

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

OK HOUSE
ST. CLOUD, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

The mission of the State Auditor's Office 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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**OK HOUSE
ST. CLOUD, MINNESOTA**

For the Year Ended December 31, 2005



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

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**OK HOUSE
ST. CLOUD, MINNESOTA**

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**OK HOUSE
ST. CLOUD, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2005

<u>Board of Directors</u>	<u>Position</u>	<u>County or Judicial District</u>	<u>Term Expires</u>
Felix Schmiesing	Chair	Sherburne County	December 31, 2005
Dick Soyka	Vice Chair	Benton County	December 31, 2005
Kathi Ellis	Member	Kanabec County	December 31, 2005
Roger Neske	Member	Mille Lacs County	December 31, 2005
Vacant	Member	7th Judicial District	December 31, 2005
Michael Jesse	Member	10th Judicial District	December 31, 2005
<u>Director</u>			
Jan Friederichs			Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
OK House

We have audited the accompanying basic financial statements of the OK House as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the OK House's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the OK House as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 24, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**OK HOUSE
ST. CLOUD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005
(Unaudited)**

The OK House's Management's Discussion and Analysis (MD&A) provides an overview of the OK House's financial activities for the fiscal year ended December 31, 2005. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the OK House's financial statements.

The OK House is a joint powers enterprise operation of Benton, Kanabec, Mille Lacs, and Sherburne Counties, and the Seventh and Tenth Judicial Districts, created to operate a juvenile shelter care facility.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The OK House's basic financial statements consist of two parts: the financial statements and the notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The financial statements present the OK House's financial activities and consist of the following:

- The statement of net assets compares the assets and liabilities to give an overall view of the financial health of the OK House.
- The statement of revenues, expenses, and changes in net assets provides information on an aggregate view of the OK House's finances. All of the current year's revenues and expenses are taken into account regardless of when the cash was received or paid.
- The statement of cash flows provides sources and uses of cash for the OK House.

FINANCIAL ANALYSIS

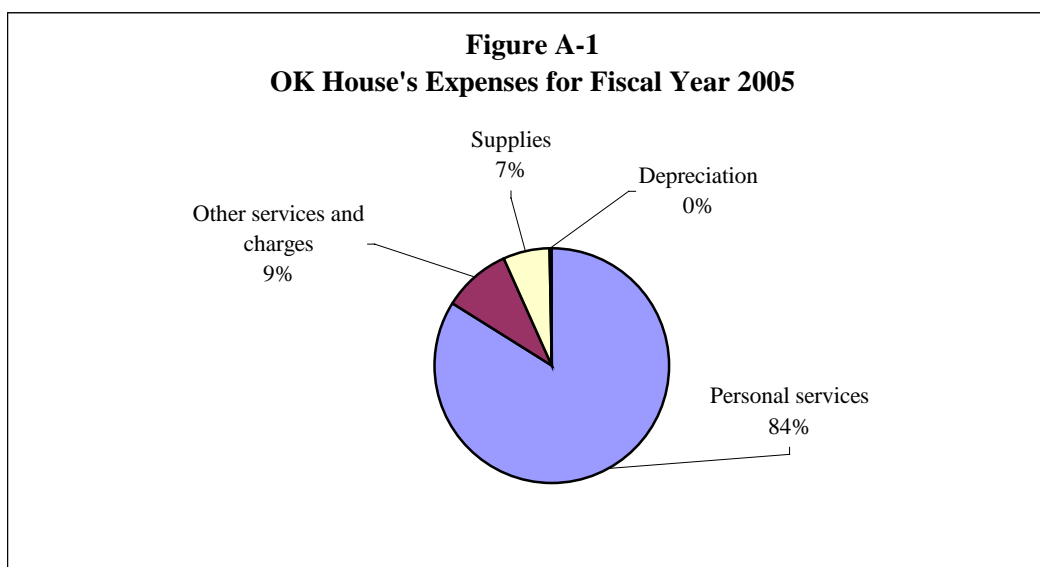
Net Assets				
	<u>2005</u>	<u>2004</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
Assets				
Current assets	\$ 62,514	\$ 41,639	\$ 20,875	50.13
Capital assets	485	1,365	(880)	(64.47)
Total Assets	\$ 62,999	\$ 43,004	\$ 19,995	46.50
Liabilities				
Current liabilities	\$ 12,618	\$ 63,407	\$ (50,789)	(80.10)
Noncurrent liabilities	15,209	11,036	4,173	37.81
Total Liabilities	\$ 27,827	\$ 74,443	\$ (46,616)	(62.62)
Net Assets				
Invested in capital assets	\$ 485	\$ 1,365	\$ (880)	(64.47)
Unrestricted	34,687	(32,804)	67,491	205.74
Total Net Assets	\$ 35,172	\$ (31,439)	\$ 66,611	211.87

