

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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

**TWO YEARS ENDED DECEMBER 31, 2016**

## **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 650 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.

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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](http://www.auditor.state.mn.us).

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

**Two Years Ended December 31, 2016**



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

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

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

ORGANIZATION  
DECEMBER 31, 2016

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

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### 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, 2016, 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 from 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, 2016, 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.

***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 1.G. to the financial statements, in 2015, the MCIS adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (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*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

***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 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 historical 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 17, 2018

## **BASIC FINANCIAL STATEMENTS**

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

*EXHIBIT 1*

**STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

<b>Assets</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 834,182
Petty cash and change funds	400
Due from other governments	5,933
	840,515
<b>Total current assets</b>	<b>\$ 840,515</b>
<b>Noncurrent assets</b>	
<b>Capital assets</b>	
Depreciable	\$ 776,767
Less: accumulated depreciation	(154,690)
	622,077
<b>Net capital assets</b>	<b>\$ 622,077</b>
<b>Total Assets</b>	<b>\$ 1,462,592</b>
<b>Deferred Outflows of Resources</b>	
Deferred pension outflows	\$ 436,639
	436,639
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable	\$ 19,049
Salaries payable	38,484
Severance payable	80,938
Due to other governments	8,765
	147,236
<b>Total current liabilities</b>	<b>\$ 147,236</b>
<b>Long-term liabilities</b>	
Severance payable	\$ 3,502
Net other postemployment benefits liability	325,208
Net pension liability	1,091,306
	1,420,016
<b>Total noncurrent liabilities</b>	<b>\$ 1,420,016</b>
<b>Total Liabilities</b>	<b>\$ 1,567,252</b>
<b>Deferred Inflows of Resources</b>	
Deferred pension inflows	\$ 101,358
	101,358
<b>Net Position</b>	
Investment in capital assets	\$ 622,077
Unrestricted	(391,456)
	230,621
<b>Total Net Position</b>	<b>\$ 230,621</b>

**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, 2016**

<b>Operating Revenues</b>	
<b>Charges for services</b>	
Aitkin County	\$ 237,755
Carlton County	256,477
Cass County	288,471
Chippewa County	224,840
Cook County	221,821
Crow Wing County	292,583
Dodge County	48,754
Itasca County	301,414
Koochiching County	229,024
Lac qui Parle County	198,409
Lake County	229,610
St. Louis County	396,680
Sherburne County	229,610
Nonmember counties	119,506
	<hr/>
<b>Total charges for services</b>	<b>\$ 3,274,954</b>
<b>Other revenues</b>	
Miscellaneous operating	\$ 10,045
Reimbursement	21,716
	<hr/>
<b>Total other revenues</b>	<b>\$ 31,761</b>
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 3,306,715</b>
<b>Operating Expenses</b>	
Payroll	\$ 1,860,513
Employee benefits and payroll taxes	1,194,870
Professional services	465,731
Contracted services	240,441
Repair and maintenance	20,234
Meals and lodging	4,711
Telephone	16,031
Utilities	19,434
Supplies	11,492
Mileage	11,532
Staff training	10,887
Insurance	9,342
Postage	584
Software	70,707
Furniture and equipment	21,703
Depreciation	50,708
Miscellaneous	5,176
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 4,014,096</b>
	<hr/>
<b>Net Operating Income (Loss)</b>	<b>\$ (707,381)</b>

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

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**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, 2016**

<b>Nonoperating Revenues (Expenses)</b>	
PERA rate reimbursement	\$ 4,676
Interest earnings	<u>10,248</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<b><u>\$ 14,924</u></b>
<b>Change in Net Position</b>	<b>\$ (692,457)</b>
<b>Net Position - January 1, 2015, as restated (Note 1.G.)</b>	<b><u>923,078</u></b>
<b>Net Position - December 31, 2016</b>	<b><u><u>\$ 230,621</u></u></b>

