STATE OF MINNESOTA
Office of the State Auditor

Julie Blaha
State Auditor

MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA

TWO YEARS ENDED DECEMBER 31, 2018

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 100 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 Minnesota's local 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

Two Years Ended December 31, 2018

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, 2018

Name	Representing
Board Member	
Kirk Peysar	Aitkin County
Kyle Holmes	Carlton County
Sandra Norikane	Cass County
Michelle May	Chippewa County
Braidy Powers	Cook County
Gary Griffin	Crow Wing County
Amber Peratalo	Itasca County
Jaci Nagle	Koochiching County
Jake Sieg	Lac qui Parle County
Linda Libal	Lake County
Nancy Nilsen	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
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, 2018, 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.

Basis for Qualified Opinion

As discussed in Note 1.E.6. to the financial statements, the MCIS has not calculated its other postemployment benefits (OPEB) liability in accordance with the requirements of accounting principles generally accepted in the United States of America. The amount by which this departure affects the liabilities, deferred outflows of resources, deferred inflows of resources, net position, and expenses of the MCIS is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Minnesota Counties Information Systems as of December 31, 2018, 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 (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 a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of the 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/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

December 17, 2019

BASIC FINANCIAL STATEMENTS

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MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2018

Assets		
Current assets		
Cash and cash equivalents	$	1,058,106
Petty cash and change funds		400
Total current assets	**$**	**1,058,506**
Noncurrent assets		
Capital assets		
Depreciable	$	784,978
Less: accumulated depreciation		(182,396)
Net capital assets	**$**	**602,582**
Total Assets	**$**	**1,661,088**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**139,263**
Liabilities		
Current liabilities		
Accounts payable	$	11,164
Salaries payable		40,011
Due to other governments		590
Severance payable		89,155
Unearned revenue		31,176
Total current liabilities	**$**	**172,096**
Noncurrent liabilities		
Other postemployment benefits liability	$	253,052
Net pension liability		691,688
Total noncurrent liabilities	**$**	**944,740**
Total Liabilities	**$**	**1,116,836**
Deferred Inflows of Resources		
Deferred pension inflows	**$**	**233,315**
Net Position		
Investment in capital assets	$	602,582
Unrestricted		(152,382)
Total Net Position	**$**	**450,200**

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, 2018

Operating Revenues		
Charges for services		
Aitkin County	$	227,664
Carlton County		234,421
Cass County		270,767
Chippewa County		200,429
Cook County		199,815
Crow Wing County		256,712
Itasca County		271,268
Koochiching County		208,757
Lac qui Parle County		152,650
Lake County		210,058
St. Louis County		404,454
Sherburne County		224,545
Nonmember counties		82,683
Total charges for services	**$**	**2,944,223**
Other revenues		
Miscellaneous operating	$	38,418
Hosting fees		225,966
Reimbursement		770
Total other revenues	**$**	**265,154**
Total Operating Revenues	**$**	**3,209,377**
Operating Expenses		
Payroll	$	1,696,992
Employee benefits and payroll taxes		692,536
Professional services		148,180
Contracted services		177,160
Repair and maintenance		25,503
Meals and lodging		8,502
Telephone		18,777
Utilities		19,289
Supplies		31,043
Mileage		8,984
Staff training		4,883
Insurance		7,233
Postage		562
Software		50,560
Furniture and equipment		19,449
Depreciation		79,469
Miscellaneous		7,541
Total Operating Expenses	**$**	**2,996,663**
Net Operating Income (Loss)	**$**	**212,714**

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, 2018

Nonoperating Revenues (Expenses)		
PERA rate reimbursement	$	4,676
Interest earnings		7,566
Gain (loss) on sale or disposition of capital assets		(5,377)
Total Nonoperating Revenues (Expenses)	**$**	**6,865**
Change in Net Position	**$**	**219,579**
Net Position – January 1, 2017		**230,621**
Net Position – December 31, 2018	**$**	**450,200**

MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA

EXHIBIT 3

STATEMENT OF CASH FLOWS
FOR THE TWO YEARS ENDED DECEMBER 31, 2018

Cash Flows From Operating Activities		
Receipts from customers and users	$	3,246,486
Payments to suppliers		(543,726)
Payments to employees		(2,425,727)
Net cash provided by (used in) operating activities	**$**	**277,033**
Cash Flows From Noncapital Financing Activities		
PERA rate reimbursement	**$**	**4,676**
Cash Flows From Capital and Related Financing Activities		
Acquisition or construction of capital assets	$	(66,451)
Proceeds from the sale of capital assets		1,100
Net cash provided by (used in) capital and related financing activities	**$**	**(65,351)**
Cash Flows From Investing Activities		
Investment earnings received	**$**	**7,566**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**223,924**
Cash and Cash Equivalents at January 1, 2017		**834,182**
Cash and Cash Equivalents at December 31, 2018	**$**	**1,058,106**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**212,714**
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense		79,469
(Increase) decrease in due from other governments		5,933
(Increase) decrease in deferred pension outflows		297,376
Increase (decrease) in accounts payable		(7,885)
Increase (decrease) in salaries payable		1,527
Increase (decrease) in due to other governments		(8,175)
Increase (decrease) in severance payable		8,217
Increase (decrease) in compensated absences		(3,502)
Increase (decrease) in other postemployment benefits liability		(72,156)
Increase (decrease) in unearned revenue		31,176
Increase (decrease) in deferred pension inflows		131,957
Increase (decrease) in net pension liability		(399,618)
Total adjustments	**$**	**64,319**
Net Cash Provided by (Used in) Operating Activities	**$**	**277,033**
Noncash Capital and Related Financing Activities		
Loss on disposal of capital assets	$	(5,377)

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

1. Summary of Significant Accounting Policies

The Minnesota Counties Information Systems' (MCIS) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the two years ended December 31, 2018. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the MCIS are discussed below.

The MCIS has not calculated its other postemployment benefits (OPEB) liability in accordance with GASB Statement 75. This departure from GAAP is discussed in Note 1.E.6.

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, Itasca, Koochiching, Lac qui Parle, Lake, St. Louis, and Sherburne Counties. Crow Wing County withdrew from the MCIS effective December 31, 2018.

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.

1. Summary of Significant Accounting Policies (Continued)

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.

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. Cash and cash equivalents is stated at fair value.

1. Summary of Significant Accounting Policies

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

      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.

      3. Depreciation

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

Classification	Years
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. The MCIS considers the entire liability to be current at year-end.

         Unused vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately $196,471 at December 31, 2018, is available to employees in the event of illness-related absences and is not paid to them at termination.

1. Summary of Significant Accounting Policies

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

6. Other Postemployment Benefits

The MCIS provides certain employees with defined benefit postemployment benefits. To be eligible for those benefits, the employee must have been hired prior to January 1, 2012, and retire from the MCIS meeting the age and service requirements necessary for an annuity under the Public Employees Retirement Association of Minnesota (PERA), or be receiving a disability benefit from PERA.

The MCIS has not calculated its OPEB liability in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, to accurately report the liability and any deferred outflows of resources, deferred inflows of resources on the statement of net position, and related expense on the statement of revenues expenses, and changes in net position.

7. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about PERA's fiduciary net position 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.

8. 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. The MCIS reports deferred pension outflows associated with defined benefit pension plans.

1. Summary of Significant Accounting Policies

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

8. Deferred Outflows/Inflows of Resources (Continued)

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 will not be recognized as an inflow of resources (revenue) until that time. The MCIS reports deferred inflows of resources associated with defined benefit pension plans.

9. Unearned Revenue

Unearned revenue represents advance payments for services that have not been earned as of year-end.

10. Classification of Net Position

Net position was classified in the following categories:

Investment in capital assets – the amount of net position representing capital assets, net of accumulated depreciation.

Restricted – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws, or constitutional provisions or enabling legislation.

Unrestricted – the amount of net position that does not meet the definition of restricted or investment in capital assets.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; 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.

The MCIS invests funds in Cass County's investment pool. The fair value of the investment is the fair value per share of the underlying portfolio. The MCIS invests in this pool for the purpose of a joint investment with the County in order to enhance investment earnings. There are no redemption limitations.

