Office of the Legislative Auditor

Financial Statements and Required Supplementary Information

Fiscal Years Ended June 30, 2022, and June 30, 2023

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Office of the Legislative Auditor

Financial Statements and Required Supplementary Information

Fiscal Years Ended June 30, 2022, and June 30, 2023

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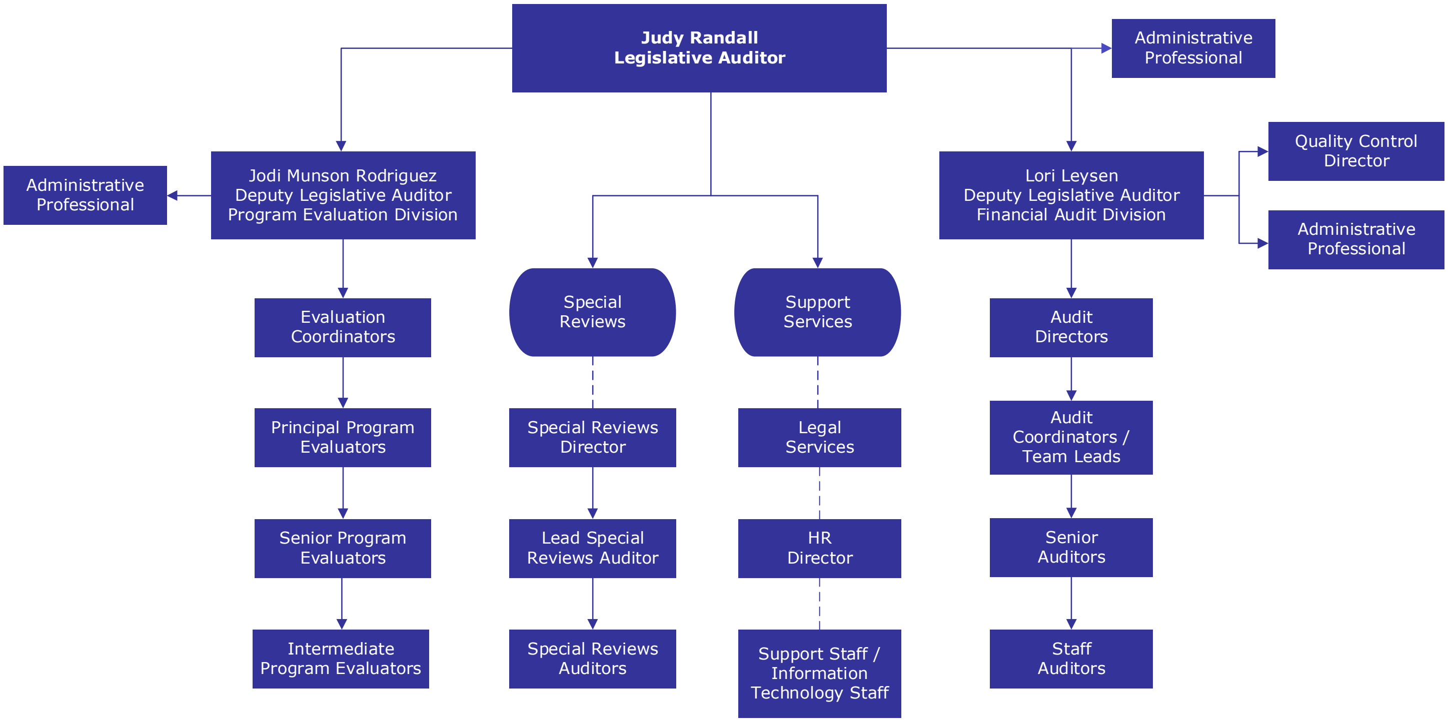
Office of the Legislative Auditor
Organizational Chart



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INDEPENDENT AUDITORS' REPORT

Commissioners and Administrations
Minnesota Office of the Legislative Auditor
St. Paul, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and general fund of the Minnesota Office of the Legislative Auditor, as of and for the years ended June 30, 2022 and June 30, 2023, and the related notes to the financial statements, which collectively comprise the Minnesota Office of the Legislative Auditor's basic financial statements as listed in the table of contents.

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 Minnesota Office of the Legislative Auditor, as of June 30, 2022 and June 30, 2023, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Minnesota Office of the Legislative Auditor and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Minnesota Office of the Legislative Auditor are intended to present the financial position and the changes in financial position of only that portion of the general fund of the State of Minnesota that is attributable to the transactions of the Minnesota Office of the Legislative Auditor. They do not purport to, and do not, present fairly the financial position of the State of Minnesota as of June 30, 2022 and June 30, 2023 and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in Note 1 to the financial statements, effective July 1, 2021, the Minnesota Office of the Legislative Auditor adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use asset and corresponding lease liability and lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than twelve months. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Minnesota Office of the Legislative Auditor's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund, schedule of the Minnesota Office of the Legislative Auditor's proportionate share of the net pension liability, schedule of the Minnesota Office of the Legislative Auditor's contributions, and schedule of changes in total OPEB liability be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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. Although our opinion on the basic financial statements is not affected, the following material departure from the prescribed guidelines exists: the MD&A does not present comparative condensed financial information for both years. 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

Management is responsible for the other information included in the annual report. The other information comprises the organization section but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2024, on our consideration of the Minnesota Office of the Legislative Auditor'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 solely 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 effectiveness of the Minnesota Office of the Legislative Auditor's 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 Minnesota Office of the Legislative Auditor's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 28, 2024

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Management's Discussion and Analysis

For the Fiscal Years Ended June 30, 2022, and June 30, 2023

As management of the Office of the Legislative Auditor (OLA), we offer readers of OLA financial statements this narrative overview and analysis of the financial activities for the fiscal years ended June 30, 2022, and 2023. We do not include the financial activities for the Fiscal Year ended June 30, 2021, which is required by GAAP, because we did not prepare financial statements for that year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to OLA's basic financial statements. These statements consist 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.

Government-Wide Financial Statements

Government-wide financial statements provide a general overview of OLA'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 OLA's assets and deferred outflows of resources and liabilities and deferred inflows of resources; the difference between the two is net position. Over time, the increase or decrease in net position can serve as an indicator as to whether OLA's financial position is improving or deteriorating.

The Statement of Activities presents information showing how OLA's net position has changed during the fiscal year. All changes in net position 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).

Fund Financial Statements

These statements use the modified accrual basis of accounting, which recognizes revenues when they are available and measurable. Expenditures are generally recognized in the accounting period when the fund liability is incurred, if measurable. This approach is known as the flow of current financial resources measurement focus. These statements provide a detailed short-term view of OLA's finances that assist in determining whether there are more or less resources available and whether these financial resources will be adequate to meet the current needs of OLA. The fund financial statements include a reconciliation of funds to government-wide financial statements.

Notes to the Financial Statements

The notes provide additional narrative and financial information that are essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

Management's Discussion and Analysis

For the Fiscal Years Ended June 30, 2022, and June 30, 2023

Financial Highlights: Government-Wide

- OLA's assets and deferred outflows of resources did not exceed its liabilities and deferred inflows of resources at the close of fiscal years 2022 and 2023.
- OLA's change in net position was positive in both fiscal years 2022 and 2023, which resulted in an overall increase in the ending net position.

