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MINNESOTA HOUSE OF REPRESENTATIVES  
ST. PAUL, MINNESOTA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
JUNE 30, 2006

MINNESOTA HOUSE OF REPRESENTATIVES  
ST. PAUL, MINNESOTA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
JUNE 30, 2006

MINNESOTA HOUSE OF REPRESENTATIVES  
ST. PAUL, MINNESOTA  
TABLE OF CONTENTS  
JUNE 30, 2006

	<u>Page No.</u>
INTRODUCTORY SECTION	
Organization	1
FINANCIAL SECTION	
Independent Auditor's Report	2 - 3
Management Discussion and Analysis	I - XI
Basic Financial Statements	
Statement of Net Assets	4
Statement of Activities	5
Fund Financial Statements	
Balance Sheet - Governmental Fund	6
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities - Governmental Fund	8
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	9
Notes to Financial Statements	10 - 15
OTHER REQUIRED REPORT	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16 - 17

**INTRODUCTORY SECTION**

MINNESOTA HOUSE OF REPRESENTATIVES  
ST. PAUL, MINNESOTA

YEAR ENDED  
JUNE 30, 2006

MINNESOTA HOUSE OF REPRESENTATIVES  
ST PAUL, MINNESOTA  
ORGANIZATION  
JUNE 30, 2006

COMMITTEE ON RULES AND LEGISLATIVE ADMINISTRATION

<u>Name</u>	<u>Title</u>
Erik Paulsen, Majority Leader	Chair
Char Samuelson	Vice Chair
Lyndon Carlson, Minority Leader	Member
Ron Abrams	Member
Bruce Anderson	Member
Connie Bernardy	Member
Joe Hoppe	Member
Larry Hosch	Member
Jeff Johnson	Member
Al Juhnke	Member
Margaret Kelliher	Member
Paul Kohls	Member
Diane Loeffler	Member
Doug Magnus	Member
Frank Moe	Member
Dennis Ozment	Member
Jeanne Poppe	Member
Brita Sailer	Member
Marty Seifert	Member
Tony Sertich	Member
Steve Smith	Member
Steve Sviggum, Speaker of the House	Member
Kathy Tingelstad	Member

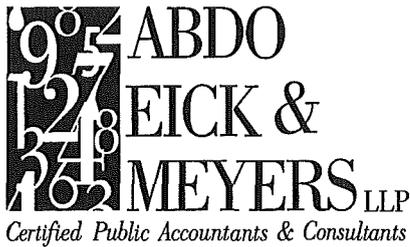
ADMINISTRATION

Paul Schweizer	Controller
Helen Arend, CPA	Accounting Officer
Lesley Hinz	Committee Legislative Assistant

**FINANCIAL SECTION**

MINNESOTA HOUSE OF REPRESENTATIVES  
ST. PAUL, MINNESOTA

YEAR ENDED  
JUNE 30, 2006



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Grandview Square  
5201 Eden Avenue  
Suite 370  
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, 2006, as listed in the table of contents. These financial statements are the responsibility of 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, 2006, 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, 2006, and the respective changes in financial position and the respective budgetary comparison of the general fund thereof 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 December 12, 2006, 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 reports 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 read in conjunction with this report in considering the results of our audit.



The management's discussion and analysis on pages I through IX, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the 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 on it.

December 12, 2006  
Minneapolis, Minnesota

*Abdo Eick & Meyers, LLP*  
ABDO, EICK & MEYERS, LLP  
*Certified Public Accountants*

## **Management's Discussion and Analysis**

As management of the Minnesota House of Representatives (the House), 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, 2006.

### **Financial Highlights**

- The assets of the House exceeded its liabilities at the close of the most recent fiscal year by \$774,964.
- The House's total net assets decreased by \$3,679,248.
- As of the close of the 2006 fiscal year-end, the House's general fund reported an ending fund balance of \$1,872,851, a decrease of \$3,505,084 in comparison with the prior year. Total fund balance represented 7 percent of total General fund expenditures.