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

B. Capital Assets

A summary of the changes in capital assets for the two-year period ended December 31, 2018, follows:

	Balance January 1, 2017	Increase	Decrease	Balance December 31, 2018
Capital assets depreciated				
Buildings and improvements	$ 590,489	$ -	$ -	$ 590,489
Furniture and equipment	186,278	66,451	58,240	194,489
Total capital assets depreciated	$ 776,767	$ 66,451	$ 58,240	$ 784,978
Less: accumulated depreciation for				
Buildings and improvements	$ 67,552	$ 23,620	$ -	$ 91,172
Furniture and equipment	87,138	55,849	51,763	91,224
Total accumulated depreciation	$ 154,690	$ 79,469	$ 51,763	$ 182,396
Capital Assets, Net	$ 622,077	$ (13,018)	$ 6,477	$ 602,582

2. Detailed Notes (Continued)

C. 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, 2018, is:

	Budget	Actual	Variance with Budget
Operating Revenues			
Charges for services	$ 2,935,765	$ 2,944,223	$ 8,458
Other revenues	-	265,154	265,154
Total Operating Revenues	$ 2,935,765	$ 3,209,377	$ 273,612
Operating Expenses			
Payroll and payroll taxes	$ 2,589,006	$ 2,389,528	$ 199,478
Other services and charges	792,187	496,623	295,564
Supplies	7,200	31,043	(23,843)
Depreciation	-	79,469	(79,469)
Total Operating Expenses	$ 3,388,393	$ 2,996,663	$ 391,730
Net Operating Income (Loss)	$ (452,628)	$ 212,714	$ 665,342
Nonoperating Revenues (Expenses)			
State-shared revenue – PERA aid	$ -	$ 4,676	$ 4,676
Interest earnings	-	7,566	7,566
Gain (loss) on sale or disposition of capital assets	-	(5,377)	(5,377)
Total Nonoperating Revenues (Expenses)	$ -	$ 6,865	$ 6,865
Change in Net Position	$ (452,628)	$ 219,579	$ 672,207
Net Position – January 1, 2017	230,621	230,621	-
Net Position – December 31, 2018	$ (222,007)	$ 450,200	$ 672,207

2. Detailed Notes (Continued)

D. Other Postemployment Benefits

The MCIS provides certain employees with defined benefit postemployment benefits. To be eligible for these benefits, the employee must have been hired prior to January 1, 2012, and retire from the 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 into a Minnesota State Retirement System's 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 $63,000 if the employee was hired prior to 1988, $52,500 if hired between 1988 and 2008, and $42,000 if hired between 2009 and 2011.

As of December 31, 2018, the calculated present value of the remaining benefits to be paid under this plan is $253,052, 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.

E. Defined Benefit Pension Plan

1. Plan Description

All full-time and certain part-time employees of the MCIS are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (the General Employees 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.

The General Employees 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

2. Detailed Notes

E. Defined Benefit Pension Plan

1. Plan Description (Continued)

new members during 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. None of the MCIS' employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

2. 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 1.00 percent for the post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will be 2.50 percent. If, after reverting to a 2.50 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 1.00 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 60 consecutive months of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for Coordinated 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 Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

2. Detailed Notes

E. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

For General Employees 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.

3. 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 Plan members were required to contribute 6.50 percent of their annual covered salary for the years 2017 and 2018.

In 2017 and 2018, the MCIS was required to contribute 7.50 percent of annual covered salary. The employee and employer contribution rates did not change from the previous year.

The MCIS' contributions for the General Employees Plan for the years ended December 31, 2017 and 2018, were $64,205 and $62,791, respectively. The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

At December 31, 2018, the MCIS reported a liability of $691,688 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2018, 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

2. Detailed Notes

E. Defined Benefit Pension Plan

4. Pension Costs (Continued)

employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the MCIS' proportion was 0.0125 percent. It was 0.0138 percent measured as of June 30, 2017. The MCIS recognized pension expense of $126,562 and $57,772 for the years ended December 31, 2017 and 2018, respectively, for its proportionate share of the General Employees Plan's pension expense.

The MCIS also recognized $321 and $5,292 as revenue in 2017 and 2018, respectively, 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 Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute $16 million to the General Employees Plan for the fiscal years ended June 30, 2018 and 2019, and $6 million thereafter, through calendar year 2031.

The MCIS' proportionate share of the net pension liability	$ 691,688
State of Minnesota's proportionate share of the net pension liability associated with the MCIS	22,693
Total	$ 714,381

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

2. Detailed Notes

E. Defined Benefit Pension Plan

4. Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 20,218	$ 21,746
Changes in actuarial assumptions	71,227	83,527
Difference between projected and actual investment earnings	-	81,027
Changes in proportion	16,924	47,015
Contributions paid to PERA subsequent to the measurement date	30,894	-
Total	$ 139,263	$ 233,315

The $30,894 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, 2019. 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
2019	$ 11,807
2020	(47,123)
2021	(75,201)
2022	(14,429)

5. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

2. Detailed Notes

E. Defined Benefit Pension Plan

5. Actuarial Assumptions (Continued)

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 for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	36%	5.10%
International stocks	17	5.30
Bonds (fixed income)	20	0.75
Alternative assets (private markets)	25	5.90
Cash	2	0.00

2. Detailed Notes

E. Defined Benefit Pension Plan (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2018, which remained consistent with 2017. 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 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.

7. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2017 and 2018:

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.

- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

2. Detailed Notes

E. Defined Benefit Pension Plan

7. Changes in Actuarial Assumptions and Plan Provisions

2017 (Continued)

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21 million in calendar years 2017 and 2018 and returns to $31 million through calendar year 2031. The state's required contribution is $16 million in PERA's fiscal years 2018 and 2019, and returns to $6 million annually through calendar year 2031.

8. Pension Liability Sensitivity

The following presents the MCIS' proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the MCIS' proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Discount Rate	Proportionate Share of the Net Pension Liability
1% Decrease	6.50%	$ 1,124,081
Current	7.50	691,688
1% Increase	8.50	334,759

9. 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; 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.

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 the 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.

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, 2018

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the Minnesota Counties Information Systems (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.0125 %	$ 691,688	$ 22,693	$ 714,381	$ 843,027	82.05 %	79.53 %
2017	0.0138	882,882	11,104	893,986	896,347	98.50	75.90
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, 2018

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	$ 62,791	$ 62,791	$ -	$ 837,213	7.50 %
2017	64,205	64,205	-	856,067	7.50
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.

The notes to the required supplementary information are an integral part of this schedule.

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 fiscal year June 30:

General Employees Retirement Plan

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.

- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21 million in calendar years 2017 and 2018 and returns to $31 million through calendar year 2031. The state's required contribution is $16 million in PERA's fiscal years 2018 and 2019, and returns to $6 million annually through calendar year 2031.

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

General Employees Retirement Plan (Continued)

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.

Management and Compliance Section

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JULIE BLAHA
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, 2018, and the related notes to the financial statements, which collectively comprise the MCIS' basic financial statements, and have issued our report thereon dated December 17, 2019. We have issued a qualified opinion on the financial statements because the MCIS did not report its other postemployment benefits liability and related accounts in accordance with the requirements of accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the MCIS' internal control over financial reporting to determine the 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MCIS' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we did identify a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control over financial reporting 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 over financial reporting 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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2018-001 to be a material weakness and item 1996-002 to be a significant deficiency.

Other Matters

The MCIS' written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the MCIS' responses and, accordingly, we express no opinion on them.

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/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 17, 2019

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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, 2018, and the related notes to the financial statements, which collectively comprise the MCIS' basic financial statements, and have issued our report thereon dated December 17, 2019.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, 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 compliance with the provisions for tax increment financing because the MCIS does not administer any 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 Other Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the MCIS' noncompliance with the above referenced provisions.

This report is intended solely for the information and use of 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/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

December 17, 2019

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MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED DECEMBER 31, 2018

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:

This 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.

ITEM ARISING THIS YEAR

Finding Number 2018-001

Other Postemployment Benefits (OPEB)

Criteria: Accounting principles generally accepted in the United States of America (GAAP) require the MCIS to record its liability, deferred outflows of resources, deferred inflows of resources, and related expense for other postemployment benefits (OPEB) in the basic financial statements, as determined by accounting standards established by the Governmental Accounting Standards Board (GASB).

Condition: The MCIS has not measured its OPEB liability or related accounts in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for financial reporting in the current year.

Context: The MCIS should have determined its OPEB liability and related accounts in accordance with GASB Statement 75.

Effect: The MCIS is not in compliance with the requirements of GAAP, and a qualified opinion is issued on the financial statements.

Cause: The MCIS has not hired an actuary or used the alternative measurement method for small entities with less than 100 employees to determine its OPEB liability and related accounts necessary to meet the requirements for financial reporting under GASB Statement 75.

Recommendation: We recommend the MCIS Board determine and record the MCIS' OPEB liability, deferred outflows of resources, deferred inflows of resources, and expense in accordance with the requirements of GASB Statement 75. This will require the MCIS' Board to either contract with an actuarial service to determine the liability or allow the MCIS to utilize the alternative measurement method to determine the liability.

Client's Response:

The MCIS Board has noted the request from the State Auditor to work with an actuary to recalculate OPEB liability to comply with the GASB standard. The MCIS Board will establish a committee to work with the Executive Director to determine how best to comply with GASB 75 at a reasonable cost to the organization.