

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

PUTTING ALL COMMUNITIES TOGETHER
4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

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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**PUTTING ALL COMMUNITIES TOGETHER
4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

Year Ended December 31, 2005



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

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**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

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**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2005

	<u>Position</u>	<u>Agency</u>	<u>Term Expires</u>
Executive Board			
Rebecca Romosz	Chair	Parent Representative	2006
Arliss Stenger	Vice Chair	Parent Representative	2007
Carmen Clementson	Member	Kandiyohi County	2005
Gerald Brustuen	Member	Renville County	2006
Tammy Thompson	Member	Meeker County	2005
Jill Bruns	Member	Renville County	2005
Mary Potter	Member	Yellow Medicine County	2006
Loren Hacker	Member	Canby Public Schools	2007
Eugene Bonynge	Member	Woodland Centers	2007
Fiscal Supervisor			
Sheila Ellingboe			
Director			
Toni Braness			

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STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Executive Board
Putting All Communities Together 4 Families Collaborative

We have audited the accompanying financial statements of the governmental activities and the General Fund of Putting All Communities Together 4 Families Collaborative (PACT 4) as of and for the year ended December 31, 2005, which collectively comprise PACT 4's basic financial statements as listed in the table of contents. These financial statements are the responsibility of PACT 4's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of PACT 4 as of December 31, 2005, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, listed in the table of contents, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 8, 2006, on our consideration of PACT 4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 8, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

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

This section of the annual financial report presents our Management's Discussion and Analysis (MD&A) of Putting All Communities Together 4 Families Collaborative's (PACT 4) financial performance during the fiscal year that ended December 31, 2005. The MD&A is Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, issued in June 1999.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2005 fiscal year include the following:

- Total net assets are \$11,010,198, of which \$50,804 is invested in capital assets.
- The net assets increased by \$1,785,230 for the year ended December 31, 2005.
- PACT 4 received two federally funded grants totaling \$1,341,257 to support activities. Both of these projects will continue into 2006.
- PACT 4 received two state funded grants: (1) Restorative Justice for \$20,015 from the Minnesota Department of Corrections, and (2) Early Risers from the Minnesota Department of Human Services Chemical Health Division for \$264,995. Both of these projects will continue into 2006. Early Risers' end date was June 30, 2006.
- Government-wide net assets increased by 19.35 percent from the prior year.
- Overall government-wide revenues totaled \$6,542,485 and were \$1,785,230 more than expenses.
- The General Fund's fund balance increased \$1,055,215, or 11.54 percent, from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of three parts--Independent Auditor's Report; required supplementary information, which includes the MD&A (this section); and the basic financial statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

This MD&A is intended to serve as an introduction to the basic financial statements. PACT 4's basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, a budgetary comparison statement, and notes to the financial statements. The MD&A is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The first column of each of the first two statements presents governmental fund data. These columns focus on how money flows in and out and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. These columns provide a detailed short-term view of PACT 4's operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. We reconcile the relationship (or differences) between governmental funds and governmental activities (reported in the third column) in the center column of each statement.

The third column of each of the first two statements presents the governmental activities Statement of Net Assets and the Statement of Activities, which provide information about the activities of PACT 4 as a whole and present a longer-term view of finances. These columns tell how these services were financed in the short term as well as what remains for future spending. These columns include *all* of the assets and liabilities of PACT 4 including long-term activity. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

FINANCIAL ANALYSIS OF PACT 4 AS A WHOLE

Net Assets - the net assets were \$11,010,198 on December 31, 2005.

	<u>2005</u>	<u>2004</u>	<u>Percent Change (%)</u>
Assets			
Cash and investments	\$ 9,999,055	\$ 7,897,654	26.7
Accounts receivable	58,129	6,994	731.1
Due from other governments	1,274,362	1,460,138	(12.7)
Prepaid items	-	12,225	(100.0)
Capital assets	<u>50,804</u>	<u>26,926</u>	88.7
Total Assets	<u>\$ 11,382,350</u>	<u>\$ 9,403,937</u>	21.0

