

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA

FOR THE TWO YEARS ENDED DECEMBER 31, 2014

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

For the Two Years Ended December 31, 2014



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

This page was left blank intentionally.

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Basic Financial Statements		
Statement of Net Position	1	4
Statement of Revenues, Expenses, and Changes in Net Position	2	5
Statement of Cash Flows	3	7
Notes to the Financial Statements		8
Required Supplementary Information		
Schedule of Funding Progress - Other Postemployment Benefits	A-1	20
Management and Compliance Section		
Schedule of Findings and Recommendations		21
Communication of Significant Deficiencies and/or Material Weakness in Internal Control Over Financial Reporting and Other Matters		23
Independent Auditor's Report on Minnesota Legal Compliance		25

This page was left blank intentionally.

This page was left blank intentionally.

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2014

<u>Name</u>	<u>Representing</u>
Board Member	
Kirk Peysar	Aitkin County
Peter Gould	Carlton County
Sharon Anderson	Cass County
Jon Clauson	Chippewa County
Dusty Nelms	Cook County
Gary Griffin	Crow Wing County
Lisa Kramer	Dodge County
Candy Carsella-Kee	Itasca County
Jaci Nagle	Koochiching County
Jake Sieg	Lac qui Parle County
Jack Renick	Lake County
Donald Dicklich	St. Louis County
Diane Arnold	Sherburne County
Executive Director	
Lyle Eidelbes	

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Minnesota Counties Information Systems
Grand Rapids, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Minnesota Counties Information Systems (MCIS) as of and for the two years ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the MCIS' basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the MCIS' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MCIS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the MCIS as of December 31, 2014, and the results of its operations and its cash flows for the two years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. Our opinion on the basic financial statements is not affected by this missing information.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 6, 2016

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2014**

Assets	
Current assets	
Cash and cash equivalents	\$ 1,005,401
Petty cash and change funds	400
Due from other governments	<u>58,275</u>
Total current assets	<u>\$ 1,064,076</u>
Noncurrent assets	
Capital assets	
Depreciable	\$ 703,719
Less: allowance for depreciation	<u>(122,102)</u>
Net capital assets	<u>\$ 581,617</u>
Total Assets	<u>\$ 1,645,693</u>
Liabilities	
Current liabilities	
Accounts payable	\$ 15,369
Salaries payable	65,397
Severance payable	80,507
Due to other governments	<u>66,141</u>
Total current liabilities	<u>\$ 227,414</u>
Long-term liabilities	
Severance payable	\$ 3,586
Net other postemployment benefits liability	<u>76,894</u>
Total noncurrent liabilities	<u>\$ 80,480</u>
Total Liabilities	<u>\$ 307,894</u>
Net Position	
Investment in capital assets	\$ 581,617
Unrestricted	<u>756,182</u>
Total Net Position	<u>\$ 1,337,799</u>

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE TWO YEARS ENDED DECEMBER 31, 2014**

Operating Revenues	
Charges for services	
Aitkin County	\$ 244,970
Carlton County	260,901
Cass County	306,122
Chippewa County	226,597
Cook County	225,122
Crow Wing County	302,179
Dodge County	29,507
Itasca County	301,463
Koochiching County	237,798
Lac qui Parle County	206,309
Lake County	234,253
St. Louis County	408,235
Sherburne County	260,739
Nonmember counties	124,178
	<hr/>
Total charges for services	\$ 3,368,373
Other revenues	
Miscellaneous operating	17,429
	<hr/>
Total Operating Revenues	\$ 3,385,802
Operating Expenses	
Payroll	\$ 1,766,380
Employee benefits and payroll taxes	541,698
Professional services	219,930
Contracted services	244,657
Repair and maintenance	33,220
Meals and lodging	4,612
Telephone	13,816
Utilities	18,658
Supplies	6,435
Mileage	10,750
Staff training	8,583
Insurance	12,874
Postage	732
Software	12,203
Furniture and equipment	20,049
Depreciation	71,040
Miscellaneous	3,012
	<hr/>
Total Operating Expenses	\$ 2,988,649
Net Operating Income (Loss)	\$ 397,153

