

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

OK HOUSE
ST. CLOUD, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

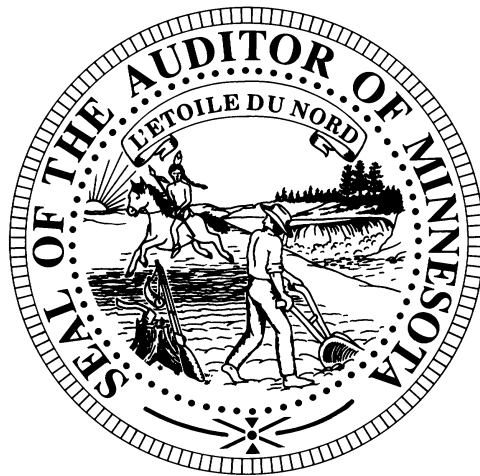
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**OK HOUSE
ST. CLOUD, MINNESOTA**

For the Year Ended December 31, 2004



**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, 2004

<u>Board of Directors</u>	<u>Position</u>	<u>County or Judicial District</u>	<u>Term Expires</u>
Roger Neske	Chair	Mille Lacs County	December 31, 2004
Felix Schmiesing	Vice Chair	Sherburne County	December 31, 2004
Dick Soyka	Member	Benton County	December 31, 2004
Kathi Ellis	Member	Kanabec County	December 31, 2004
Vacant	Member	7th Judicial District	December 31, 2004
Vacant	Member	10th Judicial District	December 31, 2004
<u>Director</u>			
Jan Friederichs			Indefinite

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PATRICIA ANDERSON
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, 2004, 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, 2004, 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.

As discussed in the notes to the financial statements, the OK House adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in format and content of the basic financial statements.

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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 4, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**OK HOUSE
ST. CLOUD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(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, 2004. 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

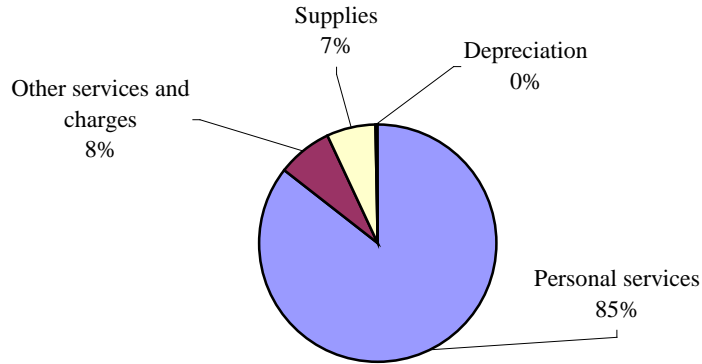
Net Assets				
	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change (%)</u>
Assets				
Current	\$ 41,639	\$ 45,558	\$ (3,919)	(8.60)
Capital assets, net	<u>1,365</u>	<u>2,244</u>	<u>(879)</u>	<u>(39.17)</u>
Total Assets	<u>\$ 43,004</u>	<u>\$ 47,802</u>	<u>\$ (4,798)</u>	<u>(10.04)</u>
Liabilities				
Current liabilities	\$ 63,407	\$ 16,997	\$ 46,410	273.05
Noncurrent liabilities	<u>11,036</u>	<u>10,431</u>	<u>605</u>	<u>5.80</u>
Total Liabilities	<u>\$ 74,443</u>	<u>\$ 27,428</u>	<u>\$ 47,015</u>	<u>171.41</u>
Net Assets				
Invested in capital assets, net of related debt	\$ 1,365	\$ 2,244	\$ (879)	(39.17)
Unrestricted	<u>(32,804)</u>	<u>18,130</u>	<u>(50,934)</u>	<u>(280.94)</u>
Total Net Assets	<u>\$ (31,439)</u>	<u>\$ 20,374</u>	<u>\$ (51,813)</u>	<u>(254.31)</u>

The net assets of the OK House decreased by 254.31 percent as a result of a \$51,813 operating loss for 2004. The increase in current liabilities was due to the OK House taking out a temporary loan from Sherburne County in the amount of \$50,651 to cover the operating loss.