Financial Analysis: Government-Wide

As stated above, net position may serve over time as a useful indicator of an entity's overall financial position. As of June 30, 2022, and 2023, OLA's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources by $1,173,000 and $260,000, respectively.

Net Position
June 30, 2022 and 2023
(In Thousands)

	2022	2023	Increase (Decrease)
Assets			
Current	$ 2,953	$2,406	$ (547)
Noncurrent	293	112	(181)
Total Assets	$ 3,246	$2,518	$ (728)
Deferred Outflows of Resources	$ 2,585	$2,161	$ (424)
Liabilities			
Current	$ 1,313	$ 842	$ (471)
Noncurrent	937	3,175	2,238
Total Liabilities	$ 2,250	$4,017	$ 1,767
Deferred Inflows of Resources	$ 4,754	$ 922	$(3,832)
Net Position	$(1,173)	$ (260)	$ 913

Current assets consist solely of the OLA share of the state's pooled cash and investments (cash). The decrease can be attributed to an increase in expenses and a decrease in state appropriations. The decrease in noncurrent assets is due to the right-to-use leased building asset becoming fully amortized as of June 30, 2023. The lease was a two-year agreement with the Department of Administration for office space in the Centennial Office Building for fiscal years 2022 and 2023.[1]

[1] OLA entered into another two-year lease agreement with the Department of Administration for fiscal years 2024 and 2025.

For the Fiscal Years Ended June 30, 2022, and June 30, 2023

The deferred outflows/inflows of resources relate solely to OLA's proportionate share of the state's net pension liability (NPL) and other postemployment benefits (OPEB). These figures are assigned to OLA by Minnesota Management and Budget through an allocation process and are mostly dependent on items such as actuarial valuations and market conditions. For additional information, refer to Note 4 – Other Postemployment Benefits, and Note 5 – Pensions.

The decrease in current liabilities can mostly be attributed to decreases in salaries payable and leases and subscriptions payable. The decrease in salaries payable is due to payroll expenses for the final full pay period in Fiscal Year 2022 not being paid until July 1, 2022, and thus recognized as salaries payable, whereas the payroll expenses for the final full pay period in Fiscal Year 2023 were paid on June 30, 2023, and thus not recognized as salaries payable. The decrease in leases and subscriptions payable can mostly be attributed to the office space lease ending on June 30, 2023. The increase in noncurrent liabilities can mostly be attributed to an increase in the NPL. OLA's share of NPL increased by $2.16 million.

While the Statement of Net Position shows OLA's financial position at a specific point in time, the Statement of Activities shows OLA's financial activity over a period of time. For both fiscal years 2022 and 2023, the funds available exceeded the expenses, but the ending net position remained negative due to a negative beginning balance. OLA's only source of funding was through state appropriations. The expenses that use those funds are to operate the office and pay for items such as payroll, information technology purchases, and general supplies. A summary of the activities for the fiscal years presented, and the differences between those two years, are shown below.

Changes in Net Position
For Fiscal Years Ended June 30, 2022 and 2023
(In Thousands)

	2022	2023	Increase (Decrease)
State Appropriations	$ 7,889	$ 7,817	$ (72)
Expenses	4,024	6,904	2,880
Change in Net Position	$ 3,865	$ 913	$(2,952)
Net Position – Beginning of Year	$(5,038)	$(1,173)	$ 3,865
Net Position – End of Year	$(1,173)	$ (260)	$ 913

Financial Highlights: Fund Financial Statements

- OLA assets exceed liabilities as of June 30, 2022, and June 30, 2023.
- OLA's fund balance increased in Fiscal Year 2022 and decreased in Fiscal Year 2023.

Note: The differences between the government-wide and fund financial statements is shown on the Reconciliation of the General Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.

Financial Analysis: Fund Financial Statements

The fund financial statements provide a short-term view of OLA's finances. They can assist in determining whether there are more or less resources available and whether these financial resources will be adequate to meet the current needs of OLA. Over time, they may serve as a useful indicator of overall financial position.

Fund Balance
June 30, 2022 and 2023
(In Thousands)

	2022	2023	Increase (Decrease)
Assets	$2,953	$2,406	$(547)
Liabilities	499	265	(234)
Fund Balance	$2,454	$2,141	$(313)

Assets consist solely of the OLA share of the state's pooled cash and investments (cash). The decrease can be attributed to an increase in expenditures and a decrease in state appropriations. The liabilities decreased primarily because salaries payable decreased. Payroll expenditures for the final full pay period in Fiscal Year 2022 were not paid until July 1, 2022, and thus were recognized as salaries payable, whereas the payroll expenditures for the final full pay period in Fiscal Year 2023 was paid on June 30, 2023, and thus were not recognized as salaries payable.

Changes in Fund Balance
For Fiscal Years Ended June 30, 2022 and 2023
(In Thousands)

	2022	2023	Increase (Decrease)
State Appropriations	$7,889	$ 7,817	$ (72)
Expenditures	8,280	8,140	(140)
Excess Revenues Over (Under) Expenditures	$ (391)	$ (323)	$ 68
Net Other Financing Sources (Uses)	$ 533	$ 10	$(523)
Net Change in Fund Balance	$ 142	$ (313)	$(455)
Beginning Fund Balance	2,312	2,454	142
Ending Fund Balance	$2,454	$ 2,141	$(313)

The decrease in expenditures is attributed to a reduction in information technology & communication expenditures, and a reduction in the reportable capital outlay. The decrease in state appropriations and net other financing sources (uses) exceeded the decrease in expenditures, which caused the decrease in fund balance.

Budgetary Highlights

OLA budgeted to reduce fund balance each fiscal year. However, actual salary expenses were less than budgeted each year, which caused an increase in the ending fund balance for Fiscal Year 2022, and a lower decrease in the ending fund balance for Fiscal Year 2023.

Capital and Right-to-Use Assets and Debt Administration

Capital and Right-to-Use Assets

OLA's investment in capital and right-to-use assets as of June 30, 2022, was $626,000 less accumulated depreciation and amortization of $333,000, resulting in a net book value of $293,000. OLA's investment in capital and right-to-use assets as of June 30, 2023, was $719,000 less accumulated depreciation and amortization of $607,000, resulting in a net book value of $112,000. This investment in capital and right-to-use assets includes equipment, leased building, and information technology subscriptions.

Capital and Right-to-Use Assets
June 30, 2022 and 2023
(In Thousands)

	2022	2023	Increase (Decrease)
Capital Assets Depreciated	$ 89	$ 89	$ –
Right-to-Use Assets Amortized	537	630	93
Less: Accumulated Depreciation/Amortization	(333)	(607)	274
Total Capital and Right-to-Use Assets	$ 293	$ 112	$(181)

The right-to-use assets increased primarily due to the development in progress of a new audit software to be implemented in Fiscal Year 2024.

Debt Administration

Additional information on OLA's long-term liabilities can be found in Notes 3, 4, and 5 of this report.