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

***EXHIBIT 2
(Continued)***

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE TWO YEARS ENDED DECEMBER 31, 2014**

Nonoperating Revenues (Expenses)	
PERA rate reimbursement	\$ 4,676
Interest earnings	<u>7,718</u>
Total Nonoperating Revenues	<u>\$ 12,394</u>
Change in Net Position	\$ 409,547
Net Position - January 1, 2013	<u>928,252</u>
Net Position - December 31, 2014	<u><u>\$ 1,337,799</u></u>

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE TWO YEARS ENDED DECEMBER 31, 2014**

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 3,376,769
Payments to suppliers	(623,914)
Payments to employees	<u>(2,295,320)</u>
Net cash provided by (used in) operating activities	\$ 457,535
Cash Flows From Noncapital Financing Activities	
PERA rate reimbursement	4,676
Cash Flows From Capital and Related Financing Activities	
Acquisition or construction of capital assets	(5,978)
Cash Flows From Investing Activities	
Investment earnings received	<u>7,718</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 463,951
Cash and Cash Equivalents at January 1, 2013	<u>541,450</u>
Cash and Cash Equivalents at December 31, 2014	<u><u>\$ 1,005,401</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ 397,153
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	71,040
(Increase) decrease in due from other governments	(9,033)
Increase (decrease) in accounts payable	1,433
Increase (decrease) in salaries payable	7,088
Increase (decrease) in severance payable	(4,843)
Increase (decrease) in net other postemployment benefits payable	10,513
Increase (decrease) in due to other governments	<u>(15,816)</u>
Total adjustments	<u>\$ 60,382</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 457,535</u></u>

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE TWO YEARS ENDED DECEMBER 31, 2014**

1. Summary of Significant Accounting Policies

The accounting policies of the Minnesota Counties Information Systems (MCIS) conform to generally accepted accounting principles.

A. Financial Reporting Entity

The MCIS is a joint powers governmental organization established in 1975 pursuant to Minn. Stat. § 471.59. Its purpose is to develop and implement computer-based information systems for use by member counties. Members of the MCIS are Aitkin, Carlton, Cass, Chippewa, Cook, Crow Wing, Dodge, Itasca, Koochiching, Lac qui Parle, Lake, St. Louis, and Sherburne Counties.

The MCIS is organized in such a manner that control of the organization remains with the members and the users. This type of organizational structure results in common goals for the MCIS and the member counties because the MCIS is directly accountable to the counties.

The Board of Directors consists of one director and one or two alternate directors from each governmental unit, with each unit having one vote. Officers include the president, vice president, and the secretary/treasurer.

Cass County reports the fiscal transactions of the MCIS in an agency fund on its annual financial statements.

B. Basis of Presentation

The accounts of the MCIS are presented as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basis of Presentation (Continued)

Enterprise funds distinguish operating revenues from nonoperating items. Operating revenues generally result from providing and delivering services in connection with a principal ongoing activity. All revenues not meeting this definition are reported as nonoperating revenues. The principal operating revenues of the MCIS are charges for services to counties relating to their computer-based information systems.

C. Basis of Accounting

The MCIS uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

D. Budgetary Data

The MCIS adopts estimated revenue and expense budgets on a basis consistent with generally accepted accounting principles. The budgets may be amended or modified at any time by the Board of Directors.

E. Assets and Liabilities

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and investments held by the Cass County Treasurer for the MCIS as part of its pooled cash and investments account. The Cass County pooled investment account operates like a demand account in that the MCIS is free to deposit and withdraw funds at any time without penalty. Investments are stated at fair value.

Capital Assets

Capital assets are stated at cost. The MCIS' policy is to capitalize assets with a useful life of more than one year and a minimum cost of \$5,000.

