# STATE OF MINNESOTA

## Office of the State Auditor

**Rebecca Otto**
**State Auditor**

---

**OK HOUSE**
**ST. CLOUD, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2006

# 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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

# OK HOUSE
# ST. CLOUD, MINNESOTA

## For the Year Ended December 31, 2006

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

This page was left blank intentionally.

**OK HOUSE**
**ST. CLOUD, MINNESOTA**

TABLE OF CONTENTS


| | Reference | Page |
|---|---|---|
| **Introductory Section** | | |
| Organization | | 1 |
| **Financial Section** | | |
| Independent Auditor’s Report | | 2 |
| Management’s Discussion and Analysis | | 3 |
| Basic Financial Statements | | |
| Statement of Net Assets | Exhibit 1 | 7 |
| Statement of Revenues, Expenses, and Changes in Net Assets | Exhibit 2 | 8 |
| Statement of Cash Flows | Exhibit 3 | 9 |
| Notes to the Financial Statements | | 10 |
| **Management and Compliance Section** | | |
| Schedule of Findings and Recommendations | | 19 |
| Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance | | 20 |

This page was left blank intentionally.

# Introductory Section

This page was left blank intentionally.

**OK HOUSE**
**ST. CLOUD, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2006

| Board of Directors | Position | County or Judicial District | Term Expires |
|---|---|---|---|
| Kathi Ellis | Vice Chair | Kanabec County | December 31, 2006 |
| Roger Neske | Member | Mille Lacs County | December 31, 2006 |
| Dick Soyka | Member | Benton County | December 31, 2006 |
| John Riebel | Chair | Sherburne County | December 31, 2006 |
| Vacant | Member | 7th Judicial District | December 31, 2006 |
| Vacant | Member | 10th Judicial District | December 31, 2006 |

| Director | | | |
|---|---|---|---|
| Jan Friederichs | | | Indefinite |

This page was left blank intentionally.

# Financial Section

This page was left blank intentionally.

**STATE OF MINNESOTA**
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

## 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, 2006, 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, 2006, 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 principally 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

December 19, 2007

This page was left blank intentionally.

# MANAGEMENT’S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**OK HOUSE**
**ST. CLOUD, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(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, 2006. 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 Board'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 different views of 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**

| | 2006 | 2005 | Increase/ (Decrease) | Percent (%) Change |
|---|---|---|---|---|
| Assets | | | | |
| Current | $ 30,051 | $ 62,514 | $ (32,463) | (51.93) |
| Capital assets | 2,589 | 485 | 2,104 | 433.81 |
| Total Assets | $ 32,640 | $ 62,999 | $ (30,359) | (48.19) |
| Liabilities | | | | |
| Current liabilities | $ 11,861 | $ 12,618 | $ (757) | (6.00) |
| Noncurrent liabilities | 15,119 | 15,209 | (90) | (0.59) |
| Total Liabilities | $ 26,980 | $ 27,827 | $ (847) | (3.04) |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | $ 2,589 | $ 485 | $ 2,104 | 433.81 |
| Unrestricted | 3,071 | 34,687 | (31,616) | (91.15) |
| Total Net Assets | $ 5,660 | $ 35,172 | $ (29,512) | (83.91) |

The net assets of the OK House decreased by 83.91 percent as a result of a $29,512 operating loss. The decrease in cash was due to a worsening financial condition caused by decreasing revenues. The increase in capital assets was due to the purchase of a vehicle.