### 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**  
**House's Annual Financial Report**

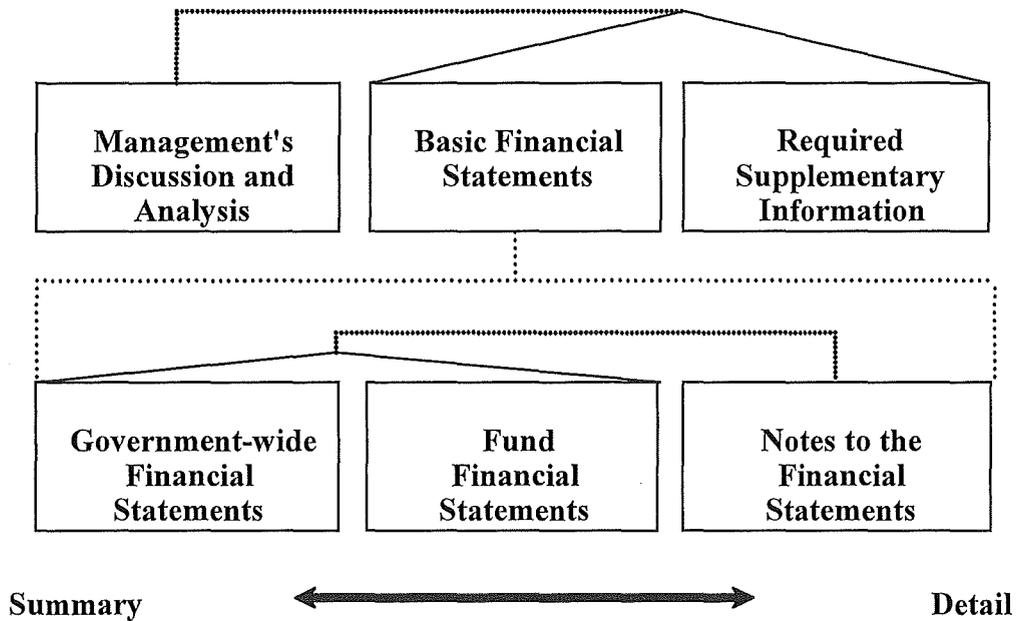


Figure 2 summarizes the major features of the House’s financial statements. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

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

	Government-wide Statements	Fund Financial Statements Governmental Funds
	Scope	Entire governments
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>
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 in flow/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**

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 can be found on pages 4 - 5 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 schedule called the *Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities* is provided. 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 can be found on pages 6 - 9 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 can be found on pages 10 - 15 of this report.

**Financial Analysis**

Fiscal year 2006 is the first year of the State's two-year budget cycle. During this even-year session, the legislature meets for approximately three months 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 five months. 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 fiscal years. During fiscal year 2006 bonding and policy issues were considered. Because of the two year operating cycle of the legislature, fiscal year 2004 is the recent like fiscal year to compare financial results to fiscal year 2006. Therefore, comparisons of net assets and activities between fiscal years 2004 and 2006 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, 2006, the House's assets exceed its liabilities by \$774,964.

A large portion of the House's net assets (2 plus times) reflects its investment in capital assets (e.g. machinery and equipment). The House uses these capital assets to provide public outreach services to citizens; consequently, these assets are not available for future spending.

**Summary of Net Assets**

	2006	2004	Increase (Decrease)
Assets			
Current and other assets	\$ 1,993,218	\$ 5,971,728	\$ (3,978,510)
Capital assets	1,642,419	1,966,898	(324,479)
Total assets	3,635,637	7,938,626	(4,302,989)
Liabilities			
Long-term liabilities outstanding	2,740,306	2,525,789	214,517
Other liabilities	120,367	253,535	(133,168)
Total liabilities	2,860,673	2,779,324	81,349
Net Assets			
Invested in capital assets	1,642,419	1,966,898	(324,479)
Unrestricted	(867,455)	3,192,404	(4,059,859)
Total net assets	\$ 774,964	\$ 5,159,302	\$ (4,384,338)

The House's net assets decreased \$3,679,248 during the 2006 fiscal year.

Key elements of the \$3,679,248 decrease in net assets are as follows:

	2006	2004	Increase (Decrease)
<b>Revenues</b>			
Intergovernmental revenue			
State appropriation	\$ 24,177,000	\$ 25,993,000	\$ (1,816,000)
Transfer to revisor of statutes	(500,000)	-	(500,000)
	<u>23,677,000</u>	<u>25,993,000</u>	<u>(2,316,000)</u>
<b>Expenses</b>			
General government			
Salaries and benefits	22,621,329	22,235,785	385,544
Travel, per diem, subsistence and registration	1,617,626	1,443,925	173,701
Office equipment	412,630	413,345	(715)
Communications	433,569	428,826	4,743
Purchased services	354,562	353,611	951
Depreciation	456,188	390,974	65,214
Supplies and materials	201,477	175,303	26,174
	<u>26,097,381</u>	<u>25,441,769</u>	<u>655,612</u>
Change in net assets	(2,420,381)	551,231	(2,971,612)
Net assets, January 1	4,445,345	4,608,071	(162,726)
Statutory carry forward reduction	(1,250,000)	-	(1,250,000)
	<u>\$ 774,964</u>	<u>\$ 5,159,302</u>	<u>\$ (4,384,338)</u>

Member and House employee's salaries and benefits represent 87 percent of all expenditures for the year.