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets and Liabilities (Continued)

Depreciation

Depreciation on capital assets is determined using the straight-line method. The estimated useful lives of the assets are:

<u>Classification</u>	<u>Years</u>
Buildings and improvements	50
Furniture and equipment	3 - 5

Due From Other Governments

Due from other governments consists of amounts due from member counties for the current year and adjusted administration charges.

Vacation and Sick Leave

Under the MCIS personnel policy, employees are granted vacation in varying amounts based on their length of service. Vacation leave earned varies from 12 to 24 days per year. Sick leave earned is 12 days per year.

Unused vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately \$146,988 at December 31, 2014, is available to employees in the event of illness-related absences, and is not paid to them at termination.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

G. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the MCIS' calendar year 2015. The MCIS has not yet determined the financial statement impact of adopting this new standard.

2. Detailed Notes

A. Assets

Deposits and Investments

The MCIS' bylaws authorize Cass County (as fiscal agent), under Minn. Stat. §§ 118A.02 and 118A.04, to deposit the MCIS' cash and to invest in certificates of deposit in financial institutions designated by the Cass County Board of Commissioners. Minnesota statutes require that all deposits be covered by insurance, surety bond, or collateral.

The types of securities available to a county for investment are authorized by Minn. Stat. §§ 118A.04 and 118A.05.

Additional disclosures, as required by GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, are disclosed in the Cass County financial report.

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

2. Detailed Notes (Continued)

B. Due From Other Governments

The following amounts are due from member counties for the current year and adjusted administration charges at December 31, 2014.

Aitkin County	\$	1,401
Carlton County		221
Cass County		453
Crow Wing		7,178
Itasca County		1,304
St. Louis County		38,875
Sherburne County		8,843
Total	\$	58,275

C. Capital Assets

A summary of the changes in capital assets for the two-year period ended December 31, 2014, follows:

	Balance January 1, 2013	Increase	Decrease	Balance December 31, 2014
Capital assets depreciated				
Buildings and improvements	\$ 590,489	\$ -	\$ -	\$ 590,489
Furniture and equipment	170,801	5,978	63,549	113,230
Total capital assets depreciated	\$ 761,290	\$ 5,978	\$ 63,549	\$ 703,719
Less: accumulated depreciation for				
Buildings and improvements	\$ 20,667	\$ 23,620	\$ -	\$ 44,287
Furniture and equipment	93,944	47,420	63,549	77,815
Total accumulated depreciation	\$ 114,611	\$ 71,040	\$ 63,549	\$ 122,102
Total capital assets depreciated, net	\$ 646,679	\$ (65,062)	\$ -	\$ 581,617
Capital Assets, Net	\$ 646,679	\$ (65,062)	\$ -	\$ 581,617

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

2. Detailed Notes (Continued)

D. Budgets

The MCIS annually adopts estimated revenue and expense budgets. A summary of the operating budget compared to actual amounts for the two years ended December 31, 2014, is:

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Charges for services	\$ 2,918,195	\$ 3,368,373	\$ 450,178
Miscellaneous	-	17,429	17,429
Total Operating Revenues	\$ 2,918,195	\$ 3,385,802	\$ 467,607
Operating Expenses			
Payroll and payroll taxes	\$ 2,437,992	\$ 2,308,078	\$ 129,914
Other services and charges	619,607	603,096	16,511
Supplies	8,700	6,435	2,265
Depreciation	-	71,040	(71,040)
Total Operating Expenses	\$ 3,066,299	\$ 2,988,649	\$ 77,650
Net Operating Income (Loss)	\$ (148,104)	\$ 397,153	\$ 545,257
Nonoperating Revenues (Expenses)			
State-shared revenue - Public Employees	\$ -	\$ 4,676	\$ 4,676
Retirement Association aid	-	7,718	7,718
Total Nonoperating Revenues (Expenses)	\$ -	\$ 12,394	\$ 12,394
Change in Net Position	\$ (148,104)	\$ 409,547	\$ 557,651
Net Position - January 1, 2013	928,252	928,252	-
Net Position - December 31, 2014	\$ 780,148	\$ 1,337,799	\$ 557,651

