \$1,133,548 in comparison to the biennium ending June 30, 2015.

This discussion and analysis is intended to serve as an introduction to the Senate'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
Required Components of the
Minnesota State Senate' Annual Financial Report



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

The *statement of activities* presents information showing how the Senate's net position changed during the biennium. 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 Senate's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Senate. 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 Senate's short-term financing decisions.

The Senate also 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 29 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 Senate expenses are greater.

Because of the Senate's operating cycle, meaningful financial analysis requires comparison of like financial years. During the fiscal year 2017, bonding and policy issues were considered. Because of the two year operating cycle of the legislature, fiscal year 2015 is the recent like fiscal year to compare financial results to fiscal year 2017. Therefore, comparison of net position and statement of activities are presented between fiscal years 2017 and 2015.

As noted earlier, net position may serve over time as a useful indicator of the Senate's financial position. As of June 30, 2017, the Senate's assets exceed its liabilities by \$3,682,298, an increase of \$1,196,782 from June 30, 2015.

A large portion of the Senate's net position 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 State Senate's Summary of Net Position

	2017	2015	Increase (Decrease)
Assets			
Current and other assets	<u>\$ 5,870,476</u>	<u>\$ 4,953,521</u>	<u>\$ 916,955</u>
Liabilities			
Long-term liabilities outstanding	2,024,432	2,087,666	(63,234)
Other liabilities	<u>163,746</u>	<u>380,339</u>	<u>(216,593)</u>
Total Liabilities	<u>2,188,178</u>	<u>2,468,005</u>	<u>(279,827)</u>
Unrestricted Net Position	<u>\$ 3,682,298</u>	<u>\$ 2,485,516</u>	<u>\$ 1,196,782</u>

Minnesota State Senate's Change in Net Position

	2017	2015	Increase (Decrease)
Revenues			
Intergovernmental Revenue			
State Appropriation	\$ 60,248,000	\$ 45,766,000	\$ 14,482,000
Expenses			
General government			
Salaries and benefits	39,955,501	38,343,722	1,611,779
Travel, per diem, subsistence and registration	2,755,554	2,794,452	(38,898)
Supplies and materials	502,737	398,146	104,591
Communications	400,814	403,692	(2,878)
Repair and maintenance	3,640,455	433,462	3,206,993
Office equipment	752,107	547,554	204,553
Carryforward	2,043,491	1,597,772	445,719
Debt service	9,012,925	-	9,012,925
Miscellaneous	114,776	65,781	48,995
Total Expenses	<u>59,178,360</u>	<u>44,584,581</u>	<u>14,593,779</u>
Increase in Net			
Position Before Transfers	1,069,640	1,181,419	(111,779)
Transfers	<u>127,142</u>	<u>-</u>	<u>127,142</u>
Change in Net Position	1,196,782	1,181,419	15,363
Net Position, July 1	<u>2,485,516</u>	<u>1,304,097</u>	<u>1,181,419</u>
Net Position, June 30	<u><u>\$ 3,682,298</u></u>	<u><u>\$ 2,485,516</u></u>	<u><u>\$ 1,196,782</u></u>

Member and Senate employee's salaries and benefits represents 67.5 percent of all expenses for the year.

Budgetary Highlights

The Senate'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 Senate's budgeted appropriation was increased from the prior biennium ending June 30, 2015 by \$14,482,000.

Overall, actual expenditures were under final budgeted expenditures by 3.2 percent. The largest favorable variances included the following:

- Salaries and benefits had a negative budget variance of \$246,633 primarily due to an increase in salaries during the year.
- Repair and maintenance had a positive budget variance of \$1,217,155 due to changes in printing equipment. New printing equipment was purchased and related maintenance agreements were either lowered or eliminated.
- Debt service had a positive budget variance of \$2,753,310. This was due to a conservative estimate during the budgeting process when the actual cost of the parking ramp project was unknown.
- Carryforward is not budgeted and something that is spent from reserves during the biennium. Therefore the entire amount spent (\$2,043,491) contributed to the budget variance.

Page 36 has a comparison of budget expenditures to actual expenditures.

Minnesota State Senate's Long-term Liabilities

The Senate's total long-term liability decreased \$63,234 (3.0 percent) compared to 2015. Compensated absences are paid upon completion of employment.

Additional information on the Senate's long-term debt can be found in Note 3A on page 31 of this report.

Next Year's Funding and Budget

The Senate appropriation for 2018 and 2019 will be \$32,299,000 and \$32,105,000, respectively.

