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, 2008

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, 2008

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, 2008

Name	Representing
Board Member	
Kirk Peysar	Aitkin County
Paul G. Gassert	Carlton County
Sharon Anderson	Cass County
Jon Clauson	Chippewa County
Danna Asche	Cook County
Deborah Erickson	Crow Wing County
Paul Wiltgen	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
Jerry Kritzeck	Sherburne County
Executive Director	
Dana Flinck	

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Financial Section

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Minnesota Counties Information Systems

We have audited the accompanying basic financial statements of the Minnesota Counties Information Systems (MCIS) as of December 31, 2008, and for the two years then ended, as listed in the table of contents. These financial statements are the responsibility of the MCIS' management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and the results of its operations and its cash flows for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

The MCIS has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

/s/Rebecca Otto   */s/Greg Hierlinger*

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 4, 2010

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BASIC FINANCIAL STATEMENTS

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MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA

EXHIBIT A

STATEMENT OF NET ASSETS
DECEMBER 31, 2008

Assets		
Current assets		
Cash and cash equivalents	$	843,416
Petty cash and change funds		400
Due from other governments		53,841
Total current assets	**$**	**897,657**
Noncurrent assets		
Capital assets	$	259,229
Less: allowance for depreciation		(149,102)
Net capital assets	**$**	**110,127**
Total Assets	**$**	**1,007,784**
Liabilities		
Current liabilities		
Accounts payable	$	9,923
Salaries payable		44,222
Severance payable		42,258
Due to other governments		5,788
Deferred revenue		55,008
Total current liabilities	**$**	**157,199**
Long-term liabilities		
Severance payable		99,384
Total Liabilities	**$**	**256,583**
Net Assets		
Invested in capital assets	$	110,127
Unrestricted		641,074
Total Net Assets	**$**	**751,201**

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

MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA

EXHIBIT B

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE TWO YEARS ENDED DECEMBER 31, 2008

Operating Revenues		
Charges for services		
Aitkin County	$	177,451
Carlton County		182,655
Cass County		208,930
Chippewa County		160,364
Cook County		158,759
Crow Wing County		222,890
Dodge County		29,602
Itasca County		217,577
Koochiching County		166,723
Lac qui Parle County		146,691
Lake County		166,467
St. Louis County		295,099
Sherburne County		173,004
Total charges for services	**$**	**2,306,212**
Other revenues		
Miscellaneous operating	$	606
Miscellaneous reimbursement		17,849
Fidlar reimbursement		144,712
Total other revenues	**$**	**163,167**
Total Operating Revenues	**$**	**2,469,379**
Operating Expenses		
Payroll	$	1,515,271
Employee benefits and payroll taxes		432,723
Professional services		45,848
Contracted services		172,151
Meetings and expense		279
Meals and lodging		8,731
Telephone		23,246
Utilities		13,715
Supplies		7,472
Mileage		11,217
Staff training		7,225
Advertising		1,660
Insurance		11,959
Postage		787
Furniture and equipment		77,759
Depreciation		25,863
Miscellaneous		2,731
Total Operating Expenses	**$**	**2,358,637**
Net Operating Income (Loss)	**$**	**110,742**

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

MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA

EXHIBIT B
(Continued)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE TWO YEARS ENDED DECEMBER 31, 2008

Nonoperating Revenues (Expenses)		
PERA rate reimbursement	$	4,648
Interest earnings		60,095
Miscellaneous		(6,800)
Total Nonoperating Revenues	**$**	**57,943**
Change in Net Assets	**$**	**168,685**
Net Assets - January 1, 2007		**582,516**
Net Assets - December 31, 2008	**$**	**751,201**

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

MINNESOTA COUNTIES INFORMATION SYSTEMS
GRAND RAPIDS, MINNESOTA

EXHIBIT C

STATEMENT OF CASH FLOWS
FOR THE TWO YEARS ENDED DECEMBER 31, 2008

Cash Flows From Operating Activities		
Receipts from customers and users	$	2,446,004
Payments to suppliers		(345,505)
Payments to employees		(1,933,500)
Net cash provided by (used for) operating activities	**$**	**166,999**
Cash Flows From Noncapital Financing Activities		
PERA rate reimbursement		4,648
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets		(102,683)
Cash Flows From Investing Activities		
Investment earnings received		60,095
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**129,059**
Cash and Cash Equivalents at January 1, 2007		**714,357**
Cash and Cash Equivalents at December 31, 2008	**$**	**843,416**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities		
Operating income (loss)	**$**	**110,742**
Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities		
Depreciation expense		25,863
(Increase) decrease in due from other governments		(23,375)
Increase (decrease) in accounts payable		(6,412)
Increase (decrease) in salaries payable		13,721
Increase (decrease) in severance payable		773
Increase (decrease) in due to other governments		(9,321)
Increase (decrease) in deferred revenue		55,008
Total adjustments	**$**	**56,257**
Net Cash Provided by (Used for) Operating Activities	**$**	**166,999**

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

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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. Pursuant to Governmental Accounting Standards Board (GASB) Statement 20, the MCIS has elected not to apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

D. Budgetary Data

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

E. Assets and Liabilities

Cash and Cash Equivalents

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

Capital Assets

Capital assets are stated at cost. The MCIS does not capitalize assets with a cost of less than $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	25
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 $103,596 at December 31, 2008, 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, 2008.