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

2. Detailed Notes (Continued)

E. Liabilities

Severance Payable

In addition to the pension benefits described in Note 4, the MCIS provides severance benefits to eligible employees. Employees hired prior to January 1, 1987, are entitled to pay for unused sick time upon retirement in accordance with the personnel policy. As of December 31, 2014, there is one employee entitled to this payout. The long-term severance liability at December 31, 2014, is \$3,586 which is a decrease of \$24,486 for the two years ended December 31, 2014.

3. Summary of Significant Contingencies and Other Items

Risk Management

The MCIS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee dental and life; and natural disasters. The MCIS participates in the Minnesota Northeast Cooperative Group for health insurance and in Cass County's plans for dental and life insurance. For all other risk, the MCIS purchases commercial insurance through MCIT. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

4. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the MCIS are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after five years of credited service.

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

4. Pension Plans

A. Plan Description (Continued)

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

4. Pension Plans (Continued)

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The MCIS makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary.

The MCIS is required to contribute the following percentages of annual covered payroll in 2013 and 2014:

	2013	2014
General Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	7.25	7.25

The MCIS' contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund were:

	2014		2013		2012
\$	57,698	\$	59,444	\$	58,965

These contributions are equal to the contractually required contribution rates for each year as set by state statute.

5. Other Postemployment Benefits

The MCIS provides postemployment health care benefits and term life insurance coverage to two retirees in accordance with its personnel policy.

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

5. Other Postemployment Benefits (Continued)

A. Plan Description and Funding Policy

The MCIS pays the required premiums to provide health care benefits and term life insurance for eligible retirees and claimed dependents. Health care premiums are paid by the MCIS to the same extent as active employees for the life of the two current retirees. Life insurance is paid by the MCIS to the same extent as active employees for the two retirees with employer contributions provided for the lifetime of the retiree. Premiums paid for eligible retirees and claimed dependents for health care insurance in 2013 and 2014 totaled \$47,451.

B. Annual OPEB Cost and Net OPEB Obligation

The MCIS' annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the MCIS' annual OPEB cost for 2013 and 2014, the amount actually contributed to the plan, and changes in the MCIS' net OPEB obligation:

	2013	2014
Annual required contribution (ARC)	\$ 30,285	\$ 30,285
Interest on net OPEB obligation	2,987	3,338
Adjustment to ARC	(4,075)	(4,554)
Annual OPEB Cost	\$ 29,197	\$ 29,069
Contributions during the year	(21,404)	(26,349)
Increase in net OPEB obligation	\$ 7,793	\$ 2,720
Net OPEB, Beginning of Year	66,381	74,174
Net OPEB, End of Year	\$ 74,174	\$ 76,894

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

5. Other Postemployment Benefits

B. Annual OPEB Cost and Net OPEB Obligation (Continued)

The MCIS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and 2014 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2013	\$ 29,197	\$ 21,404	73.31%	\$ 74,174
December 31, 2014	29,069	26,349	90.64	76,894

C. Funding Status and Funding Progress

The actuarial accrued liability for benefits at December 31, 2014, is \$493,316. The MCIS currently has no assets that have been irrevocably deposited in a trust for future health benefits, thus the entire amount is unfunded. The only two participants remaining who are eligible for OPEB are two retirees and, therefore, the covered payroll (annual payroll of active employees covered by the plan) is \$0.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce the effect of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

5. Other Postemployment Benefits

D. Actuarial Methods and Assumptions (Continued)

In the June 1, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent discount rate, which is based on the estimated long-term investment yield on the general assets of the MCIS. The annual health care cost trend rate is 8.5 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after 7 years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over 30 years, on a closed basis.