Long-Term Liabilities
June 30, 2022 and 2023
(In Thousands)

	2022	2023	Increase (Decrease)
Leases and Subscriptions Payable	$ 308	$ 16	$ (292)
Compensated Absences	919	1,000	81
Other Postemployment Benefits	411	463	52
Net Pension Liability	113	2,273	2,160
Total	$1,751	$3,752	$2,001

The increase in long-term liabilities is mostly due to the increase in the net pension liability (NPL), which represents OLA's proportionate share of the state's NPL. These amounts are assigned to OLA by Minnesota Management and Budget through an allocation process and are mostly dependent on items such as actuarial valuations and market conditions.

Government-Wide Financial Statements

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Office of the Legislative Auditor
Statement of Net Position
June 30, 2022, and June 30, 2023
(In Thousands)

	2022	2023
ASSETS		
Current Assets		
Share of State's Pooled Cash and Investments	$ 2,953	$2,406
Noncurrent Assets		
Right-to-Use Assets, Net of Amortization	$ 282	$ 26
Equipment, Net of Depreciation	11	3
Development in Progress – Right-to-Use Asset	–	83
Total Noncurrent Assets	$ 293	$ 112
Total Assets	$ 3,246	$2,518
Deferred Outflows of Resources		
Deferred Outflows – Other Postemployment Benefits	$ 63	$ 88
Deferred Outflows – Pensions	2,522	2,073
Total Deferred Outflows of Resources	$ 2,585	$2,161
LIABILITIES		
Current Liabilities		
Salaries Payable	$ 448	$ 238
Accounts Payable	51	27
Leases and Subscriptions Payable (due within one year)	302	9
Compensated Absences Payable (due within one year)	512	568
Total Current Liabilities	$ 1,313	$ 842
Noncurrent Liabilities		
Leases and Subscriptions Payable (due in more than one year)	$ 6	$ 7
Compensated Absences Payable (due in more than one year)	407	432
Other Postemployment Benefits	411	463
Net Pension Liability	113	2,273
Total Noncurrent Liabilities	$ 937	$3,175
Total Liabilities	$ 2,250	$4,017
Deferred Inflows of Resources		
Deferred Inflows – Other Postemployment Benefits	$ 50	$ 76
Deferred Inflows – Pensions	4,704	846
Total Deferred Inflows of Resources	$ 4,754	$ 922
NET POSITION		
Net Investment in Capital Assets	$ (15)	$ 96
Unrestricted	(1,158)	(356)
Total Net Position	$(1,173)	$(260)

Office of the Legislative Auditor
Statement of Activities
Years Ended June 30, 2022, and June 30, 2023
(In Thousands)

Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Change in Net Position – Primary Government: Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	$4,023	$ –	$ –	$ –	$(4,023)
Interest	1	–	–	–	(1)
Total Governmental Activities	$4,024	$ –	$ –	$ –	$(4,024)
			General Revenues:		
			State Appropriation		$ 7,889
			Change in Net Position		$ 3,865
			Net Position, Beginning		$(5,038)
			Net Position, Ending		$(1,173)

Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Change in Net Position – Primary Government: Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	$6,903	$ –	$ –	$ –	$(6,903)
Interest	1	–	–	–	(1)
Total Governmental Activities	$6,904	$ –	$ –	$ –	$(6,904)
			General Revenues:		
			State Appropriation		$ 7,817
			Change in Net Position		$ 913
			Net Position, Beginning		$(1,173)
			Net Position, Ending		$ (260)

Fund Financial Statements

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Office of the Legislative Auditor
General Fund Balance Sheet
June 30, 2022 and 2023
(In Thousands)

	2022	2023
ASSETS		
Share of State's Pooled Cash and Investments	$2,953	$2,406
LIABILITIES		
Salaries Payable	$ 448	$ 238
Accounts Payable	51	27
Total Liabilities	$ 499	$ 265
FUND BALANCE		
Restricted	$2,454	$2,141
Total Liabilities and Fund Balance	$2,953	$2,406

Office of the Legislative Auditor
Reconciliation of the General Fund Balance Sheet to the Statement of Net Position
June 30, 2022 and 2023
(In Thousands)

	2022		2023	
Total Fund Balance for the General Fund		$2,454		$2,141
Amounts reported for governmental activities in the Statement of Net Position are different because:				
Capital/right-to-use assets used in governmental activities are not financial resources and, therefore, are not reported in the fund. These assets consist of:				
Right-to-Use Assets, Net	$ 282		$ 26	
Equipment, Net	11		3	
Development in Progress – Right-to-Use Asset	–		83	
		293		112
Deferred other postemployment benefits and pension outflows (inflows) resulting primarily from actuarial gains and losses to be amortized are included in the Statement of Net Position:				
Deferred Outflows		2,585		2,161
Deferred Inflows		(4,754)		(922)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the fund. These liabilities consist of:				
Leases and Subscriptions Payable	(308)		(16)	
Compensated Absences Payable	(919)		(1,000)	
Other Postemployment Benefits	(411)		(463)	
Net Pension Liability	(113)		(2,273)	
		(1,751)		(3,752)
Net Position of Governmental Activities		$(1,173)		$ (260)

Office of the Legislative Auditor
General Fund Statement of Revenues, Expenditures, and Change in Fund Balance
Years Ended June 30, 2022 and 2023
(In Thousands)

	2022	2023
Revenues:		
State Appropriations	$7,889	$7,817
Expenditures:		
Salaries and Fringe Benefits	$7,099	$7,395
Information Technology & Communication	332	245
Employee Development	38	43
Other Operating Costs	47	61
Total Current Expenditures	7,516	7,744
Capital Outlay	533	93
Debt Service	231	303
Total Expenditures	8,280	8,140
Excess of Revenues Over (Under) Expenditures	$ (391)	$ (323)
Other Financing Sources (Uses):		
Right-to-Use Issuance	$ 533	$ 10
Net Change in Fund Balance	$ 142	$ (313)
Fund Balance:		
Beginning of Year	$2,312	$2,454
End of Year	$2,454	$2,141

Office of the Legislative Auditor
Reconciliation of the General Fund Statement of Revenues, Expenditures, and Change in Fund Balance to the Statement of Activities
Years Ended June 30, 2022 and 2023
(In Thousands)

	2022		2023	
Net Change in Fund Balance for the General Fund		$ 142		$ (313)
Amounts reported for governmental activities in the Statement of Activities are different because:				
Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of capital/ right-to-use assets are allocated over their estimated useful lives or lease/subscription terms as applicable as depreciation/ amortization. This is the amount by which capital outlay exceeded depreciation/amortization in the current period.				
Capital Outlay	$ 533		$ 93	
Depreciation/Amortization	(267)		(274)	
		266		(181)
Lease/subscription proceeds provide current financial resources to governmental funds; however, issuing debt is reported as an increase of long-term liabilities in the Statement of Net Position.		(533)		(10)
Repayment of leases/subscriptions are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		231		302
Net changes in the other postemployment benefits liability and the additions and amortization of deferred inflows and outflows related to other postemployment benefits is reported in the Statement of Activities but not included in the General Fund.		(8)		(53)
Net changes in the net pension liability and the additions and amortization of deferred inflows and outflows related to pensions is reported in the Statement of Activities but not included in the General Fund.		3,598		1,249
Net changes in the compensated absences liability is reported in the Statement of Activities but not included in the General Fund.		169		(81)
Change in Net Position of Governmental Activities		$3,865		$ 913

Notes to the Financial Statements

For the Fiscal Years Ended June 30, 2022, and June 30, 2023

These notes provide disclosures relevant to the basic financial statements on the preceding pages.

