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, 2012

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 160 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 730 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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MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA

For the Two Years Ended December 31, 2012

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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Introductory Section

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MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA

ORGANIZATION
DECEMBER 31, 2012

Name	Representing
Board Member	
Kirk Peysar	Aitkin County
Paul G. Gassert	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
Steven McMahon	Lake County
Donald Dicklich	St. Louis County
Diane Arnold	Sherburne County
Executive Director	
Lyle Eidelbes	

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Minnesota Counties Information Systems

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, 2012, 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, 2012, and the changes in its financial position 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, 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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. Our opinion on the basic financial statements is not affected by this missing information.

/s/Rebecca Otto *Greg Hierlinger*

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 30, 2014

BASIC FINANCIAL STATEMENTS

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MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2012

Assets		
Current assets		
Cash and cash equivalents	$	541,450
Petty cash and change funds		400
Due from other governments		49,242
Total current assets	**$**	**591,092**
Noncurrent assets		
Capital assets		
Depreciable	$	761,290
Less: allowance for depreciation		(114,611)
Net capital assets	**$**	**646,679**
Total Assets	**$**	**1,237,771**
Liabilities		
Current liabilities		
Accounts payable	$	13,936
Salaries payable		58,309
Severance payable		60,864
Due to other governments		81,957
Total current liabilities	**$**	**215,066**
Long-term liabilities		
Severance payable	$	28,072
Net other postemployment benefits liability		66,381
Total noncurrent liabilities	**$**	**94,453**
Total Liabilities	**$**	**309,519**
Net Position		
Invested in capital assets	$	646,679
Unrestricted		281,573
Total Net Position	**$**	**928,252**

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

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, 2012

Operating Revenues		
Charges for services		
Aitkin County	$	183,750
Carlton County		212,258
Cass County		240,058
Chippewa County		183,367
Cook County		181,849
Crow Wing County		227,299
Dodge County		44,989
Itasca County		249,378
Koochiching County		236,415
Lac qui Parle County		154,883
Lake County		220,604
St. Louis County		260,772
Sherburne County		177,255
Total charges for services	**$**	**2,572,877**
Other revenues		
Miscellaneous operating	$	2,291
Miscellaneous reimbursement		22,484
Fidlar reimbursement		32,252
Total other revenues	**$**	**57,027**
Total Operating Revenues	**$**	**2,629,904**
Operating Expenses		
Payroll	$	1,642,945
Employee benefits and payroll taxes		577,079
Professional services		94,812
Contracted services		212,038
Repair and maintenance		28,292
Meals and lodging		7,872
Telephone		15,524
Utilities		19,759
Supplies		5,502
Mileage		14,975
Staff training		926
Advertising		486
Insurance		16,151
Postage		871
Software		76,664
Furniture and equipment		98,827
Depreciation		70,475
Miscellaneous		3,607
Total Operating Expenses	**$**	**2,886,805**
Net Operating Income (Loss)	**$**	**(256,901)**

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

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, 2012

Nonoperating Revenues (Expenses)		
PERA rate reimbursement	$	4,662
Gains (loss) on disposal of capital assets		(9,846)
Interest earnings		12,215
Total Nonoperating Revenues	**$**	**7,031**
Change in Net Position	**$**	**(249,870)**
Net Position - January 1, 2011		**1,178,122**
Net Position - December 31, 2012	**$**	**928,252**

MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA

EXHIBIT 3

STATEMENT OF CASH FLOWS
FOR THE TWO YEARS ENDED DECEMBER 31, 2012

Cash Flows From Operating Activities		
Receipts from customers and users	$	2,636,846
Payments to suppliers		(586,972)
Payments to employees		(2,165,226)
Net cash provided by (used for) operating activities	**$**	**(115,352)**
Cash Flows From Noncapital Financing Activities		
PERA rate reimbursement		4,662
Cash Flows From Capital and Related Financing Activities		
Acquisition or construction of capital assets		(366,078)
Cash Flows From Investing Activities		
Investment earnings received		12,215
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(464,553)**
Cash and Cash Equivalents at January 1, 2011		**1,006,003**
Cash and Cash Equivalents at December 31, 2012	**$**	**541,450**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities		
Operating income (loss)	**$**	**(256,901)**
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities		
Depreciation expense		70,475
(Increase) decrease in due from other governments		6,942
Increase (decrease) in accounts payable		4,017
Increase (decrease) in salaries payable		1,766
Increase (decrease) in severance payable		11,229
Increase (decrease) in net other postemployment benefits payable		41,803
Increase (decrease) in due to other governments		69,228
Increase (decrease) in deferred revenue		(63,911)
Total adjustments	**$**	**141,549**
Net Cash Provided by (Used for) Operating Activities	**$**	**(115,352)**

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

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.

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. MCIS policy is to capitalize assets with a useful life of more than one year and a minimum cost of $5,000.

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:

Classification	Years
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 $128,498 at December 31, 2012, 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.

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, 2012.