Atikin County	$ 6,404
Carlton County	781
Cass County	989
Chippewa County	2,293
Cook County	2,632
Crow Wing County	10,586
Dodge County	1,595
Itasca County	1,548
Koochiching County	2,562
Lac qui Parle County	6,890
Lake County	2,782
St. Louis County	8,979
Sherburne County	5,800
Total	$ 53,841

2. Detailed Notes (Continued)

C. Capital Assets

A summary of the changes in capital assets for the two-year period ended December 31, 2008, follows:

	Balance January 1, 2007	Increase	Decrease	Balance December 31, 2008
Capital assets depreciated				
Buildings and improvements	$ 106,373	$ -	$ -	$ 106,373
Furniture and equipment	101,356	102,683	51,183	152,856
Total capital assets depreciated	$ 207,729	$ 102,683	$ 51,183	$ 259,229
Less: accumulated depreciation for				
Buildings and improvements	$ 74,107	$ 8,510	$ -	$ 82,617
Furniture and equipment	93,515	17,353	44,383	66,485
Total accumulated depreciation	$ 167,622	$ 25,863	$ 44,383	$ 149,102
Capital Assets, Net	$ 40,107	$ 76,820	$ 6,800	$ 110,127

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, 2008, is:

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Charges for services	$ 2,265,914	$ 2,306,212	$ 40,298
Miscellaneous	-	163,167	163,167
Total Operating Revenues	$ 2,265,914	$ 2,469,379	$ 203,465
Operating Expenses			
Payroll and payroll taxes	$ 2,032,581	$ 1,947,994	$ 84,587
Other services and charges	721,992	377,308	344,684
Supplies	9,700	7,472	2,228
Depreciation	-	25,863	(25,863)
Total Operating Expenses	$ 2,764,273	$ 2,358,637	$ 405,636
Net Operating Income (Loss)	$ (498,359)	$ 110,742	$ 609,101

2. Detailed Notes

D. Budgets (Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
Nonoperating Revenues (Expenses)			
State-shared revenue - Public Employees Retirement Association aid	$ -	$ 4,648	$ 4,648
Interest on investments	-	60,095	60,095
Miscellaneous expense	-	(6,800)	(6,800)
Total Nonoperating Revenues (Expenses)	$ -	$ 57,943	$ 57,943
Change in Net Assets	$ (498,359)	$ 168,685	$ 667,044
Net Assets - January 1	582,516	582,516	-
Net Assets - December 31	$ 84,157	$ 751,201	$ 667,044

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 a lump sum severance payout upon retirement in accordance with the personnel policy. As of December 31, 2008, there are four employees entitled to this payout. The long-term severance liability at December 31, 2008, is $99,384, which is an increase of $5,343 for the two years ended December 31, 2008.

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. 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 plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public 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.

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. The retirement benefits are based on a member’s highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

4. Pension Plans

A. Plan Description (Continued)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public 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.

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. MCIS makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

The MCIS is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.75

The MCIS' contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund were:

	2008	2007	2006
Public Employees Retirement Fund	$ 50,277	$ 45,186	$ 41,384

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

Management and Compliance Section

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE TWO YEARS ENDED DECEMBER 31, 2008

I. FINANCIAL STATEMENT AUDIT--INTERNAL CONTROLS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-2 Internal Control/Segregation of Duties

The Minnesota Counties Information Systems' (MCIS) Board is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the MCIS and its staffing limits the internal control that the MCIS' Board can design and implement into the organization. The MCIS' Board should be aware that the segregation of duties is not adequate from an internal control point of view.

The MCIS' Board is responsible for 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.

The MCIS' Board has requested that the Office of the State Auditor prepare the financial statements and related notes. This arrangement is not unusual for an organization the size of the MCIS. This decision was based on the availability of the MCIS' staff and the cost benefit of using our expertise.

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.

II. OTHER FINDINGS AND RECOMMENDATIONS

OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

In the 2008 legislative session, the Legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both revocable and irrevocable OPEB trusts;

- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and

- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that the MCIS' Board will need to address in order to comply with the statement are:

- determine if employees are provided OPEB;

- if OPEB are being provided, the Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;

- if OPEB are being provided, and the Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;

- if an OPEB trust will be established, the Board will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and

- in order to determine annual costs and liabilities that need to be recognized, the Board will have to decide whether to hire an actuary.

GASB Statement 45 would be applicable to the MCIS for the year ended December 31, 2009.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Directors
Minnesota Counties Information Systems

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of the Minnesota Counties Information Systems (MCIS) as of and for the two years ended December 31, 2008, 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 our auditing procedures 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the MCIS' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the MCIS' financial statements that is more than inconsequential will not be prevented or detected by the MCIS' internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the MCIS' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above. However, we identified a deficiency described in the accompanying Schedule of Findings and Recommendations as item 96-2 to be a significant deficiency in internal control over financial reporting.

Minnesota Legal Compliance

We have audited the basic financial statements of the MCIS as of and for the two years ended December 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories except that we did not test compliance in public indebtedness because the MCIS does not have any bonded debt.

The results of our tests indicate that, for the items tested, the MCIS complied with the material terms and conditions of applicable legal provisions.

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

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