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

**EXHIBIT 3**

**STATEMENT OF CASH FLOWS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2016**

<b>Cash Flows From Operating Activities</b>	
Receipts from customers and users	\$ 3,359,057
Payments to suppliers	(961,701)
Payments to employees	(2,492,331)
	<u>                    </u>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (94,975)</b>
<b>Cash Flows From Noncapital Financing Activities</b>	
PERA rate reimbursement	4,676
<b>Cash Flows From Capital and Related Financing Activities</b>	
Acquisition or construction of capital assets	(91,168)
<b>Cash Flows From Investing Activities</b>	
Investment earnings received	10,248
	<u>                    </u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (171,219)</b>
<b>Cash and Cash Equivalents at January 1, 2015</b>	<b><u>1,005,401</u></b>
<b>Cash and Cash Equivalents at December 31, 2016</b>	<b><u><u>834,182</u></u></b>
 <b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
<b>Operating income (loss)</b>	<b>\$ (707,381)</b>
 <b>Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	50,708
(Increase) decrease in due from other governments	52,342
(Increase) decrease in deferred pension outflows, as restated	(418,704)
Increase (decrease) in accounts payable	3,680
Increase (decrease) in salaries payable	(26,913)
Increase (decrease) in severance payable	347
Increase (decrease) in net other postemployment benefits liability	248,314
Increase (decrease) in due to other governments	(57,376)
Increase (decrease) in deferred pension inflows	101,358
Increase (decrease) in net pension liability, as restated	658,650
	<u>                    </u>
<b>Total adjustments</b>	<b>\$ 612,406</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b><u><u>                    </u></u></b>

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

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE TWO YEARS ENDED DECEMBER 31, 2016**

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1. Summary of Significant Accounting Policies

The accounting policies of the Minnesota Counties Information Systems (MCIS) conform with accounting principles generally accepted in the United States of America (GAAP).

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**

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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. Measurement Focus and Basis of Accounting

The MCIS' financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of cash flows.

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, Liabilities, Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

1. 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.

2. 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**

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1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (Continued)

3. 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

4. Due From Other Governments

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

5. 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 \$178,377 at December 31, 2016, is available to employees in the event of illness-related absences, and is not paid to them at termination.

6. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

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

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1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (Continued)

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Currently, the MCIS has one item, deferred pension outflows, which qualifies for reporting in this category. These outflows arise under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, the differences between projected and actual earnings on pension plan investments, and also changes in actuarial assumptions and, accordingly, are reported in the statement of net position.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) or offset against expenses until that time. Currently, the MCIS has one type of deferred inflows, deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and changes in proportion and, accordingly, are reported only in the statement of net position.

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**

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1. Summary of Significant Accounting Policies (Continued)

G. Change in Accounting Principles

During the two years ended December 31, 2016, the MCIS adopted new accounting guidance by implementing the provisions of the Governmental Accounting Standards Board (GASB) Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the MCIS to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the MCIS' net pension liability and related deferred outflows of resources.

Net Position, January 1, 2015, as previously reported	\$ 1,337,799
Change in accounting principles	<u>(414,721)</u>
Net Position, January 1, 2015, as restated	<u>\$ 923,078</u>

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

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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.

B. Due From Other Governments

The following amounts are due from member counties for the current year and adjusted administration charges at December 31, 2016.

Cook County	\$	14
Crow Wing County		10
Dodge County		372
Itasca County		5,480
Lac qui Parle County		15
Sherburne County		42
		<hr/>
Total	\$	<u>5,933</u>

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

2. Detailed Notes (Continued)

C. Capital Assets

A summary of the changes in capital assets for the two-year period ended December 31, 2016, follows:

	Balance January 1, 2015	Increase	Decrease	Balance December 31, 2016
Capital assets depreciated				
Buildings and improvements	\$ 590,489	\$ -	\$ -	\$ 590,489
Furniture and equipment	113,230	91,168	18,120	186,278
Total capital assets depreciated	\$ 703,719	\$ 91,168	\$ 18,120	\$ 776,767
Less: accumulated depreciation for				
Buildings and improvements	\$ 44,287	\$ 23,265	\$ -	\$ 67,552
Furniture and equipment	77,815	27,443	18,120	87,138
Total accumulated depreciation	\$ 122,102	\$ 50,708	\$ 18,120	\$ 154,690
Total capital assets depreciated, net	\$ 581,617	\$ 40,460	\$ -	\$ 622,077
Capital Assets, Net	\$ 581,617	\$ 40,460	\$ -	\$ 622,077

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, 2016, is:

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Charges for services	\$ 3,052,351	\$ 3,274,954	\$ 222,603
Other revenues	-	31,761	31,761
Total Operating Revenues	\$ 3,052,351	\$ 3,306,715	\$ 254,364

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

2. Detailed Notes

D. Budgets (Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Expenses			
Payroll and payroll taxes	\$ 2,574,549	\$ 3,055,383	\$ (480,834)
Other services and charges	891,475	896,513	(5,038)
Supplies	8,200	11,492	(3,292)
Depreciation	-	50,708	(50,708)
	\$ 3,474,224	\$ 4,014,096	\$ (539,872)
Total Operating Expenses			
Net Operating Income (Loss)	\$ (421,873)	\$ (707,381)	\$ (285,508)
Nonoperating Revenues (Expenses)			
State-shared revenue - Public Employees			
Retirement Association aid	\$ -	\$ 4,676	\$ 4,676
Interest earnings	-	10,248	10,248
	\$ -	\$ 14,924	\$ 14,924
Total Nonoperating Revenues (Expenses)			
Change in Net Position	\$ (421,873)	\$ (692,457)	\$ (270,584)
Net Position - January 1, 2015, as restated	923,078	923,078	-
Net Position - December 31, 2016	\$ 501,205	\$ 230,621	\$ (270,584)

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, 2016, there is one employee entitled to this payout. The long-term severance liability at December 31, 2016, is \$3,502, which is a decrease of \$84 from the two years ended December 31, 2014.

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

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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 Minnesota Counties Intergovernmental Trust. 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. Defined Benefit Pension Plan

A. Plan Description

All full-time and certain part-time employees of the MCIS are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

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

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4. Defined Benefit Pension Plan (Continued)

B. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

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 General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive 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.

The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under 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. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year.

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

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4. Defined Benefit Pension Plan

B. Benefits Provided (Continued)

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

C. Contributions

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. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary for the years 2015 and 2016.

In 2015 and 2016, the MCIS was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Minneapolis Employees Retirement Fund members	9.75

The MCIS' contributions for the General Employees Retirement Plan for the years ended December 31, 2015 and 2016, were \$40,204 and \$63,795, respectively. The contributions are equal to the contractually required contributions as set by state statute.

D. Pension Costs

At December 31, 2016, the MCIS reported a liability of \$1,091,306 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The MCIS' proportion of the net pension liability was based on the MCIS' contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer

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GRAND RAPIDS, MINNESOTA**

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4. Defined Benefit Pension Plan

D. Pension Costs (Continued)

contributions received from all of PERA's participating employers. At June 30, 2016, the MCIS' proportion was 0.0134 percent. It was 0.0084 percent measured as of June 30, 2015. The MCIS recognized pension expense of \$48,474 and \$401,081 for the years ended December 31, 2015 and 2016, respectively, for its proportionate share of the General Employees Retirement Plan's pension expense.

The MCIS also recognized \$4,251 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

MCIS's proportionate share of the net pension liability	\$	1,091,306
State of Minnesota's proportionate share of the net pension liability associated with the MCIS		14,257
Total		\$ 1,105,563

The MCIS reported its proportionate share of the General Employees Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 79,882
Changes in actuarial assumptions	213,679	-
Difference between projected and actual investment earnings	188,609	-
Changes in proportion	-	21,476
Contributions paid to PERA subsequent to the measurement date	34,351	-
Total	\$ 436,639	\$ 101,358



**MINNESOTA COUNTIES INFORMATION SYSTEMS  
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4. Defined Benefit Pension Plan

D. Pension Costs (Continued)

The \$34,351 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 81,579
2018	81,579
2019	98,350
2020	39,422

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables. The cost of living benefit increases for retirees is assumed to be 1.0 percent.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015.