Aitkin County	$ 1,483
Carlton County	4,603
Cass County	7,999
Chippewa County	2,351
Cook County	3,008
Dodge County	16,533
Itasca County	6,319
Koochiching County	2,006
Lac qui Parle County	2,857
Lake County	2,083
Total	$ 49,242

2. Detailed Notes (Continued)

C. Capital Assets

A summary of the changes in capital assets for the two-year period ended December 31, 2012, follows:

	Balance January 1, 2011	Increase	Decrease	Balance December 31, 2012
Capital assets not depreciated				
Construction in progress	$ 402,809	$ -	$ 402,809	$ -
Capital assets depreciated				
Buildings and improvements	$ 106,373	$ 590,489	$ 106,373	$ 590,489
Furniture and equipment	100,610	75,680	5,489	170,801
Total capital assets depreciated	$ 206,983	$ 666,169	$ 111,862	$ 761,290
Less: accumulated depreciation for				
Buildings and improvements	$ 93,963	$ 21,731	$ 95,027	$ 20,667
Furniture and equipment	50,689	48,744	5,489	93,944
Total accumulated depreciation	$ 144,652	$ 70,475	$ 100,516	$ 114,611
Total capital assets depreciated, net	$ 62,331	$ 595,694	$ 11,346	$ 646,679
Capital Assets, Net	$ 465,140	$ 595,694	$ 414,155	$ 646,679

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, 2012, is:

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Charges for services	$ 2,475,049	$ 2,572,877	$ 97,828
Miscellaneous	-	57,027	57,027
Total Operating Revenues	$ 2,475,049	$ 2,629,904	$ 154,855
Operating Expenses			
Payroll and payroll taxes	$ 2,271,138	$ 2,220,024	$ 51,114
Other services and charges	599,982	590,804	9,178
Supplies	7,900	5,502	2,398
Depreciation	-	70,475	(70,475)
Total Operating Expenses	$ 2,879,020	$ 2,886,805	$ (7,785)
Net Operating Income (Loss)	$ (403,971)	$ (256,901)	$ 147,070
Nonoperating Revenues (Expenses)			
State-shared revenue - Public Employees Retirement Association aid	$ -	$ 4,662	$ 4,662
Gain (loss) on disposal of capital assets	-	(9,846)	(9,846)
Interest on investments	-	12,215	12,215
Total Nonoperating Revenues (Expenses)	$ -	$ 7,031	$ 7,031
Change in Net Position	$ (403,971)	$ (249,870)	$ 154,101
Net Position - January 1, 2011	1,178,122	1,178,122	-
Net Position - December 31, 2012	$ 774,151	$ 928,252	$ 154,101

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, 2012, there are two employees entitled to this payout. The long-term severance liability at December 31, 2012, is $28,072, which is a decrease of $627 for the two years ended December 31, 2012.

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 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 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.

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 and vest after three years of credited service (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive 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 year thereafter. 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 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. 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.

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. 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 2011 and 2012:

	2011	2012
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, 2012, 2011, and 2010, for the General Employees Retirement Fund were:

2012	2011	2010
$ 58,965	$ 57,636	$ 57,551

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 in accordance with its personnel policy. These postemployment benefits extend to the MCIS employees hired prior to January 1, 2007. Ten active employees and two retirees meet these eligibility requirements.

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, and up to a maximum of $50,000 or until age 65 for future eligible retirees. (The benefit for active employees changed effective July 25, 2013, to a defined contribution plan versus a defined benefit plan. That change will be reflected in the 2013-2014 financial statements.) Life insurance is paid by the MCIS to the same extent as active employees until Medicare eligibility, except for two grandfathered retirees with employer contributions provided for the lifetime of the retiree. Premiums paid for eligible retirees and claimed dependents for health care insurance in 2012 totaled $24,297.

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 2011 and 2012, the amount actually contributed to the plan, and changes in the MCIS' net OPEB obligation:

	2011	2012
Annual required contribution (ARC)	$ 44,863	$ 44,863
Interest on net OPEB obligation	1,106	2,096
Adjustment to ARC	(1,509)	(2,859)
Annual OPEB Cost	$ 44,460	$ 44,100
Contributions during the year	(22,460)	(24,297)
Increase in net OPEB obligation	$ 22,000	$ 19,803
Net OPEB, Beginning of Year	24,578	46,578
Net OPEB, End of Year	$ 46,578	$ 66,381

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 2012 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2012	$ 44,100	$ 24,297	55.10%	$ 66,381

C. Funding Status and Funding Progress

The actuarial accrued liability for benefits at December 31, 2012, is $583,778. 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 covered payroll (annual payroll of active employees covered by the plan) is $809,684. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 72.10 percent.

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.

5. Other Postemployment Benefits

D. Actuarial Methods and Assumptions (Continued)

In the January 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, 2012, the MCIS updated its OPEB liability, based on the prior actuarial valuation. The same methods and assumptions used in the 2010 actuarial valuation were used for the 2012 calculation.

REQUIRED SUPPLEMENTARY INFORMATION

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EXHIBIT A-1

SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2012

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

<u>Notes to Schedule of Funding Progress</u>

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

The Minnesota Counties Information Systems 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 Actuarial Accrued Liability calculation was performed by the MCIS using the alternative calculation method from GASB Statement 45.

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Management and Compliance Section

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED DECEMBER 31, 2012

INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-2 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 MCIS' Board is responsible for controls over the period–end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. 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. In addition, the MCIS' Board has requested that the Office of the State Auditor prepare the financial statements and related notes.

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

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. The small number of staff also affects the availability of staff and cost-benefit of preparing financial statements.

Recommendation: We recommend the MCIS 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.

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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

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, 2012, and the related notes to the financial statements, which collectively comprise the MCIS' basic financial statements, and have issued our report thereon dated January 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the MCIS as of and for the two years ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the MCIS' internal control over financial reporting 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 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 96-2.

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.

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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

January 30, 2014

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INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE

Board of Directors
Minnesota Counties Information Systems

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, 2012, and the related notes to the financial statements, which collectively comprise the MCIS' basic financial statements and have issued our report thereon dated January 30, 2014.

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 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 communication is intended solely for the information and use of the Board of Directors, management, others within 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 30, 2014