Note 1 – Summary of Significant Accounting and Reporting Policies

A. Financial Reporting Entity

The financial statements include the activities of the Office of the Legislative Auditor (OLA). OLA is a professional, nonpartisan office in the legislative branch with audit jurisdiction over Minnesota state government. OLA examines the financial operations of state agencies and the performance of state-funded or state-authorized programs. OLA conducts audits, evaluations, and special reviews, and reports the results to the Minnesota Legislature and the officials responsible for the agencies and programs examined. OLA reports are available to the public.

OLA reports to the Legislative Audit Commission (LAC), which is bicameral and bipartisan, and has equal representation from the House and Senate and the two major political parties. LAC appoints the Legislative Auditor to six-year terms to oversee OLA's two divisions – the Financial Audit Division and the Program Evaluation Division – as well as staff dedicated to special reviews and administrative staff. LAC also annually selects the topics for OLA evaluations, but otherwise does not participate in any audits, evaluations, or special reviews conducted by OLA.

B. Adoption of New Accounting Standards

OLA implemented the following Governmental Accounting Standard Board (GASB) statements for the fiscal years ended June 30, 2022, and June 30, 2023:

- GASB Statement No. 87 "Leases" was issued June 2017. This standard requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and as inflows or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. OLA adopted the requirements of the guidance effective July 1, 2021, and has applied the provisions of this standard to the beginning of the period of adoption. The implementation of this standard resulted in OLA reporting a right-to-use asset and a lease liability as disclosed in Notes 2 and 3.

- GASB Statement No. 89 "Accounting for Interest Cost Incurred before the End of a Construction Period" was issued June 2018. This statement enhances the relevance and comparability of information about capital assets and the costs of borrowing for a reporting period, and to simplify accounting for certain interest costs incurred before the end of a construction period. This statement has no impact on OLA.

- GASB Statement No. 91 "Conduit Debt Obligations" was issued May 2019. This standard clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; and establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangement associated with conduit debt obligations. This statement has no impact on OLA.

- GASB Statement No. 92 “Omnibus 2020” was issued in January 2020. This statement addresses a variety of topics, including issues related to leases, intra-entity transfers, postemployment benefits, acquisitions, risk pools, nonrecurring fair value measurements, and derivative instruments terminology.

- GASB Statement No. 93 “Replacement of Interbank Offered Rates” was issued March 2020. This statement addresses the accounting and reporting implications that result from the replacement of an Interbank Offering Rate (IBOR) in hedging derivative instruments and leases. This statement has no material impact on OLA.

- GASB Statement No. 94 “Public-Private and Public-Public Partnerships and Availability Payment Arrangements” was issued March 2020. This standard provides accounting and financial reporting requirements for public-private and public-public partnership arrangements that either meet the definition of a service concession arrangement or are not within the scope of Statement 87, as amended. This standard also provides guidance for accounting and financial reporting for availability payment arrangements, which are arrangements in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement has no impact on OLA.

- GASB Statement No. 96 “Subscription-Based Information Technology Arrangements” was issued May 2020. This standard defines a subscription-based information technology arrangement (SBITA); establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA. OLA adopted the requirements of the guidance effective July 1, 2022 and has applied the provisions of this standard to the beginning of the earliest comparative period presented. The implementation of this standard resulted in OLA reporting a SBITA asset and a SBITA liability as disclosed in Notes 2 and 3.

- GASB Statement No. 97 “Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32” was issued in June 2020. This statement will increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform. This statement will result in more consistent financial reporting of defined contribution pension plans, defined contribution other postemployment benefit plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans, as well as enhance the relevance, consistency, and comparability of the information related to Section 457 plans that meet the definition of a pension plan and the benefits provided through those plans and investment information for all Section 457 plans. This statement has no material impact on OLA.

- GASB Statement No. 99 “Omnibus 2022” was issued April 2022. This statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. This statement has no material impact on OLA.

- Implementation Guide No. 2019-3 “Leases.” This guide provides guidance to clarify, explain, or elaborate on the requirements of GASB Statement No. 87, “Leases.”

- Implementation Guide No. 2020-1 “Implementation Guidance Update – 2020.” This guide provides guidance to clarify, explain, or elaborate on GASB statements previously implemented.

- Implementation Guide No. 2021-1 “Implementation Guidance Update – 2021.” This guide provides guidance to clarify, explain, or elaborate on GASB statements previously implemented.

- Implementation Guide No. 2023-1 “Implementation Guidance Update – 2023.” This guide provides guidance to clarify, explain, or elaborate on GASB statements previously implemented. Only portions of this guide were implemented for the fiscal year ended June 30, 2023.

C. Basis of Presentation

The accompanying financial statements of OLA have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as prescribed by GASB.

D. Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the overall reporting for OLA. These statements include all the financial activities of OLA. The focus of the government-wide financial statements is on financial information of OLA as an entity and the change in the overall financial position of OLA as a result of the activities of the fiscal year. Government-wide financial statements are presented using the economic resources measurement focus and the full accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting government, both current and long-term, are reported in the government-wide financial statements. Under the full accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements instead of being reported as expenses. Long-term debt is recorded as a liability in the government-wide financial statements instead of as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liabilities instead of as expenses.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided by a given function or program; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Other items not included in program revenues are reported instead as general revenues. OLA has no program revenues.

E. Fund Financial Statements

The General Fund financial statements include the balance sheet and the statement of revenues, expenditures, and changes in fund balance. The financial statements for governmental funds, including the General Fund, are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) to fund balances. Under the modified accrual basis of accounting, revenues are recognized as soon as they become both measurable and available to finance operations of the fiscal year or to liquidate liabilities existing at fiscal year-end. 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, OLA considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recognized when a liability is incurred, except for compensated absences, leases and subscriptions, pensions, and other postemployment benefits, which are recognized when payment is due.

F. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America.

OLA is funded by appropriations from the State of Minnesota's General Fund. The state operates on a biennial budget. Every other year, OLA prepares a budget request and submits it to the Legislative Coordinating Commission. Budget requests are approved by the Commission and included in the omnibus state government finance bill. The bill includes specific appropriation amounts to OLA that become effective once approved by the House and Senate and signed into law by the governor. OLA prepares annual budgets for each appropriation and submits them to Minnesota Management and Budget, which records them in the state's accounting system.

Budgetary controls are at the appropriation level. Unspent portions of appropriations at fiscal year-end either carry forward to the subsequent fiscal year or cancel back to the state's General Fund based on provisions in the applicable state law.