Requests for Information

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

Questions about information in this report or requests for additional financial information should be addressed to Betty Myers, Controller, Minnesota State Senate, Office of the Secretary of the Senate, Minnesota Senate Building, 95 University Ave W., St. Paul, Minnesota 55155.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

MINNESOTA STATE SENATE
ST. PAUL, MINNESOTA

FOR THE BIENNIUM ENDED
JUNE 30, 2017

Minnesota State Senate
St. Paul, Minnesota
Statement of Net Position
June 30, 2017

Assets	
Unliquidated appropriation	<u>\$ 5,870,476</u>
Liabilities	
Accounts and salaries payable	163,746
Noncurrent liabilities	
Compensated absences payable due within one year	1,042,415
Compensated absences payable due in more than one year	<u>982,017</u>
Total Liabilities	<u>2,188,178</u>
Net Position	
Unrestricted	<u><u>\$ 3,682,298</u></u>

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

Minnesota State Senate
St. Paul, Minnesota
Statement of Activities
For the Biennium Ended June 30, 2017

General Revenues	
Intergovernmental	
State appropriation	<u>\$ 60,248,000</u>
Expenses	
Governmental activities	
General government	
Salaries and benefits	39,955,501
Travel, per diem, subsistence and registration	2,755,554
Supplies and materials	502,737
Communications	400,814
Repair and maintenance	3,640,455
Office equipment	752,107
Carryforward	2,043,491
Debt service	9,012,925
Miscellaneous	114,776
Total Expenses	<u>59,178,360</u>
Excess of Revenues	
Over Expenditures	1,069,640
Other Financing Sources	
Transfer in	<u>127,142</u>
Change in Net Position	1,196,782
Net Position, June 30, 2015	<u>2,485,516</u>
Net Position, June 30, 2017	<u><u>\$ 3,682,298</u></u>

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

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FUND FINANCIAL STATEMENTS

MINNESOTA STATE SENATE
ST. PAUL, MINNESOTA

FOR THE BIENNIUM ENDED
JUNE 30, 2017

Minnesota State Senate
St. Paul, Minnesota
Balance Sheet
Governmental Funds
June 30, 2017

	<u>General</u>
Assets	
Unliquidated appropriation	<u>\$ 5,870,476</u>
Liabilities	
Accounts and salaries payable	\$ 163,746
Fund Balance	
Restricted for statutory items (see Note 4)	<u>5,706,730</u>
Total Liabilities and Fund Balance	<u>\$ 5,870,476</u>
Total Fund Balance - Governmental Fund	\$ 5,706,730
Amounts reported for governmental activities in the Statement of Net Position are different because	
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	<u>(2,024,432)</u>
Total Net Position - Governmental Activities	<u>\$ 3,682,298</u>

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

Minnesota State Senate
St. Paul, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Biennium Ended June 30, 2017

	<u>General</u>
Revenues	
Intergovernmental	
State appropriation	<u>\$ 60,248,000</u>
Expenditures	
General government	
Salaries and benefits	40,018,735
Travel, per diem, subsistence and registration	2,755,554
Supplies and materials	502,737
Communications	400,814
Repair and maintenance	3,640,455
Office equipment	752,107
Carryforward	2,043,491
Debt service	9,012,925
Miscellaneous	114,776
Total Expenditures	<u>59,241,594</u>
Excess of Revenues Over Expenditures	1,006,406
Other Financing Sources	
Transfer in	<u>127,142</u>
Net Change in Fund Balance	1,133,548
Fund Balance, July 1, 2015	<u>4,573,182</u>
Fund Balance, June 30, 2017	<u><u>\$ 5,706,730</u></u>
Total Net Change in Fund Balance - Governmental Fund	\$ 1,133,548
Amounts reported for governmental activities in the Statement of Activities are different because	
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>63,234</u>
Change in Net Positions - Governmental Activities	<u><u>\$ 1,196,782</u></u>

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

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Minnesota State Senate
St. Paul, Minnesota
Notes to the Financial Statements
June 30, 2017

Note 1: Summary of Significant Accounting Policies

A. Financial Reporting Entity

The Minnesota State Senate (the Senate) was established in 1858. It consists of 67 members who are elected by Minnesota voters to serve four-year terms making laws for the State of Minnesota (the State) and its people and proposing amendments to the state constitution. The Senate 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 of changes in net position) report information on all of the activities of the Senate.