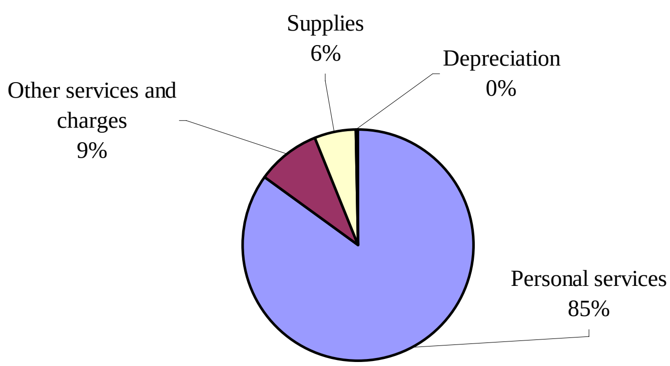
**Changes in Net Assets**

| | 2006 | 2005 | Increase/ (Decrease) | Percent (%) Change |
|---|---|---|---|---|
| Operating Revenues | | | | |
| Charges for services | $ 304,113 | $ 351,618 | $ (47,505) | (13.51) |
| Operating Expenses | | | | |
| Personal services | $ 283,420 | $ 279,070 | $ 4,350 | 1.56 |
| Other services and charges | 30,185 | 30,652 | (467) | (1.52) |
| Supplies | 19,124 | 21,723 | (2,599) | (11.96) |
| Depreciation | 896 | 880 | 16 | 1.82 |
| Total Expenses | $ 333,625 | $ 332,325 | $ 1,300 | 0.39 |
| Operating Income (Loss) | $ (29,512) | $ 19,293 | $ (48,805) | (252.97) |

| | 2006 | 2005 | 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 | $ (29,512) | $ 66,611 | $ (96,123) | (144.30) |

Operating revenues decreased from 2005 to 2006 due mainly to a population decrease of juveniles at the facility.

**Figure A-1**
**Sources of OK House's Expenses for Fiscal Year 2006**




## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets**
**(Net of Depreciation)**

| | 2006 | 2005 | Increase/ Decrease | Percent (%) Change |
|---|---|---|---|---|
| Machinery, vehicles, furniture, and equipment | $ 20,836 | $ 17,836 | $ 3,000 | 16.82 |
| Less: accumulated depreciation | (18,247) | (17,351) | (896) | 5.16 |
| Total Capital Assets | $ 2,589 | $ 485 | $ 2,104 | 433.81 |

## 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

This page was left blank intentionally.

**OK HOUSE**
**ST. CLOUD, MINNESOTA**

***EXHIBIT 1***

**STATEMENT OF NET ASSETS**
**DECEMBER 31, 2006**

| | | |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Due from other governments | **$** | **30,051** |
| **Capital assets** | | |
| Machinery, vehicles, furniture, and equipment | $ | 20,836 |
| Less: accumulated depreciation | | (18,247) |
| **Net capital assets** | **$** | **2,589** |
| **Total Assets** | **$** | **32,640** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable | $ | 2,345 |
| Salaries payable | | 5,319 |
| Due to other governments | | 2,269 |
| Loan payable | | 1,928 |
| **Total current liabilities** | **$** | **11,861** |
| **Noncurrent liabilities** | | |
| Compensated absences | | 15,119 |
| **Total Liabilities** | **$** | **26,980** |
| **Net Assets** | | |
| Invested in capital assets | $ | 2,589 |
| Unrestricted | | 3,071 |
| **Total Net Assets** | **$** | **5,660** |

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

# OK HOUSE
# ST. CLOUD, MINNESOTA

*EXHIBIT 2*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**
**FOR THE YEAR ENDED DECEMBER 31, 2006**

| | | |
|---|---|---|
| **Operating Revenues** | | |
| Charges for services | **$** | **304,113** |
| **Operating Expenses** | | |
| Personal services | $ | 283,420 |
| Other services and charges | | 30,185 |
| Supplies | | 19,124 |
| Depreciation | | 896 |
| **Total Operating Expenses** | **$** | **333,625** |
| **Change in Net Assets** | **$** | **(29,512)** |
| **Net Assets - January 1** | | **35,172** |
| **Net Assets - December 31** | **$** | **5,660** |

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

**OK HOUSE**
**ST. CLOUD, MINNESOTA**

***EXHIBIT 3***

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2006**
**Increase (Decrease) in Cash and Cash Equivalents**