G. Share of State's Pooled Cash and Investments

Share of State's Pooled Cash and Investments represents the amount of appropriations allocated to OLA. OLA can collectively utilize these amounts for approved expenditures in accordance with OLA's purpose with the expectation that the state will pay for approved and submitted expenditures.

H. Capital and Right-to-Use Assets

Capital assets and right-to-use assets are reported in the government-wide financial statements. OLA follows state policy that generally defines capital assets as assets with an initial, individual cost of more than $300,000 for buildings and infrastructure, and $30,000 for equipment, internally generated computer software, and art and historical treasures. All land and easements are considered capital assets regardless of cost. Capital assets must also have an estimated useful life extending beyond a single reporting period. Right-to-use assets include lease agreements and information technology subscription agreements with terms exceeding one year.

Capital assets are capitalized and recorded at cost or estimated historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized. Donated capital assets are recorded at acquisition value at the date of donation. Capital assets excluding land, art and historical treasures, and construction/development in progress are depreciated using the straight-line method over the following estimated useful lives: 20-50 years for building, infrastructure, and large improvements; 3-10 years for small improvements; 3-15 years for equipment; 3-10 years for internally generated software; and 20-50 years for easements. OLA capital assets only include equipment.

Right-to-use assets for lease agreements are recorded at present value of the payments expected to be made during the lease term, plus any amounts paid or lease incentives received from the lessor at or before the commencement of the lease term and any initial direct costs necessary to place the leased asset into service. Leased assets are amortized using the straight-line method over the lease term. Right-to-use assets for information technology subscription agreements are recorded at present value of the payments to be made during the subscription term, which begins when the initial implementation stage is completed, plus payments at the commencement of the subscription term and capitalizable initial implementation costs, less any vendor incentives received from the vendor at the commencement of the subscription term. Subscription assets are amortized using the straight-line method over the subscription term.

I. Compensated Absences

OLA employees are covered by one of three compensation plans based on the position held. Permanent employees accrue vacation, sick, and compensatory leave at various rates specified in the applicable plan. Upon termination of employment, employees are compensated for their earned but unused vacation (up to 275 hours for all three plans) and a percentage of their sick leave if specified eligibility requirements are met. In the fund financial statements, the cost of these benefits is recognized when payments are made to employees.

Payments for vacation, sick, and compensatory leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at fiscal year-end are determined on the basis of current salary rates and include salary-related payments.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the government-wide Statement of Net Position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources until then.

The deferred outflows of resources reported in the government-wide Statement of Net Position relate to pensions and other postemployment benefits.

In addition to liabilities, the government-wide Statement of Net Position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period and so will not be recognized as an inflow of resources until that time. The deferred inflows of resources reported in the government-wide Statement of Net Position relate to pensions and other postemployment benefits.

These deferred outflows and inflows are more fully discussed in Note 4 – Other Postemployment Benefits and Note 5 – Pensions.

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Minnesota State Retirement System (MSRS) and additions to/deductions from MSRS's fiduciary net position have been determined on the same basis as they are reported by MSRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

L. Other Postemployment Benefits

The State of Minnesota provides postretirement medical coverage to retired participants and their spouses, as allowed by *Minnesota Statutes* 2023, 43A.27, subd. 3; and 471.61, subd. 2a, and as required under the terms of selected employment contracts. The Commission is allocated a portion of the State's overall liability and related deferred inflows/outflows as it relates to this postretirement medical coverage plan.

M. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions can affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and the reported revenues and expenses. The most significant area, which requires the use of management's estimates, relates to other postemployment benefits liability, and the estimated proportionate share of MSRS's State Employees Retirement Fund net pension liability.

N. Net Position/Fund Balance

Net position on the government-wide statements is comprised of three components: net investment in capital assets, restricted, and unrestricted. Net investment in capital assets consists of capital and right-to-use assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, leases and subscriptions payable, and other debt attributable to the acquisition, construction, or improvement of such assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of these assets or related debt are included in this component of net position.

Restricted net position represents the portion of net position that is constrained by parties, such as creditors or grantors, or legally through laws or regulations of other governments, constitutional provisions, or enabling legislation. Unrestricted net position represents the portion of net position not included in the other two components.

Fund balance in the fund financial statements is classified in a hierarchy based on the extent to which OLA is bound to honor constraints on the specific purposes for which amounts can be spent. Nonspendable fund balance is the portion that cannot be spent because it is either not in a spendable form or is legally or contractually required to be maintained intact. Restricted fund balance is the portion with constraints established by creditors, grantors or contributors, or by laws or regulations of other governments, constitutional provisions, or enabling legislation. Committed fund balance is the portion constrained for specific purposes that are internally imposed through formal action by the Legislative Auditor. Assigned fund balance is the portion intended to be used for specific purposes that are not considered restricted or committed. Unassigned fund balance is any remaining portion not classified as nonspendable, restricted, committed, or assigned.

OLA's policy is that restricted amounts are spent first when expenditures are incurred for purposes for which both restricted or unrestricted (committed, assigned, or unassigned) amounts are available. Within unrestricted fund balance, OLA's policy is that committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Note 2 – Capital and Right-To-Use Assets

OLA has two capital assets, including a copier purchased in November 2016, and a data storage unit purchased in December 2019.

OLA has one lease asset for office space. The lease is for a two-year term beginning July 1, 2021, for office space in the Centennial Building near the Minnesota State Capitol.

OLA subscription-based information technology arrangements include a three-year agreement for security software beginning June 3, 2022; a 24.5-month agreement for legal research software beginning May 18, 2022; and two, three-year agreements for data analysis software: one ending June 28, 2023, and one beginning June 29, 2023. OLA executed an agreement for audit software that was not yet placed in service as of June 30, 2023. Payments made to that vendor during fiscal year 2023 are reported as development in progress – right-to-use asset on the Statement of Net Position.

Notes to the Financial Statements

For the Fiscal Years Ended June 30, 2022, and June 30, 2023

Capital and right-to-use asset activity for the year ended June 30, 2022, is summarized below (in thousands):

	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets Depreciated				
Equipment	$89	$ –	$ –	$ 89
Less Accumulated Depreciation				
Equipment	$68	$ 10	$ –	$ 78
Capital Assets Depreciated, Net	$21	$(10)	$ –	$ 11
Right-to-Use Assets Amortized				
Leased Building	$ –	$503	$ –	$503
Information Technology Subscriptions	4	30	–	34
Total Right-to-Use Assets Amortized	$ 4	$533	$ –	$537
Less Accumulated Amortization				
Leased Building	$ –	$251	$ –	$251
Information Technology Subscriptions	–	4	–	4
Total Accumulated Amortization	$ –	$255	$ –	$255
Right-to-Use Assets Amortized, Net	$ 4	$278	$ –	$282

Capital and right-to-use asset activity for the year ended June 30, 2023, is summarized below (in thousands):

	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets Depreciated				
Equipment	$ 89	$ –	$ –	$ 89
Less Accumulated Depreciation				
Equipment	$ 78	$ 8	$ –	$ 86
Capital Assets Depreciated, Net	$ 11	$ (8)	$ –	$ 3
Right-to-Use Assets Amortized				
Leased Building	$503	$ –	$ –	$503
Information Technology Subscriptions	34	10	–	44
Total Right-to-Use Assets Amortized	$537	$ 10	$ –	$547
Less Accumulated Amortization				
Leased Building	$251	$ 252	$ –	$503
Information Technology Subscriptions	4	14	–	18
Total Accumulated Amortization	$255	$ 266	$ –	$521
Right-to-Use Assets Amortized, Net	$282	$(256)	$ –	$ 26
Right-to-Use Assets not Depreciated				
Development in Progress	$ –	$ 83	$ –	$ 83

Amortization and depreciation are expensed to the general government function.