### **Budgetary Highlights**

The House's budgeted appropriation was reduced by \$1,816,000 (7 %) plus an additional reduction to the carryforward of \$1,250,000 as compared to fiscal year 2004.

Anticipating continuing funding reductions, the House has continued most of the cost saving measures put into place towards the end of fiscal year 2003. These include:

- maintaining full-time staffing levels,
- continued encouragement of staff to take salary savings leave,
- printing more materials in-house,
- continue funding of committee budgets at a minimal level.

A variety of budget pressures has resulted in some increased spending. These include:

- increase in insurance premiums
- merit increase for employees
- increase in Member retirement costs

The House doubled carryforward spending from fiscal year 2005 to fiscal year 2006 to meet budgetary pressures.

Overall, actual expenditures were more than final budgeted expenditures by \$197,961.

There were favorable variances between budget and actual expenditures. These include:

- insurance cost increases were not as large as estimated by the Department of Employee Relations,
- postage and printing costs were not as high as anticipated.

Page 9 has a comparison of budget to actual expenditures.

**Capital Assets and Debt Administration**

**Capital assets.** The House's investment in capital assets as of June 30, 2006 was \$1,642,419 (net of accumulated depreciation). This investment includes hearing room upgrades, copiers, chamber wiring, television production equipment and a computer network upgrades and installation.

**Capital Assets**

	<u>2006</u>	<u>2004</u>	Increase (Decrease)
Improvements other than buildings	\$ 965,595	\$ 1,262,726	\$ (297,131)
Machinery and equipment	<u>676,824</u>	<u>704,172</u>	<u>(27,348)</u>
Total	<u>\$ 1,642,419</u>	<u>\$ 1,966,898</u>	<u>\$ (324,479)</u>

Major capital asset events during the 2006 fiscal year included the following:

- \$85,250 plus a trade-in for a re-built Docu-Tech 6180 used for duplicating needs,
- \$66,938 towards the new Voice over Internet Protocol phone system (VOIP),
- \$64,948 to remodel offices in the State Office Building.

Additional information on the House's capital assets is included in Note 3A on page 13 of this report.

**Outstanding Debt**

	<u>2006</u>	<u>2004</u>	Increase (Decrease)
Compensated absences	<u>\$ 2,740,306</u>	<u>\$ 2,525,789</u>	<u>\$ 214,517</u>

The House's total debt increased \$214,517 (8.5 percent) compared to 2004.

Additional information on the House's long-term debt can be found in Note 3B on page 13 of this report.

### **Next Year's Funding and Budget**

The House's fiscal year 2007 appropriation is \$27,790,000.

Anticipating budgetary pressures for fiscal year 2007, the House will continue most of the cost savings measures put into place towards the end of fiscal year 2003. Budgeted expenditures are \$28,882,853 including \$1,092,853 in carryforward spending.

As June 30, 2006, the House's carryforward balance is \$1,872,851. \$301,942 is the carryforward available for one-time technology or telecommunication improvements. \$1,570,909 is the general carryforward. It may only be used for non-recurring expenditures or investments which enhance efficiencies; to pay expenses associated with special sessions, interim activities, public hearings, or other outreach efforts and related activities; or to pay severance costs of involuntary terminations.

### **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 Paul Schweizer, Controller, Minnesota House of Representatives, 72 State Office Building, 100 Rev. Dr. Martin Luther King Jr. Blvd., St. Paul, MN 55155.

## FINANCIAL STATEMENTS

MINNESOTA HOUSE OF REPRESENTATIVES  
ST. PAUL, MINNESOTA  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

ASSETS	
Unliquidated appropriation	\$ 1,993,218
Depreciable capital assets (net)	
Improvements other than buildings	965,595
Machinery and equipment	<u>676,824</u>
 TOTAL ASSETS	 <u>3,635,637</u>
LIABILITIES	
Accounts payable	120,367
Noncurrent liabilities	
Compensated absences payable due within one year	1,255,064
Compensated absences payable due in more than one year	<u>1,485,242</u>
 TOTAL LIABILITIES	 <u>2,860,673</u>
NET ASSETS	
Invested in capital assets	1,642,419
Unrestricted	<u>(867,455)</u>
 TOTAL NET ASSETS	 <u>\$ 774,964</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, 2006