	2005	2004	Percent Change (%)
Liabilities			
Accounts payable	\$ 77,592	\$ 31,184	148.8
Salaries payable	43,941	46,652	(5.8)
Accrued payroll taxes	4,741	5,890	(19.5)
Due to other governments	57,472	3,139	1,730.9
Deferred revenue - unearned	-	6,623	(100.0)
Long-term liabilities			
Due within one year	47,102	21,370	120.4
Due after one year	141,304	64,111	120.4
Total Liabilities	\$ 372,152	\$ 178,969	107.9
Net Assets			
Invested in capital assets	\$ 50,804	\$ 26,926	88.7
Unrestricted	10,959,394	9,198,042	19.2
Total Net Assets	\$ 11,010,198	\$ 9,224,968	19.4

Table 2
Change in Net Assets
Governmental Activities for the
Fiscal Year Ended December 31

	2005	2004	Percent Change (%)
Revenues			
Program revenues			
Intergovernmental	\$ 5,711,123	\$ 7,154,161	(20.2)
Charges for services	442,775	284,628	55.6
General revenues			
Gifts and contributions	129,371	178,570	(27.6)
Interest on investments	259,216	87,056	197.8
Miscellaneous	-	4,161	(100.0)
Total Revenues	\$ 6,542,485	\$ 7,708,576	(15.1)
Expenses			
Program expenses			
General government	4,757,255	4,564,093	4.2
Increase in Net Assets	\$ 1,785,230	\$ 3,144,483	(43.2)
Beginning Net Assets	9,224,968	6,080,485	51.7
Ending Net Assets	\$ 11,010,198	\$ 9,224,968	19.4

CAPITAL ASSETS

As of December 31, 2005, PACT 4 had \$50,804 invested in capital assets. (See Table 3 below.) This amount represents a net increase (including additions and deductions) of \$23,878, or 88.68 percent, from last year.

Table 3
Capital Assets at Year-End

	<u>2005</u>	<u>2004</u>
Equipment	\$ 148,594	\$ 118,616
Less: accumulated depreciation	<u>(97,790)</u>	<u>(91,690)</u>
Net Capital Assets	<u>\$ 50,804</u>	<u>\$ 26,926</u>

FINANCIAL ANALYSIS OF PACT 4 AT THE FUND LEVEL

The financial performance of PACT 4 as a whole is reflected in its governmental fund as well. The General Fund, which is the only governmental fund of PACT 4, includes the primary operations of providing services that enhance the life circumstances of children and their families. As PACT 4 completed the year, its governmental fund (as presented in the first column of the statements) reported a fund balance of \$10,196,845, which is above last year's fund balance of \$9,141,630, an increase of 11.54 percent. PACT 4 has an annual adopted budget. This budget may be amended or modified as additional grants are received. A comparison of budgeted revenues and expenditures to actual is presented in the financial statements (Exhibit 3).

FACTORS BEARING ON THE FUTURE AND NEXT YEAR'S GRANT BUDGETS AND RATES

PACT 4 is dependent on various state and federal funding for a significant portion of its revenue.

- Recent experience demonstrates that there may be significant decreases in revenue over 2006 and are expected to continue into 2007 in LCTS (Local Collaborative Time Study) dollars received by local collaboratives.
- PACT 4 Families Collaborative will be impacted by the reduction in federal revenue as the last of its federal grants, PRIDE-4, is anticipated to end September 31, 2006. This alone will reduce future PACT 4 budgets.

PACT 4's Executive Board, current management, and accounting staff are working to tighten controls surrounding general accounting practices. Specific plans are being developed to better identify how flexible funds for needy families and stipends to parents and youth are distributed.

CONTACTING PACT 4'S FINANCIAL MANAGEMENT

This financial report is designed to give a general overview of PACT 4's finances and to show PACT 4's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact us at: PACT 4, Kandiyohi County Health and Human Services Building, 2200 - 23rd Street N.E., Willmar, Minnesota 56201.