Changes in Net Assets				
	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Operating Revenues				
Charges for services	<u>\$ 273,493</u>	<u>\$ 246,153</u>	<u>\$ 27,340</u>	<u>11.11</u>
Operating Expenses				
Personal services	\$ 278,369	\$ 268,170	\$ 10,199	3.80
Other services and charges	24,438	30,666	(6,228)	(20.31)
Supplies	21,620	22,194	(574)	(2.59)
Depreciation	<u>879</u>	<u>880</u>	<u>(1)</u>	<u>(0.11)</u>
Total Expenses	<u>\$ 325,306</u>	<u>\$ 321,910</u>	<u>\$ 3,396</u>	<u>1.05</u>
Change in Net Assets	<u>\$ (51,813)</u>	<u>\$ (75,757)</u>	<u>\$ 23,944</u>	<u>31.61</u>

Operating revenues increased from 2003 to 2004 due mainly to the increased per diem rates being charged to house juveniles at the facility.

**Figure A-1
Sources of OK House's Expenses for Fiscal Year 2004**



CAPITAL ASSETS

**Capital Assets
(Net of Depreciation)**

	<u>2004</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change (%)</u>
Machinery, vehicles, furniture, and equipment	\$ 17,836	\$ 17,836	\$ -	-
Less: accumulated depreciation	<u>(16,471)</u>	<u>(15,592)</u>	<u>(879)</u>	5.63
Total	<u>\$ 1,365</u>	<u>\$ 2,244</u>	<u>\$ (879)</u>	(39.17)

CONTACTING THE OK HOUSE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors 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.

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BASIC FINANCIAL STATEMENTS

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**OK HOUSE
ST. CLOUD, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

Assets

Current assets

Cash and investments	\$ 2,714
Due from other governments	38,925

Total current assets	\$ 41,639
-----------------------------	------------------

Capital assets

Machinery, vehicles, furniture, and equipment	\$ 17,836
Less: accumulated depreciation	(16,471)

Net capital assets	\$ 1,365
---------------------------	-----------------

Total Assets	\$ 43,004
---------------------	------------------

Liabilities

Current liabilities

Accounts payable	\$ 5,641
Salaries payable	4,884
Due to other governments	2,231
Loan payable	50,651

Total current liabilities	\$ 63,407
----------------------------------	------------------

Noncurrent liabilities

Compensated absences	11,036
----------------------	--------

Total Liabilities	\$ 74,443
--------------------------	------------------

Net Assets

Invested in capital assets	\$ 1,365
Unrestricted	(32,804)

Total Net Assets	\$ (31,439)
-------------------------	--------------------

**OK HOUSE
ST. CLOUD, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Operating Revenues	
Charges for services	\$ <u>273,493</u>
Operating Expenses	
Personal services	\$ 278,369
Other services and charges	24,438
Supplies	21,620
Depreciation	<u>879</u>
Total Operating Expenses	\$ <u>325,306</u>
Operating Income (Loss)	\$ (51,813)
Net Assets - January 1	<u>20,374</u>
Net Assets - December 31	<u><u>\$ (31,439)</u></u>

**OK HOUSE
ST. CLOUD, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers	\$ 251,784
Payments to suppliers	(42,868)
Payments to employees	<u>(285,195)</u>
Net cash provided by (used in) operating activities	\$ (76,279)
Cash Flows from Noncapital Financing Activities	
Temporary loan from member county	<u>50,651</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (25,628)
Cash and Cash Equivalents at January 1	<u>28,342</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 2,714</u></u>
 Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ (51,813)</u>
 Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	\$ 879
Changes in assets and liabilities	
Due from other governments	(21,709)
Accounts payable	969
Salaries payable	(7,431)
Due to other governments	2,221
Compensated absences	<u>605</u>
Total adjustments	<u>\$ (24,466)</u>
Net cash provided by (used in) operating activities	<u><u>\$ (76,279)</u></u>

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**OK HOUSE
ST. CLOUD, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The OK House's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. For the first time, the financial statements include a Management's Discussion and Analysis (MD&A) section providing an analysis of the OK House's overall financial position and results of operations.

This and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The OK House has elected to implement all provisions of the statement in the current year.

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.

**OK HOUSE
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

The OK House is a separate entity independent of the governmental units which formed it. In accordance with generally accounting principles, the OK House 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.

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 Board of Directors.

E. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The OK House's cash is pooled and invested with Sherburne County. The County obtains collateral to cover deposits in excess of insurance coverage.

For purposes of the statement of cash flows, cash and cash equivalents include cash and pooled investments.

**OK HOUSE
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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. Stewardship, Compliance, and Accountability

Deficit Net Assets

As of December 31, 2004, the OK House had a deficit net asset amount of \$31,439. This deficit is expected to be eliminated through future charges to users, which may include additional charges to the member counties.

**OK HOUSE
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Cash Deposits

Cash transactions are administered by the Sherburne County Auditor/Treasurer who is, according to Minn. Stat. ch. 118A, authorized to deposit cash in financial institutions designated by the County Board. Minnesota statutes require that all county deposits be covered by insurance, surety bond, or collateral.

2. Receivables

Receivables as of December 31, 2004, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Due from other governments	\$ 38,925	\$ -

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, 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	(15,592)	(879)	-	(16,471)
Total Capital Assets Depreciated, Net	\$ 2,244	\$ (879)	\$ -	\$ 1,365

**OK HOUSE
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	Total Payables
Accounts	\$ 5,641
Salaries	4,884
Due to other governments	2,231
Loans	50,651
Total Payables	\$ 63,407

2. Short-Term Loan

During 2004, the OK House borrowed \$50,651 from Sherburne County in order to meet its financial obligations. The OK House intends to repay this loan in 2005 by billing the counties and through increased placement of juveniles in its facilities.

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 10,431	\$ 605	\$ -	\$ 11,036	\$ -

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

Unused accumulated vacation is paid to employees upon termination. Unvested sick leave, valued at \$35,086 at December 31, 2004, is available to employees in the event of illness-related absences and is not paid to them at termination.

**OK HOUSE
ST. CLOUD, MINNESOTA**

4. 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 of service 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. 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.

**OK HOUSE
ST. CLOUD, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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 web at 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. The OK House is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

The OK House's contributions for the years ending December 31, 2004, 2003, and 2002, were \$9,697, \$8,559, and \$7,788, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Risk Management

The 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 the OK House carries commercial insurance. To cover these risks, the OK House is a member of both the Minnesota Counties Insurance Trust (MCIT) Workers' Compensation and Property and Casualty Divisions. For other risk, the 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.

**OK HOUSE
ST. CLOUD, MINNESOTA**

5. Risk Management (Continued)

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the OK House in a method and amount to be determined by the MCIT.

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

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**OK HOUSE
ST. CLOUD, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004**

MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

04-1 Financial Condition

The OK House's financial statements are prepared on the assumption that it will continue as a going concern in the future. As a result of the OK House's current financial condition, it is questionable how long it will continue to be a going concern because of its inability to meet its obligations as they become due without assistance.

The OK House's retained earnings/net assets have been decreasing the last couple of years from a positive \$96,131 at December 31, 2002, to a negative \$31,439 at December 31, 2004. Lower than anticipated placements of juveniles in the facility have resulted in significantly less revenues than budgeted. This has caused the OK House to incur operating losses of \$75,757 and \$51,813 for the calendar years 2003 and 2004, respectively.

We recommend the OK House develop a formal plan that would outline how the OK House intends to improve its current financial condition.

Client's Response:

According to Item #5, under the Financial Section of the OK House Joint Power's Agreement, an Annual Analysis will be conducted at a Board meeting. On April 7, 2005, at the OK House Joint Power's Board meeting, the OK House conducted an Annual Analysis. The Board approved the Annual Analysis, in the deficit amount of \$50,651.89, to be repaid to Sherburne County. The host counties would be billed accordingly and also, Stearns County.

At the July 14, 2005, OK House Joint Power's Board meeting, approval for repayment to Sherburne County was approved. The entire 2004 loan of \$50,651.89 was repaid. Repayment was made by Journal Entry in August 2005.

During the last half of 2004, the population began to increase. By the end of December 2004, the OK House had a positive cash balance. This has continued, for the most part, during 2005. At the beginning of 2005, we did still need to borrow \$9,000 plus dollars. This will be repaid in November 2005. The OK House Joint Power's Board approved repayment on November 10, 2005.



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

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, 2004, and have issued our report thereon dated October 4, 2005.

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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 4, 2005