EXPENSES

Governmental activities:

General government

Salaries and benefits	\$ 22,621,329
Travel, per diem, subsistence and registration	1,617,626
Office equipment	412,630
Communications	433,569
Purchased services	354,562
Depreciation	456,188
Supplies and materials	<u>201,477</u>

TOTAL GOVERNMENTAL ACTIVITIES	26,097,381
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GENERAL REVENUES AND TRANSFERS

Intergovernmental:

State appropriation	24,177,000
Transfer to revisor of statutes	<u>(500,000)</u>

TOTAL GENERAL REVENUES AND TRANSFERS	23,677,000
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CHANGE IN NET ASSETS	(2,420,381)
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NET ASSETS, JULY 1	4,445,345
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STATUTORY CARRY FORWARD REDUCTION	<u>(1,250,000)</u>
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NET ASSETS, JUNE 30	<u><u>\$ 774,964</u></u>
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The notes to the financial statements are an integral part of this statement.

MINNESOTA HOUSE OF REPRESENTATIVES  
ST. PAUL, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2006

	General
ASSETS	
Unliquidated appropriation	\$ 1,993,218
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 120,367
FUND BALANCE	
Reserved for:	
Technology or telecommunication	301,942
Statutory items (see Note 4B)	1,570,909
TOTAL FUND BALANCE	1,872,851
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,993,218
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
1. Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	1,642,419
2. Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	(2,740,306)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 774,964

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 BALANCES  
GOVERNMENTAL FUND  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES

Intergovernmental:	
State appropriation	<u>\$ 24,177,000</u>

EXPENDITURES

General government	
Salaries and benefits	22,686,216
Travel, per diem, subsistence and registration	1,617,626
Communications	433,569
Capital outlay and equipment	629,766
Purchased services	354,562
Supplies and materials	<u>201,477</u>

TOTAL EXPENDITURES	<u>25,923,216</u>
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DEFICIENCY OF REVENUES UNDER EXPENDITURES	(1,746,216)
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OTHER FINANCING USES

Transfer to revisor of statutes	<u>(500,000)</u>
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NET CHANGE IN FUND BALANCES	(2,246,216)
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FUND BALANCES, JULY 1	5,369,067
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STATUTORY CARRY FORWARD REDUCTION	<u>(1,250,000)</u>
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FUND BALANCES, JUNE 30	<u><u>\$ 1,872,851</u></u>
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Fund balances, July 1	\$ 5,369,067
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

1. Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Improvements other than buildings	1,977,056
Accumulated depreciation, buildings and improvements	(881,481)
Equipment	1,831,822
Accumulated depreciation, equipment	<u>(1,045,926)</u>

2. Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.

	<u>(2,805,193)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES, JULY 1	<u><u>\$ 4,445,345</u></u>
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The notes to the financial statements are an integral part to this statement.

MINNESOTA HOUSE OF REPRESENTATIVES  
ST. PAUL, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006

Total net change in fund balances \$ (1,746,216)

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.

Capital outlays	217,136
Depreciation expense	(451,059)

Governmental funds report gains and losses on the sale of capital assets as cash is exchanged. However, in the statement of activities the sale of capital assets is recorded to the extent of the recognized gain or loss.

(5,129)

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	64,887
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Changes in net assets of governmental activities \$ (1,920,381)

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

MINNESOTA HOUSE OF REPRESENTATIVES  
ST. PAUL, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Intergovernmental				
State appropriation	\$ 25,343,000	\$ 24,177,000	\$ 24,177,000	\$ -
EXPENDITURES				
General government				
Salaries and benefits	23,795,850	22,950,963	22,686,216	264,747
Travel, per diem, subsistence and registration	1,255,801	1,688,612	1,617,626	70,986
Communications	375,304	375,304	433,569	(58,265)
Capital outlay	600,000	600,000	629,766	(29,766)
Purchased services	401,908	398,408	354,562	43,846
Supplies and materials	195,646	195,646	201,477	(5,831)
Unallocated	20,000	16,322	-	16,322
TOTAL EXPENDITURES	26,644,509	26,225,255	25,923,216	302,039
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(1,301,509)	(2,048,255)	(1,746,216)	302,039
OTHER FINANCING USES				
Transfer to revisor of statutes	-	-	(500,000)	(500,000)
NET CHANGE IN FUND BALANCES	(1,301,509)	(2,048,255)	(2,246,216)	(197,961)
FUND BALANCES, JULY 1	5,377,935	5,369,067	5,369,067	-
STATUTORY CARRY FORWARD REDUCTION	-	-	(1,250,000)	(1,250,000)
FUND BALANCES, JUNE 30	\$ 4,076,426	\$ 3,320,812	\$ 1,872,851	\$ (1,447,961)

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

MINNESOTA HOUSE OF REPRESENTATIVES  
ST. PAUL, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**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 of Minnesota 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. Taxes and 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 State Department of Finance.