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

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4. Defined Benefit Pension Plan

E. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

F. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

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

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4. Defined Benefit Pension Plan

G. Changes in Actuarial Assumptions (Continued)

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

H. Pension Liability Sensitivity

The following presents the MCIS' proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the MCIS' proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the General Employees Retirement Plan	
	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 1,549,978
Current	7.50	1,091,306
1% Increase	8.50	713,485

I. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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

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5. Other Postemployment Benefits

The MCIS provides certain employees postemployment benefits. To be eligible for these benefits, the employee must have been hired prior to January 1, 2012, and retire from MCIS meeting the age and service requirements necessary for an annuity under PERA, or be receiving a disability benefit from PERA.

Eligible retired employees shall be entitled to a one-time lump sum payment to a Health Care Savings Plan provided the employee had a minimum of ten years of service with the MCIS. The amount of the lump sum payment is based on the date of hire and the years of service with the MCIS upon retirement, subject to a maximum of \$60,000 if hired prior to 1988, \$50,000 if hired from 1988 to 2008, and \$40,000 if hired from 2009 to 2011.

As of December 31, 2016, the calculated present value of the remaining benefits to be paid under this plan is \$325,208, which is reported as a liability on the Statement of Net Position in the financial statements. There are currently nine active employees of the MCIS who are eligible to receive these future benefits.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

*EXHIBIT A-1*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA GENERAL EMPLOYEES RETIREMENT PLAN  
DECEMBER 31, 2016**

<b>Measurement Date</b>	<b>Employer's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b>	<b>State's Proportionate Share of the Net Pension Liability Associated with the Minnesota Counties Information Systems (b)</b>	<b>Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)</b>	<b>Covered Payroll (c)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2016	0.0134%	\$ 1,091,306	\$ 14,257	\$ 1,105,563	\$ 682,028	160.01%	68.91%
2015	0.0084	435,626	N/A	435,626	493,985	88.19	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.  
The measurement date for each year is June 30.  
N/A - Not Applicable

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

*EXHIBIT A-2*

**SCHEDULE OF CONTRIBUTIONS  
PERA GENERAL EMPLOYEES RETIREMENT PLAN  
DECEMBER 31, 2016**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2016	\$ 63,795	\$ 63,795	\$ -	\$ 850,600	7.50%
2015	40,204	40,204	-	536,053	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.  
The MCIS' year-end is December 31.



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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE TWO YEARS ENDED DECEMBER 31, 2016

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Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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REBECCA OTTO  
STATE AUDITOR

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## 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 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, 2016, and the related notes to the financial statements, which collectively comprise the MCIS' basic financial statements, and have issued our report thereon dated January 17, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the MCIS' basic 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**

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.

This communication is intended solely for the information and use of the Board of Directors, management, 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

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

January 17, 2018



REBECCA OTTO  
STATE AUDITOR

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## 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, 2016, and the related notes to the financial statements, which collectively comprise the MCIS' basic financial statements and have issued our report thereon dated January 17, 2018.

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for deposits and investments and for 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 the provisions for contracting and bidding as there were no applicable contracts or bids during the audit period; we did not test for the provisions for public indebtedness because the MCIS does not have any debt; and we also did not test for the provisions for tax increment financing because the MCIS had no tax increment financing districts.

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 Counties*. 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 the Board of Directors 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 17, 2018

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2016**

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

Finding Number 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. Also, the Board is responsible for controls over the period-end financial reporting process. 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.

**Context:** It is not unusual for an organization the size of the MCIS to be limited in the internal control that management can design and implement into the organization.

**Effect:** Inadequate segregation of duties could adversely affect the MCIS' ability to detect misstatements in a timely manner by personnel in the normal course of performing their assigned functions.

**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.*