For year ended December 31, 2014, the MCIS has continued to update its OPEB liability, based on the 2010 actuarial valuation. The same methods and assumptions used in the 2010 actuarial valuation were used for the current year calculations.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2010	\$ -	\$ 587,145	\$ 587,145	0.00%	\$ 783,714	74.92%
December 31, 2012	-	583,778	583,778	0.00	809,684	72.10
December 31, 2014	-	493,316	493,316	0.00	-	N/A

Notes to Schedule of Funding Progress

The Minnesota Counties Information Systems (MCIS) implemented Governmental Accounting Standards Board Statement 45 during the two-year fiscal period ended December 31, 2010.

The MCIS currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

The 2010 actuarial accrued liability calculation was determined by an actuary. The 2012 and 2014 actuarial accrued liability calculations were performed by the MCIS using the alternative calculation method from GASB 45.

As of December 31, 2014, there are two retirees receiving other postemployment benefits. There are no active members of the MCIS who are, or will become, eligible for other postemployment benefits and, therefore, covered payroll is reported at \$0.

This page was left blank intentionally.

This page was left blank intentionally.

**MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED DECEMBER 31, 2014**

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1996-002

Internal Control/Segregation of Duties

Criteria: The Minnesota Counties Information Systems' (MCIS) Board is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: The limited number of staff of the MCIS results in a lack of segregation of accounting duties necessary to ensure adequate internal accounting control. There are inherent risks in safeguarding the MCIS' assets and the proper recording of its financial activity. The MCIS' Board has requested that the Office of the State Auditor prepare the financial statements and related notes.

Context: This arrangement is not unusual for an organization the size of the MCIS. This decision was based on the availability of the MCIS' staff and the cost benefit of using our expertise.

Effect: Inadequate segregation of duties increases the risk of errors or irregularities not being detected timely.

Cause: The size of the MCIS and its staffing limits the internal control that the MCIS' Board can design and implement into the organization.

Recommendation: We recommend the MCIS Board and management be mindful that limited staffing causes inherent risks in safeguarding the MCIS' assets and the proper reporting of its financial activity. We recommend the MCIS continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

The MCIS Board is aware of accounting function procedures that MCIS staff and Cass County staff follow in their accounting of MCIS financial matters. MCIS will continue to emphasize the need for the management of the Board to segregate accounting functions whenever possible and to closely supervise those areas where proper segregation of duties cannot be achieved.

II. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the MCIS' Statement of Net Position. The MCIS' financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in the MCIS' financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Board of Directors
Minnesota Counties Information Systems
Grand Rapids, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of the Minnesota Counties Information Systems (MCIS) as of and for the two years ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the MCIS' basic financial statements, and have issued our report thereon dated January 6, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the MCIS' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MCIS' internal control. Accordingly, we do not express an opinion on the effectiveness of the MCIS' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the MCIS' financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Our audit was also not designed to identify

deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A significant deficiency is reported in the Schedule of Findings and Recommendations as item 1996-002.

Other Matters

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the MCIS, and it is reported for that purpose.

The MCIS' written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the MCIS' response and, accordingly, we express no opinion on it.

Purpose of This Report

This communication is intended solely for the information and use of management, the Board of Directors, and others within the MCIS, and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

January 6, 2016

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Directors
Minnesota Counties Information Systems
Grand Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the Minnesota Counties Information Systems (MCIS) as of and for the two years ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the MCIS' basic financial statements and have issued our report thereon dated January 6, 2016.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the MCIS' financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for deposits and investments and claims and disbursements because these categories were tested in conjunction with the Cass County audit; Cass County is the fiscal agent. We also did not test for contracting and bidding as there were no applicable contracts or bids during the audit period, and also did not test for public indebtedness because the MCIS had no long-term debt.

In connection with our audit, nothing came to our attention that caused us to believe that the MCIS failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the MCIS' noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the MCIS and the State Auditor and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 6, 2016