The net assets of the OK House increased by 211.87 percent as a result of \$19,293 operating income and \$45,843 of transfers from member counties for 2005. The decrease in current liabilities was due to the OK House's repayment of a temporary loan from Sherburne County in the amount of \$50,651 from the prior year.

Changes in Net Assets				
	<u>2005</u>	<u>2004</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
Operating Revenues				
Charges for services	\$ 351,618	\$ 273,493	\$ 78,125	28.57
Operating Expenses				
Personal services	\$ 279,070	\$ 278,369	\$ 701	0.25
Other services and charges	30,652	24,438	6,214	25.43
Supplies	21,723	21,620	103	0.48
Depreciation	880	879	1	0.11
Total Expenses	\$ 332,325	\$ 325,306	\$ 7,019	2.16
Operating Income (Loss)	\$ 19,293	\$ (51,813)	\$ 71,106	137.24

	2005	2004	Increase/ (Decrease)	Percent (%) Change
Nonoperating Revenues (Expenses)				
Donations and contributions	\$ 1,475	\$ -	\$ 1,475	100.00
Transfers from member counties	45,843	-	45,843	100.00
 Total Nonoperating Revenues (Expenses)	 \$ 47,318	 \$ -	 \$ 47,318	 100.00
Change in Net Assets	\$ 66,611	\$ (51,813)	\$ 118,424	228.56

Operating revenues increased from 2004 to 2005 due mainly to a population increase of juveniles at the facility.



CAPITAL ASSETS

Capital Assets (Net of Depreciation)

	2005	2004	Increase/ (Decrease)	Percent (%) Change
Machinery, vehicles, furniture, and equipment	\$ 17,836	\$ 17,836	\$ -	-
Less: accumulated depreciation	(17,351)	(16,471)	(880)	5.34
 Total Capital Assets	 \$ 485	 \$ 1,365	 \$ (880)	 (64.47)

(Unaudited)

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CONTACTING THE OK HOUSE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the OK House's finances and to show the OK House's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director, Jan Friederichs, 1905 Minnesota Boulevard, St. Cloud, Minnesota 56304.

BASIC FINANCIAL STATEMENTS

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**OK HOUSE
ST. CLOUD, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

Assets

Current assets

Cash and investments	\$ 28,964
Accounts receivable	75
Due from other governments	<u>33,475</u>

Total current assets **\$ 62,514**

Capital assets

Machinery, vehicles, furniture, and equipment	\$ 17,836
Less: accumulated depreciation	<u>(17,351)</u>

Net capital assets **\$ 485**

Total Assets **\$ 62,999**

Liabilities

Current liabilities

Accounts payable	\$ 3,713
Salaries payable	5,682
Due to other governments	<u>3,223</u>

Total current liabilities **\$ 12,618**

Noncurrent liabilities

Compensated absences	<u>15,209</u>
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Total Liabilities **\$ 27,827**