The House is funded by an appropriation from the general fund of the State. The unspent portion of the appropriation is carried forward 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 FINANCIAL STATEMENTS  
JUNE 30, 2006

**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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, 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 FINANCIAL STATEMENTS  
JUNE 30, 2006

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Compensated Absences**

Permanent employees and, after six months of service, temporary employees 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 State service and the nature of their severance (voluntary or involuntary), unused compensation time (up to 120 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 limitation 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 state Department of Finance 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 amended during 2006.

MINNESOTA HOUSE OF REPRESENTATIVES  
ST. PAUL, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**Note 3: DETAIL ON ACCOUNTS**

**A. Capital Assets**

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Improvements other than buildings	\$ 1,977,056	\$ 64,948	\$ -	\$ 2,042,004
Machinery and equipment	1,831,822	152,188	(79,310)	1,904,700
Total capital assets being depreciated	<u>3,808,878</u>	<u>217,136</u>	<u>(79,310)</u>	<u>3,946,704</u>
Less accumulated depreciation for				
Improvements other than buildings	(881,481)	(194,928)	-	(1,076,409)
Machinery and equipment	(1,045,926)	(256,131)	74,181	(1,227,876)
Total accumulated depreciation	<u>(1,927,407)</u>	<u>(451,059)</u>	<u>74,181</u>	<u>(2,304,285)</u>
Total capital assets being depreciated, net	<u>\$ 1,881,471</u>	<u>\$ (233,923)</u>	<u>\$ (5,129)</u>	<u>\$ 1,642,419</u>

**B. Long - term Debt**

**Changes in Long-term Liabilities**

During the year ended June 30, 2006, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One year
Compensated absences	<u>\$ 2,805,193</u>	<u>\$ 1,265,842</u>	<u>\$(1,330,729)</u>	<u>\$ 2,740,306</u>	<u>\$ 1,255,064</u>

**C. Reserved Fund Balance**

As of June 30, 2006, \$301,942 remained in reserved fund balance for technology or telecommunication improvements. The general carry forward of \$1,588,645 at June 30, 2006 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 reserved fund balance as of June 30, 2006:

	Technology or Telecom- munication	General	Total
Reserved fund balance, July 1, 2005	\$ -	\$ 5,369,067	\$ 5,369,067
Plus: Appropriations and reductions, net	24,177,000	(1,750,000)	22,427,000
Less: Expenditures	<u>23,875,058</u>	<u>2,048,158</u>	<u>25,923,216</u>
Reserved fund balance, June 30, 2006	<u>\$ 301,942</u>	<u>\$ 1,570,909</u>	<u>\$ 1,872,851</u>

MINNESOTA HOUSE OF REPRESENTATIVES  
ST. PAUL, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**Note 4: PENSION PLANS**

The House is involved in two pension programs as follows:

**Legislative Retirement Plan:** Approximately 28 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 three 72 percent of Representatives are covered under this plan. Representatives contribute four percent of their salaries and the House contributes six percent of salaries to the plan. The House's contribution was \$209,122 for the year ended June 30, 2006.

The majority of permanent employees of the House are, like some Representatives, covered by the Unclassified Retirement Plan. Employees contribute four percent of their salaries and the House contributes six percent of salaries to the plan. The House's contribution was \$738,889 for the year ended June 30, 2006.

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

**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 \$300,000 per person for property damage or bodily injury and \$1,000,000 per occurrence. These risks are not covered through insurance. The House is responsible to pay for the cost of claims from its operating budget of various 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 FINANCIAL STATEMENTS  
JUNE 30, 2006

**Note 5: RISK MANAGEMENT - CONTINUED**

**State Employee Group Insurance Program**

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 for 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.

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**OTHER REQUIRED REPORT**

MINNESOTA HOUSE OF REPRESENTATIVES  
ST. PAUL, MINNESOTA

YEAR ENDED  
JUNE 30, 2006

Grandview Square  
5201 Eden Avenue  
Suite 370  
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, 2006, and have issued our report thereon dated December 12, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 errors 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 House's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 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.

December 12, 2006  
Minneapolis, Minnesota

*Abdo Eick & Meyers, LLP*  
ABDO, EICK & MEYERS, LLP  
*Certified Public Accountants*