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 appropriations to the Senate from the State of Minnesota. Other items not included among program revenues are reported instead as *general revenues*. The Senate 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, all of the Senate's revenues are considered current. 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. Senate funds are disbursed by the Minnesota Management and Budget agency.

The Senate 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 4.

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.

Minnesota State Senate
St. Paul, Minnesota
Notes to the Financial Statements
June 30, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Position/Fund Balances

Capital Assets

Capital asset acquisitions, which include 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.

Compensated Absences

Permanent employees and temporary employees (after six months of continuous service for temporary employees) accrue vacation and sick leave according to State administrative guidelines set forth in the Legislative Plan for Employees Benefits and Policies. Senators 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). 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.

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 assets - All other net position balances that do not meet the definition of "restricted" or "investment in capital assets".

Note 2: Stewardship, Compliance, and Accountability

Budget and 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 and fiscal staff. The budget is then submitted to the Senate Finance Committee. Next, the budget is included in the omnibus state government finance bill and approved by the Senate, the State 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 Majority Leader has authority to modify the budget within the level of funds available. The Senate has the legal authority to carry forward unexpended appropriations. The budget was not amended during the year.

Expenditures cannot legally exceed the total initially appropriated unless supplemental appropriations are enacted into law or unspent appropriations carried forward from previous years are available. The Senate budget is prepared in accordance with generally accepted accounting principles. Budgetary control is at the appropriation level. Unexpended appropriations from the first year (June 30, 2016) of the biennium are carried over and are available for operations in the second year (year ended June 30, 2017) of the biennium.

Minnesota State Senate
St. Paul, Minnesota
Notes to the Financial Statements
June 30, 2017

Note 3: Detail on Accounts

A. Long-term Debt

Changes in Long-term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences	<u>\$ 2,087,666</u>	<u>\$ 2,024,550</u>	<u>\$ 2,087,784</u>	<u>\$ 2,024,432</u>	<u>\$ 1,042,415</u>

B. Fund Balance Reconciliation

The general carryforward of \$5,706,730 at June 30, 2017 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 fund balance as of June 30, 2017:

	<u>Expenditures</u>	<u>General Carryforward</u>	<u>Total</u>
Appropriation Carryforward at Biennium Ending June 30, 2015	\$ -	\$ 4,573,182	\$ 4,573,182
Plus: Appropriations	60,248,000	-	60,248,000
Less: Expenditures and reductions	(59,241,594)	-	(59,241,594)
Plus: Transfers In	<u>127,142</u>	<u>-</u>	<u>127,142</u>
Fund Balance, June 30, 2017	<u>\$ 1,133,548</u>	<u>\$ 4,573,182</u>	<u>\$ 5,706,730</u>

Minnesota State Senate
St. Paul, Minnesota
Notes to the Financial Statements
June 30, 2017

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 Minnesota Management and Budget. The Senate statements are presented on the modified accrual basis and the Minnesota Management and Budget 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 Minnesota Management and Budget.

The following is a reconciliation of expenditures reported in the Senate statements to the expenditures included in the budgetary reports:

	Minnesota Management and Budget Reports	Modified Accrual Basis Adjustments	Senate Financial Statements
Appropriation Carryforward at Biennium Ending June 30, 2015	\$ 4,769,360	\$ (196,178)	\$ 4,573,182
Appropriation Carryforward at Biennium	60,248,000	-	60,248,000
Expenditures	(59,241,594)	-	(59,241,594)
Transfers	127,142	-	127,142
Appropriation Carryforward: Reserved	<u>5,902,908</u>	<u>(196,178)</u>	<u>5,706,730</u>
Appropriation Carryforward at Biennium ending June 30, 2017	<u><u>\$ 5,902,908</u></u>	<u><u>\$ (196,178)</u></u>	<u><u>\$ 5,706,730</u></u>

Under Minnesota State Law 16A.281, an appropriation, if not spend during the first year, may be spend during the second year of a biennium. 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 session, 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, 2017 and June 30, 2015 are as follows:

	2017	2015
Investment Expenditures	\$ 2,710,907	\$ 2,439,473
Session, Interim Activity, Public Hearings and Public Outreach Costs	2,072,202	1,468,333
Severance	<u>923,621</u>	<u>665,376</u>
Total	<u><u>\$ 5,706,730</u></u>	<u><u>\$ 4,573,182</u></u>

Minnesota State Senate
St. Paul, Minnesota
Notes to the Financial Statements
June 30, 2017

Note 5: Pension Plans

The Senate is involved in two pension programs as follows:

Legislative Retirement Plan

Senators first elected before July 1, 1997 may have chosen to be covered by the Legislative Retirement Plan, a defined benefit plan that 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 MSRS's General fund. Upon retirement of a Senator, funds equal to the present value on future benefits to be paid to that Senator are transferred from the MSRS's 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 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 88 percent of Senators are covered under this plan. Senators contribute 5.5 percent of their salaries and the Senate contributes 6 percent of salaries to the plan. The Senate's contribution was \$273,821 for the biennium ended June 30, 2017.