Net Assets

Invested in capital assets	\$ 485
Unrestricted	<u>34,687</u>

Total Net Assets **\$ 35,172**

**OK HOUSE
ST. CLOUD, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Operating Revenues	
Charges for services	\$ 351,618
Operating Expenses	
Personal services	\$ 279,070
Other services and charges	30,652
Supplies	21,723
Depreciation	880
Total Operating Expenses	\$ 332,325
Operating Income (Loss)	\$ 19,293
Nonoperating Revenues (Expenses)	
Donations and contributions	\$ 1,475
Transfers from member counties	45,843
Total Nonoperating Revenues (Expenses)	\$ 47,318
Change in Net Assets	\$ 66,611
Net Assets - January 1	(31,439)
Net Assets - December 31	\$ 35,172

**OK HOUSE
ST. CLOUD, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers	\$ 357,068
Payments to suppliers	(53,386)
Payments to employees	<u>(274,099)</u>
Net cash provided by (used in) operating activities	\$ 29,583
Cash Flows from Noncapital Financing Activities	
Donations and contributions	\$ 1,475
Transfers from member counties	45,843
Loan proceeds	9,247
Repayment of loan	<u>(59,898)</u>
Net cash provided by (used in) noncapital financing activities	\$ (3,333)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 26,250
Cash and Cash Equivalents at January 1	<u>2,714</u>
Cash and Cash Equivalents at December 31	<u>\$ 28,964</u>
Reconciliation of operating income to net cash provided by (used in) operating activities	
Operating income (loss)	\$ 19,293
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	\$ 880
Changes in assets and liabilities	
Accounts receivable	(75)
Due from other governments	5,450
Accounts payable	(1,928)
Salaries payable	798
Due to other governments	992
Compensated absences	<u>4,173</u>
Total adjustments	\$ 10,290
Net Cash Provided by (Used in) Operating Activities	<u>\$ 29,583</u>

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**OK HOUSE
ST. CLOUD, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

1. Summary of Significant Accounting Policies

The OK House's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the OK House has the option to apply FASB pronouncements issued after that date, the OK House has chosen not to do so. The more significant accounting policies established in GAAP and used by the OK House are discussed below.

A. Financial Reporting Entity

The OK House is a joint powers agreement between Benton, Kanabec, Mille Lacs, and Sherburne Counties, and the Seventh and Tenth Judicial Districts, pursuant to Minn. Stat. § 260B.080. It is the intention of the counties and Judicial Districts to cooperate in a joint venture to establish and operate a juvenile shelter care facility.

The OK House is governed by a Board of Directors comprising six members. Each county appoints one member to the Board, and the Chief Judges of the Seventh and Tenth Judicial Districts each appoint a Judge to the Board. The members take office effective January 1 each year and serve for one-year terms.

The OK House is a separate entity independent of the governmental units which formed it. In accordance with generally accounting principles, the OK House's financial statements are not included in any member county's financial statements. Sherburne County accounts for all transactions of the OK House as a fiscal agent and reports the OK House as an agency fund in its financial statements. No single member retains control over the operations or has oversight responsibility for the OK House.

**OK HOUSE
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The accounts of the OK House are organized as an enterprise fund. The operations are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, equities, revenues, and expenses. The fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund.

C. Measurement Focus and Basis of Accounting

The OK House's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

D. Budgetary Data

The OK House adopts a line-item budget annually. This budget is approved by the OK House's Board of Directors.

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

For purposes of the statement of cash flows, cash and cash equivalents includes cash and pooled investments. The OK House's cash is pooled and invested with Sherburne County. Total cash and cash equivalents for the year ended December 31, 2005, were \$28,964.

a. Deposits

Cash transactions are administered by the Sherburne County Auditor/Treasurer. Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

**OK HOUSE
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the OK House’s deposits may not be returned to it. The OK House does not have a deposit policy for custodial credit risk. As of December 31, 2005, the OK House’s deposits were not exposed to custodial credit risk.

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the OK House:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

**OK HOUSE
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

b. Investments (Continued)

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

During the year ended December 31, 2005, the OK House had no investments.