Note 3 – Long-Term Liabilities

Changes to long-term liabilities for the year ended June 30, 2022, is summarized below (in thousands):

	Beginning Balance	Increase	Decrease	Ending Balance	Current Portion
Leases Payable	$ –	$503	$227	$276	$276
Subscriptions Payable	4	30	2	32	26
Total Leases and Subscriptions Payable	$ 4	$533	$229	$308	$302
Compensated Absences	$1,088	$537	$706	$919	$512

Changes to long-term liabilities for the year ended June 30, 2023, is summarized below (in thousands):

	Beginning Balance	Increase	Decrease	Ending Balance	Current Portion
Leases Payable	$276	$ –	$276	$ –	$ –
Subscriptions Payable	32	10	26	16	9
Total Leases and Subscriptions Payable	$308	$ 10	$302	$ 16	$ 9
Compensated Absences	$919	$594	$513	$1,000	$568

The following schedule shows the future principal and interest payments for subscriptions (in thousands):

Year Ended June 30	Principal	Interest
2024	$ 9	$ –
2025	4	–
2026	3	–
Total	$16	$ –

Note 4 – Other Postemployment Benefits

Other postemployment benefits (OPEB) are available to OLA employees and their dependents through a single-employer defined benefit healthcare plan, as allowed by *Minnesota Statutes* 2023, 43A.27, subd. 3; and 471.61, subd. 2a, and required under the terms of selected employment contracts. All pre-age-65 OLA retirees with at least five years of allowable pension service, who are entitled at the time of retirement to receive an annuity under the state retirement program, are eligible to participate in the state's health and dental insurance plan until age 65. Retirees not eligible for an employer subsidy must pay 100 percent of the premiums to continue receiving coverage. These employees are allowed to stay in the active employee risk pool with the same premium rates and are, therefore, subsidized by the insurance premium rates for active state employees, resulting in an implicit rate subsidy.

OLA does not issue a separate financial report for its OPEB as OLA does not fund an OPEB plan and operates on a pay-as-you-go basis. The amount paid for OPEB benefits during fiscal years 2022 and 2023 was $13,000 and $24,000, respectively.

As of June 30, 2022, and 2023, the following number of current and former employees were covered by benefit terms under the plan:

Description	2022	2023
Inactive Plan Members (or Their Beneficiaries) Currently Receiving Benefits	29	27
Active Employees	55	54

Primary Government Single-Employer Plan
Summary of OPEB Amounts
(In Thousands)

Description	2022	2023
Total OPEB Liability	$411	$463
Deferred Outflows of Resources	$ 63	$ 88
Deferred Inflows of Resources	$ 50	$ 76
Total OPEB Expense	$ 20	$ 32

Single-Employer Plan
OPEB Plan
Actuarial Assumptions

Description	2022	2023
Actuarial Valuation	July 1, 2020	July 1, 2022
Measurement Date	June 30, 2021	June 30, 2022
Discount Rate: 20 Year Municipal Bond Rate	2.16%	3.54%
Healthcare Cost Trend Rate	7.2% reduced to 3.8% by 2071	8.4% reduced to 3.7% by 2073
Experience Study Dates	2015 – 2019	2015 – 2019
Inflation	2.25%	2.25%
Salary Increases	3.00%	3.00%

The mortality rate assumptions use the Pub-2010 General Employee Headcount-Weighted Mortality Table with mortality improvement Scale (FY22: MP-2020; FY23: MP-2021) as applicable to the employee group covered.

For the Fiscal Years Ended June 30, 2022, and June 30, 2023

Schedule of Total OPEB Liability
(In Thousands)

Description	2022	2023
Total OPEB Liability:		
Service Cost	$ 27	$ 31
Interest	9	10
Differences between Expected and Actual Experience	–	32
Changes in Assumptions or Other Inputs	–	(41)
Benefit Payments	(13)	(25)
Change in Proportionate Share	(4)	45
Net Changes in Total OPEB Liability	$ 19	$ 52
Total OPEB Liability, Beginning	392	411
Total OPEB Liability, Ending	$411	$463

Deferred Outflows and Deferred Inflows of Resources
Related to OPEB
As of June 30, 2022
(In Thousands)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	$ –	$42
Changes of Assumption	40	8
Transactions Subsequent to the Measurement Date	23	N/A
Total	$63	$50

Deferred Outflows and Deferred Inflows of Resources
Related to OPEB
As of June 30, 2023
(In Thousands)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	$27	$35
Changes of Assumption	35	41
Transactions Subsequent to the Measurement Date	26	N/A
Total	$88	$76

Net Deferred Outflows (Inflows) of Resources
Recognized as OPEB Expense or a Reduction to the Total OPEB Liability
As of June 30, 2022
(In Thousands)

Description	Amount
2023	$ (4)
2024	(4)
2025	(3)
2026	–
2027	1
Thereafter	–
Net OPEB Expense	(10)
Deferred Outflow of Resources as a Reduction of the Total OPEB Liability	23
Net Deferred Outflows (Inflows) of Resources	$ 13

Net Deferred Outflows (Inflows) of Resources
Recognized as OPEB Expense or a Reduction to the Total OPEB Liability
As of June 30, 2023
(In Thousands)

Description	Amount
2023	$ (6)
2024	(5)
2025	(1)
2026	–
2027	(1)
Thereafter	(1)
Net OPEB Expense	(14)
Deferred Outflow of Resources as a Reduction of the Total OPEB Liability	26
Net Deferred Outflows (Inflows) of Resources	$ 12

The following tables present the total OPEB liability (TOPEBL) for the defined-benefit plan for the primary government's proportionate share of the TOPEBL, calculated using the corresponding discount rate and healthcare trend rate, as well as what the TOPEBL would be if the rates were one percentage point higher or lower.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate (In Thousands)

	With a 1% Decrease		Current Discount Rate		With a 1% Increase	
Fiscal Year	**Rate**	**TOPEBL**	**Rate**	**TOPEBL**	**Rate**	**TOPEBL**
2022	1.16%	$442	2.16%	$411	3.16%	$382
2023	2.54%	$499	3.54%	$463	4.54%	$430

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Trend Rates (In Thousands)

	With a 1% Decrease		Current Discount Rate		With a 1% Increase	
Fiscal Year	**Rate**	**TOPEBL**	**Rate**	**TOPEBL**	**Rate**	**TOPEBL**
2022	2.80%	$368	3.80%	$411	4.80%	$462
2023	2.70%	$420	3.70%	$463	4.70%	$514

Note 5 – Pensions

The Minnesota State Retirement System (MSRS) is the administrator of a multiple-employer, cost-sharing public employee retirement system consisting of five defined-benefit funds and four defined-contribution funds. All OLA employees, except temporary or student workers, are covered by either the General Employees Retirement Plan (General Plan) within the State Employees Retirement Fund (SERF) or the Unclassified Employees Retirement Plan (Unclassified Plan) within the Unclassified Employees Retirement Fund (UERF). MSRS administers those funds in accordance with *Minnesota Statutes* 2023, chapters 352 (SERF), 352D (UERF), and 356 (both).