The majority of permanent employees of the Senate are, like most Senators, covered by the Unclassified Retirement Plan. Employees contribute 5.5 percent of their salaries and the Senate contributes 6 percent of salaries to the plan. The Senate's retirement plan contribution was \$1,369,214 for the biennium ended June 30, 2017.

The MSRS issues a publicly available financial report that includes financial statements and required supplementary information for the Minnesota State Retirement System. This report may be obtained on the web at www.msrs.state.mn.us or by calling 651-296-2761 or 800-657-5757.

Note 6: Risk Management

The Senate 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 Senate 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 Senate 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 Senate 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 Senate remits premiums to the State. Settled claims have not exceeded coverage in any of the past three years.

Minnesota State Senate
St. Paul, Minnesota
Notes to the Financial Statements
June 30, 2017

Note 6: 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.

INDIVIDUAL FUND SCHEDULE

MINNESOTA STATE SENATE
ST. PAUL, MINNESOTA

FOR THE BIENNIUM ENDED
JUNE 30, 2017

Minnesota State Senate
St. Paul, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
General Fund
For the Biennium Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental				
State appropriation	\$ 60,248,000	\$ 60,248,000	\$ 60,248,000	\$ -
Expenditures				
General government				
Salaries and benefits	39,772,102	39,772,102	40,018,735	(246,633)
Travel, per diem, subsistence and registration	3,148,860	3,148,860	2,755,554	393,306
Supplies and materials	465,171	465,171	502,737	(37,566)
Communications	441,636	441,636	400,814	40,822
Repair and maintenance	4,857,610	4,857,610	3,640,455	1,217,155
Office equipment	654,075	654,075	752,107	(98,032)
Carryforward	-	-	2,043,491	(2,043,491)
Debt service	11,766,235	11,766,235	9,012,925	2,753,310
Miscellaneous	95,516	95,516	114,776	(19,260)
Total Expenditures	61,201,205	61,201,205	59,241,594	1,959,611
Excess (Deficiency) of Revenues Over (Under) Expenditures	(953,205)	(953,205)	1,006,406	1,959,611
Other Financing Sources				
Transfer in	-	-	127,142	127,142
Net Change in Fund Balance	(953,205)	(953,205)	1,133,548	2,086,753
Fund Balance, June 30, 2015	4,573,182	4,573,182	4,573,182	-
Fund Balance, June 30, 2017	\$ 3,619,977	\$ 3,619,977	\$ 5,706,730	\$ 2,086,753

OTHER REQUIRED REPORT

MINNESOTA STATE SENATE
ST. PAUL, MINNESOTA

FOR THE BIENNIUM ENDED
JUNE 30, 2017

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 State Senate
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 major fund of the Minnesota State Senate (the Senate), of the State of Minnesota, as of and for the biennium ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Senate's basic financial statements, and have issued our report thereon dated July 16, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Senate'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 Senate's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Senate'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.

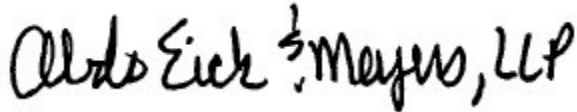
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify two deficiencies in internal control, described in the accompanying Schedule of Finding and Response as item 2017-001 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Purpose of this Report

This report is intended solely for the information and use of the Committee on Rules and Legislative Administration 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.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
July 16, 2019

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Minnesota State Senate
St. Paul, Minnesota
Schedule of Finding and Response
For the Biennium Ended June 30, 2017

<u>Finding</u>	<u>Description</u>
2017-001	Preparation of Financial Statements
<i>Condition:</i>	We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with an organization of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
<i>Recommendation:</i>	It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the Senate is reviewing the financial statements, we recommend that the Senate agree its financial software to the numbers reported in the financial statements.
<i>Management Response:</i>	
For now, the Senate's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.	