| | | |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Receipts from customers | $ | 307,537 |
| Payments to suppliers | | (51,556) |
| Payments to employees | | (283,873) |
| **Net cash provided by (used in) operating activities** | **$** | **(27,892)** |
| **Cash Flows from Noncapital Financing Activities** | | |
| Loan proceeds | **$** | 3,603 |
| Repayment of loan | | (1,675) |
| **Net cash provided by (used in) noncapital financing activities** | **$** | **1,928** |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Acquisition of capital assets | **$** | **(3,000)** |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **$** | **(28,964)** |
| **Cash and Cash Equivalents at January 1** | | **28,964** |
| **Cash and Cash Equivalents at December 31** | **$** | **-** |
| **Reconciliation of operating income (loss) to net cash provided by (used in) operating activities** | | |
| **Operating income (loss)** | **$** | **(29,512)** |
| **Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities** | | |
| Depreciation | $ | 896 |
| Changes in assets and liabilities | | |
| Accounts receivable | | 75 |
| Due from other governments | | 3,424 |
| Accounts payable | | (1,368) |
| Salaries payable | | (363) |
| Due to other governments | | (954) |
| Compensated absences | | (90) |
| **Total adjustments** | **$** | **1,620** |
| **Net Cash Provided by (Used in) Operating Activities** | **$** | **(27,892)** |

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

This page was left blank intentionally.

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, 2006. 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 accepted 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.

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, 2006, were $0.

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.

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 standby 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, 2006, 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;

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, 2006, 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.

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, 2006, are as follows:

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|---|---|---|
| Due from other governments | $ 30,051 | $ - |

2. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Capital assets depreciated<br>Machinery, furniture, and equipment | $ 17,836 | $ 3,000 | $ - | $ 20,836 |
| Less: accumulated depreciation for<br>Machinery, furniture, and equipment | (17,351) | (896) | - | (18,247) |
| Total Capital Assets Depreciated, Net | $ 485 | $ 2,104 | $ - | $ 2,589 |

2. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

| | | |
|---|---|---|
| Accounts | $ | 2,345 |
| Salaries | | 5,319 |
| Due to other governments | | 2,269 |
| Loans | | 1,928 |
| Total Payables | $ | 11,861 |

2. Short-Term Loan

During 2006, the OK House borrowed from Sherburne County in order to meet its financial obligations. The OK House repaid a portion of the loan in 2006. Changes in short-term debt for the year ended December 31, 2006, were:

| | | |
|---|---|---|
| Balance - January 1 | $ | - |
| Additional loans | | 3,603 |
| Repayment | | (1,675) |
| Balance - December 31 | $ | 1,928 |

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 15,209 | $ - | $ 90 | $ 15,119 | $ - |

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

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 $40,800 at December 31, 2006, 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.

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 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. The OK House is required to contribute the following percentages of annual covered payroll:

| | |
|---|---|
| In 2006 | |
| Public Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 6.00 |
| | |
| In 2007 | |
| Public Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 6.25 |

3. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

OK House's contributions for the years ending December 31, 2006, 2005, and 2004, were $10,396, $9,698, and $9,697, 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 $390,000 per claim in 2006 and $400,000 in 2007. 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.

This page was left blank intentionally.

**Management and Compliance Section**

This page was left blank intentionally.

**OK HOUSE**
**ST. CLOUD, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006

## INTERNAL CONTROL OVER FINANCIAL REPORTING

ITEM ARISING THIS YEAR

06-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes 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 OK House and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management 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.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the OK House. This decision was based on availability of the OK House's staff and the cost benefit of using our expertise.

During our audit, we proposed a material adjustment to convert the OK House's financial records to the financial statements as reported. The adjustment reflected the liability for compensated absences.

We recommend the Board of Directors be mindful that limited staffing causes inherent risks in safeguarding the OK House's assets and the proper reporting of its financial activity. We recommend the Board of Directors continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

This page was left blank intentionally.

**STATE OF MINNESOTA**
**OFFICE OF THE STATE AUDITOR**

REBECCA OTTO
STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

# REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND 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, 2006, and have issued our report thereon dated December 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the OK House's 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 OK House's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the OK House's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 OK House's 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

OK House's financial statements that is more than inconsequential will not be prevented or detected by the OK House's internal control over financial reporting. We considered the deficiency described in the accompanying Schedule of Findings and Recommendations as item 06-1 to be a significant deficiency in 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 OK House's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above is considered to be a material weakness.

Minnesota Legal Compliance

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, management, and others within the OK House and is not intended to be, and should not be, used by anyone other than those specified parties.

| | |
|---|---|
| */s/Rebecca Otto* | */s/Greg Hierlinger* |
| REBECCA OTTO<br>STATE AUDITOR | GREG HIERLINGER, CPA<br>DEPUTY STATE AUDITOR |

December 19, 2007