The General Plan is a multiple-employer, cost-sharing defined-benefit plan. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries.

The Unclassified Plan is a single, multiple-employer defined-contribution plan. It is considered a money purchase plan, with members vesting only to the extent of the value of their accounts. All plan members are eligible to apply for the balance in their account after termination of public service in the form of a lump-sum payment, while members meeting additional eligibility requirements may choose to receive the balance in the form of lifetime monthly benefits or a combination of monthly benefits and a lump-sum payment.

There is a separate financial report of the pension plans in the Annual Comprehensive Financial Report for MSRS. That report may be obtained at www.msrs.state.mn.us\.

MSRS provides retirement, disability, and death benefits through SERF. Benefit provisions are established by state statute and can only be modified by the state Legislature. Benefits are based on a member's age, years of allowable service, and the highest average salary for any 60 successive months of allowable service at termination of service. Postretirement benefit increases are provided to benefit recipients each January and established by Minnesota state law.

Retirement benefits can be computed using one of two methods: the Step formula and the Level formula. Members hired before July 1, 1989, may use the Step or Level formula, whichever is greater. Members hired on or after July 1, 1989, must use the Level formula. Each formula converts years and months of service to a certain percentage. Under the Step formula, members receive 1.2 percent of their high-five average salary for each of the first ten years of covered service, plus 1.7 percent for each year thereafter. It also includes full benefits under the Rule of 90 (age plus years of allowable service equals 90).

In contrast, the Level formula does not include the Rule of 90. Under the Level formula, members receive 1.7 percent of their high-five average salary for all years of covered service, and full benefits are available at normal retirement age.

Contributions

Minnesota Statutes 2023, 352.04 and 352D.04, set the rates for employer and employee contributions for the General Plan and Unclassified Plan, respectively.

	(In Thousands)	
Description	**2022**	**2023**
Required Contribution Rate:		
Active Members	6.00%	6.00%
Employer	6.25%	6.25%
Contributions – Reporting Period	$293	$312

Effective Fiscal Year 2024, member contributions rates will decrease by 0.5 percent and effective Fiscal Year 2026, the rates will go back to 6.0 percent.

Summary of Pension Amount

	(In Thousands)	
Description	**2022**	**2023**
Net Pension Liability	$ 113	$2,273
Deferred Outflows of Resources	2,522	2,073
Deferred Inflows of Resources	4,704	846
Net Pension Expense	(2,868)	(931)

OLA's portion of the total SERF pension amounts are based on the OLA contributions received by MSRS during the measurement period, relative to the total employer contributions received from all of MSRS's participating employers. OLA's proportion was 0.0013860 and 0.0013832 at the end of the measurement period for fiscal years 2022 and 2023.

Actuarial Assumptions

Description	2022	2023
Actuarial Valuation / Measurement Date	June 30, 2021	June 30, 2022
Long-Term Expected Rate	6.50%	6.75%
20 Year Municipal Bond Rate	1.92%	3.69%
Experience Study Dates	2014–2018	2014–2018
Inflation	2.25%	2.25%
Salary Increases	Service Related Rates	Service Related Rates
Payroll Growth	3.00%	3.00%

For mortality rate assumptions, the Pub-2010 General Mortality Table was used and adjusted for mortality improvements based on Scale MP-2018.

Deferred Outflows of Resources and Deferred Inflow of Resources Related to Pensions for General Plan

As of June 30, 2022, OLA reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	(In Thousands)	
Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 28	$ 13
Changes in Actuarial Assumptions	2,083	1,560
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	–	3,131
Changes in Proportion and Differences between OLA Contributions and Proportional Share of Contributions	118	–
Contributions Subsequent to the Measurement Date	293	–
Total	$2,522	$4,704

As of June 30, 2023, the office reported deferred outflows of the resources and deferred inflows of resources related to pension from the following sources:

	(In Thousands)	
Description	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference Between Expected and Actual Experience	$ 18	$ 15
Changes in Actuarial Assumptions	1,556	827
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	108	–
Changes in Proportion and Differences between OLA Contributions and Proportional Share of Contributions	79	4
Contributions Subsequent to the Measurement Date	312	–
Total	$2,073	$846

Net Deferred Outflows (Inflows) of Resources Recognized as Pension Expense or Reductions in Net Pension Liability

	(In Thousands)	
Description	**2022**	**2023**
2023	$(1,548)	$ N/A
2024	(298)	163
2025	(320)	141
2026	(309)	152
2027	–	459
Net Pension Expense	(2,475)	915
Deferred Outflow of Resources as a Reduction to Net Pension Liability	293	312
Net Deferred Outflows (Inflows) of Resources	$(2,182)	$1,227

Asset Class Target Allocation and Expected Return

The State Board of Investment, which manages the investments of MSRS, PERA, and TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method that relies both on long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. Best-estimates of expected future real rates of return are developed for each major asset class. These asset class estimates and target allocations are combined to produce a geometric, expected long-term rate of return, as summarized in the following table:

As of June 30, 2022, and June 30, 2023

Asset Class	Target Allocation	Long-Term Expected Rate of Return (Geometric Mean)
Domestic Stocks	33.50%	5.10%
International Stocks	16.50%	5.30%
Bonds	25.00%	0.75%
Alternative Assets	25.00%	5.90%
Total	100.00%	

Pension Liability Sensitivity

The following table presents the net pension liability for each defined benefit plan with a primary government proportionate share of the net pension liability, calculated using the corresponding discount rate, as well as what the net pension liability would be if the rate were one percentage point higher or lower.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (In Thousands)

	With a 1% Decrease		Current Discount Rate		With a 1% Increase	
Fiscal Year	Rate	Net Pension Liability	Rate	Net Pension Liability	Rate	Net Pension Liability
2022	5.50%	$3,259	6.50%	$ 113	7.50%	$(2,486)
2023	5.75%	$5,334	6.75%	$2,273	7.75%	$ (259)

Note 6 – Risk Management

OLA is exposed to various risks of loss related to torts, to theft of, damage to, or destruction of assets; to errors and omissions; and to employer obligations. OLA manages these risks through participation in the State of Minnesota's Risk Management Fund, Workers' Compensation Program, and State Employee Group Insurance Program.