2. Capital Assets

Capital assets, which include machinery, vehicles, furniture, and equipment, are reported in the financial statements. The OK House defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. These assets are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the OK House's capital assets range from five to seven years.

3. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation leave balances. Unused sick leave is not included as a liability as it will not be paid except in the event of illness-related absences. Compensated absences are accrued when incurred.

**OK HOUSE
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity (Continued)

4. 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 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 on All Funds

A. Assets

1. Receivables

Receivables as of December 31, 2005, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Due from other governments	\$ 33,475	\$ -
Accounts receivable	75	-
Total Receivables	\$ 33,550	\$ -

2. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Machinery, furniture, and equipment	\$ 17,836	\$ -	\$ -	\$ 17,836
Less: accumulated depreciation for				
Machinery, furniture, and equipment	(16,471)	(880)	-	(17,351)
Total Capital Assets Depreciated, net	\$ 1,365	\$ (880)	\$ -	\$ 485

**OK HOUSE
ST. CLOUD, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

Accounts	\$	3,713
Salaries		5,682
Due to other governments		3,223
Total Payables	\$	12,618

2. Short-Term Loan

During 2004 and 2005, the OK House borrowed from Sherburne County in order to meet its financial obligations. The OK House repaid the loan in 2005. Changes in short-term debt for the year ended December 31, 2005, were:

Balance - January 1	\$	50,651
Additional loans		9,247
Repayment		(59,898)
Balance - December 31	\$	-

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 11,036	\$ 4,173	\$ -	\$ 15,209	\$ -

Since there is very little turnover for employees who have vested, there are no compensated absences due within one year.

**OK HOUSE
ST. CLOUD, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities

3. Changes in Long-Term Liabilities (Continued)

Unused accumulated vacation is paid to employees upon termination. Unvested sick leave, valued at \$41,330 at December 31, 2005, is available to employees in the event of illness-related absences, and is not paid to them at termination.

3. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of the OK House are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). The 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.

The 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.

**OK HOUSE
ST. CLOUD, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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. 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.

The 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. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The OK House 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 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. The OK House is required to contribute the following percentages of annual covered payroll:

In 2005	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
In 2006	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00

**OK HOUSE
ST. CLOUD, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

OK House's contributions for the years ending December 31, 2005, 2004, and 2003, were \$9,698, \$9,697, and \$8,559, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Risk Management

OK House is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which OK House carries commercial insurance. To cover these risks, OK House is a member of both the Minnesota Counties Insurance Trust (MCIT) Workers' Compensation and Property and Casualty Divisions. For other risk, OK House carries commercial insurance.

There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 per claim in 2005 and \$390,000 in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess OK House in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and OK House pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess OK House in a method and amount to be determined by MCIT.

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**OK HOUSE
ST. CLOUD, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005**

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

Financial Condition (04-1)

As a result of the OK House's financial condition, it was questionable how long it would continue to be a going concern because of its inability, without assistance, to meet its obligations as they became due. The OK House's net assets had been decreasing over the past few years to a negative \$31,439 at December 31, 2004. The OK House also incurred operating losses of \$75,757 and \$51,813 for calendar years 2003 and 2004, respectively.

Resolution

The OK House developed a formal plan outlining how the OK House intended to improve its financial position. The net assets have increased to a positive \$35,172 due to increased placement of juveniles at the facility as well as transfers from member counties to cover the negative net assets from the prior year. The OK House had an operating income of \$19,293 for calendar year 2005.

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STATE AUDITOR

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REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Directors
OK House

We have audited the basic financial statements of the OK House as of and for the year ended December 31, 2005, and have issued our report thereon dated October 24, 2006.

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 five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except that we did not test for compliance in: (1) contracting and bidding, because the OK House did not enter into any contracts or make purchases requiring bids; (2) deposits and investments, because all of the OK House's cash and investments are in the custody of the Sherburne County Auditor/Treasurer; and (3) public indebtedness, because the OK House has no long-term debt other than compensated absences.

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

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

End of Fieldwork: October 24, 2006