Risk Management Fund

State agencies may elect to pay a premium for auto, liability, property, and related coverage. For Fiscal Year 2022, OLA paid a premium of $1,320 for the following coverage:

Coverage	Limits
Property:	
Real and Personal Property	$1,114,161
Business Income	$500,000 Per Occurrence
Extra Expense	$20,000,000 Per Occurrence (combined for all policyholders)
Boiler and Machinery	Limit included in Real and Personal Property
Crime Coverage:	
Policy Limit	$25,000
Deductible	$1,000
Commercial General Liability:	$500,000 Per Person
Bodily Injury and Property Damage	$1,500,000 Per Occurrence

For Fiscal Year 2023, OLA paid a premium of $1,429 for the following coverage:

Coverage	Limits
Property:	
Real and Personal Property	$1,169,869
Business Income	$500,000 Per Occurrence
Extra Expense	$20,000,000 Per Occurrence (combined for all policyholders)
Boiler and Machinery	Limit included in Real and Personal Property
Crime Coverage:	
Policy Limit	$25,000
Deductible	$1,000
Commercial General Liability:	$500,000 Per Person
Bodily Injury and Property Damage	$1,500,000 Per Occurrence

Workers' Compensation Program

The state, as a self-insured employer, assumes all risks for workers' compensation related claims and provides workers' compensation insurance coverage for state employees. The program provides a full-service workers' compensation insurance program, including workplace safety and loss control, rehabilitative and return-to-work services, claim services, and legal services. The program is required by state law to be a member of the Workers' Compensation Reinsurance Association (WCRA). WCRA reimburses the state for catastrophic workers' compensation claims that exceed the current retention amount of $2,000,000. The recovery of claim costs that are less than the WCRA retention amount is the responsibility of each state agency. State agencies may participate in either a "pay-as-you-go" revolving fund or a premium pool cost allocation fund. OLA participates in the premium pool cost allocation fund, and paid premiums of $3,938 and $4,054 in fiscal years 2022 and 2023, respectively.

State Employee Group Insurance Program (SEGIP)

SEGIP administers the Employee Insurance Fund to provide eligible employees and other eligible persons with life insurance and hospital, medical, and dental coverage through provider organizations. The fund is not associated with any other public risk pools. A contingency reserve is maintained 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.

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Required Supplementary Information

For the Fiscal Years Ended June 30, 2022, and June 30, 2023

Office of the Legislative Auditor
General Fund Statement of Revenues, Expenditures, and
Change in Fund Balance – Budget and Actual
Years Ended June 30, 2022 and 2023
(In Thousands)

	Year Ended June 30, 2022			
	Original Budget	Final Budget	Actual	Variance Between Actual and Final Budget
Revenues:				
State Appropriations	$7,889	$7,889	$7,889	$ –
Expenditures:				
Salaries and Fringe Benefits	7,724	7,724	7,099	(625)
Information Technology & Communication	241	241	332	91
Employee Development	45	45	38	(7)
Other Operating Costs	57	57	47	(10)
Total Current Expenditures	8,067	8,067	7,516	(551)
Capital Outlay	–	–	533	533
Debt Service	229	229	231	2
Total Expenditures	8,296	8,296	8,280	(16)
Excess of Revenues Over (Under) Expenditures	(407)	(407)	(391)	16
Other Financing Sources (Uses):				
Right-to-Use Issuance	–	–	533	533
Net Other Financing Sources (Uses)	–	–	533	533
Net Change in Fund Balance	(407)	(407)	142	549
Fund Balance:				
Beginning of Year	2,312	2,312	2,312	–
End of Year	$1,905	$1,905	$2,454	$ 549

Office of the Legislative Auditor
General Fund Statement of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual
Years Ended June 30, 2022 and 2023 (continued)
(In Thousands)

	Year Ended June 30, 2023			
	Original Budget	Final Budget	Actual	Variance Between Actual and Final Budget
Revenues:				
State Appropriations	$7,817	$7,817	$7,817	$ –
Expenditures:				
Salaries and Fringe Benefits	7,724	7,724	7,395	(329)
Information Technology & Communication	211	128	245	117
Employee Development	35	35	43	8
Other Operating Costs	48	48	61	13
Total Current Expenditures	8,018	7,935	7,744	(191)
Capital Outlay	–	83	93	10
Debt Service	278	278	303	25
Total Expenditures	8,296	8,296	8,140	(156)
Excess of Revenues Over (Under) Expenditures	(479)	(479)	(323)	156
Other Financing Sources (Uses):				
Right-to-Use Issuance	–	–	10	10
Net Other Financing Sources (Uses)	–	–	10	10
Net Change in Fund Balance	(479)	(479)	(313)	166
Fund Balance:				
Beginning of Year	2,454	2,454	2,454	–
End of Year	$1,975	$1,975	$2,141	$ 166

Required Supplementary Information

For the Fiscal Years Ended June 30, 2022, and June 30, 2023

Office of the Legislative Auditor
Schedule of Proportionate Share of the Net Pension Liability
State Employees Retirement Fund
(In Thousands)

	Measurement Date[a]	
	June 30, 2022	**June 30, 2021**
Proportion of the Net Pension Liability	0.13832%	0.13860%
Proportionate Share of the Net Pension Liability	$2,273	$ 113
Covered Payroll	$4,688	$4,912
Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	48.50%	2.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.60%	99.53%

[a] OLA implemented GASB Statement No. 68 in Fiscal Year 2023, and the above table will be expanded to ten years as information becomes available.

Office of the Legislative Auditor
Schedule of General Plan Contributions
State Employees Retirement Fund
(In Thousands)

	Fiscal Year[a]	
	2023	**2022**
Statutorily Required Contribution	$ 312	$ 293
Contributions in Related to the Statutorily Required Contributions	(312)	(293)
Contribution Deficiency (Excess)	–	–
Covered Payroll	$4,992	$4,688
Contributions as a Percentage of Covered Payroll	6.25%	6.25%

[a] OLA implemented GASB Statement No. 68 in Fiscal Year 2023, and the above table will be expanded to ten years as information becomes available.

For the Fiscal Years Ended June 30, 2022, and June 30, 2023

Office of the Legislative Auditor
Note to Required Supplementary Information
State Employees Retirement Fund

Note 1: Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions.

The following changes were reflected in the valuation performed on behalf of the Minnesota State Retirement System – State Employees Retirement Fund.

The changes in actuarial assumptions from July 1, 2021, valuation to July 1, 2022:

- The investment rate of return and single discount rate were changed from 6.50 percent to 6.75 percent.

Office of the Legislative Auditor
Schedule of Changes in Total OPEB Liability
(In Thousands)

	Measurement Date[a]	
	June 30, 2022[b]	June 30, 2021
Description:		
Service Cost	$ 31	$ 27
Interest	10	9
Differences Between Expected and Actual Experience	32	–
Changes in Assumptions or Other Inputs	(41)	–
Benefit Payments	(25)	(13)
Change in Proportionate Share	45	(4)
Net Changes in Total OPEB Liability	$ 52	$ 19
Total OPEB Liability, Beginning	$ 411	$ 392
Total OPEB Liability, Ending	$ 463	$ 411
Covered Employee Payroll	$4,930	$4,939
Total OPEB Liability as a Percentage of Covered Employee Payroll	9.4%	8.3%

[a] OLA implemented GASB Statement No. 75 in Fiscal Year 2023, and ten years of data will be presented as it becomes available.

[b] The discount rate changed from 2.16 to 3.54 percent.

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