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BASIC FINANCIAL STATEMENTS

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**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2005**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and investments	\$ 9,999,055	\$ -	\$ 9,999,055
Accounts receivable	58,129	-	58,129
Due from other governments	1,274,362	-	1,274,362
Depreciable capital assets - net	-	50,804	50,804
Total Assets	\$ 11,331,546	\$ 50,804	\$ 11,382,350
<u>Liabilities and Fund Balance/Net Assets</u>			
<u>Liabilities</u>			
Accounts payable	\$ 77,592	\$ -	\$ 77,592
Salaries payable	43,941	-	43,941
Accrued payroll taxes	4,741	-	4,741
Due to other governments	57,472	-	57,472
Deferred revenue - unavailable	950,955	(950,955)	-
Long-term liabilities			
Due within one year	-	47,102	47,102
Due in more than one year	-	141,304	141,304
Total Liabilities	\$ 1,134,701	\$ (762,549)	\$ 372,152
<u>Fund Balance</u>			
Reserved for encumbrances	\$ 398,332	\$ (398,332)	
Unreserved			
Undesignated	9,798,513	(9,798,513)	
Total Fund Balance	\$ 10,196,845	\$ (10,196,845)	
Total Liabilities and Fund Balance	\$ 11,331,546		
<u>Net Assets</u>			
Invested in capital assets		\$ 50,804	\$ 50,804
Unrestricted		10,959,394	10,959,394
Total Net Assets		\$ 11,010,198	\$ 11,010,198

**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

EXHIBIT 1
(Continued)

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2005**

Reconciliation of the Governmental Fund Balance to Net Assets

Fund Balance - General Fund	\$ 10,196,845
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	50,804
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund.	950,955
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental fund.	<u>(188,406)</u>
Net Assets - Governmental Activities	<u><u>\$ 11,010,198</u></u>

**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental revenue	\$ 4,902,061	\$ 809,062	\$ 5,711,123
Interest on investments	259,216	-	259,216
Gifts and contributions	129,371	-	129,371
Charges for services	442,775	-	442,775
	\$ 5,733,423	\$ 809,062	\$ 6,542,485
Expenditures/Expenses			
Current			
General government			
General	\$ 1,221,563	\$ 73,863	\$ 1,295,426
Local collaborative time study	1,827,445	(1,931)	1,825,514
Restorative justice	20,015	-	20,015
Mental health grant for children	899,990	(16,424)	883,566
Mental health grant for young adults	441,267	(386)	440,881
Early Risers	264,995	-	264,995
SHARE Safe Schools Healthy Students	2,734	-	2,734
Other general government	199	-	199
Depreciation	-	23,925	23,925
	\$ 4,678,208	\$ 79,047	\$ 4,757,255
Net Change in Fund Balance/Net Assets	\$ 1,055,215	\$ 730,015	\$ 1,785,230
Fund Balance/Net Assets - January 1	9,141,630	83,338	9,224,968
Fund Balance/Net Assets - December 31	\$ 10,196,845	\$ 813,353	\$ 11,010,198

Reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities

Net Change in Fund Balance \$ 1,055,215

Under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues is the increase (decrease) in revenues deferred as unavailable. PACT 4 had \$141,893 of deferred revenues in 2004. 809,062

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays reported as expenditures	\$ 47,803	
Current year depreciation	(23,925)	23,878

Increases in compensated absences payable increase expenses but do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund operating statement. (102,925)

Change in Net Assets of Governmental Activities **\$ 1,785,230**

**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

EXHIBIT 3

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 6,002,504	\$ 6,002,504	\$ 4,902,061	\$ (1,100,443)
Interest on investments	75,000	75,000	259,216	184,216
Gifts and contributions	100,000	100,000	129,371	29,371
Charges for services	172,000	172,000	442,775	270,775
Miscellaneous	25,000	25,000	-	(25,000)
Total Revenues	\$ 6,374,504	\$ 6,374,504	\$ 5,733,423	\$ (641,081)
Expenditures				
Current				
General government				
General	\$ 4,185,541	\$ 4,185,541	\$ 1,221,563	\$ 2,963,978
Local collaborative time study	2,289,298	2,289,298	1,827,445	461,853
Restorative justice	-	-	20,015	(20,015)
Mental health grant for children	-	-	899,990	(899,990)
Mental health grant for young adults	-	-	441,267	(441,267)
Early Risers	-	-	264,995	(264,995)
SHARE Safe Schools Healthy Students	-	-	2,734	(2,734)
Other general government	-	-	199	(199)
Total Expenditures	\$ 6,474,839	\$ 6,474,839	\$ 4,678,208	\$ 1,796,631
Net Change in Fund Balance	\$ (100,335)	\$ (100,335)	\$ 1,055,215	\$ 1,155,550
Fund Balance - January 1	9,141,630	9,141,630	9,141,630	-
Fund Balance - December 31	\$ 9,041,295	\$ 9,041,295	\$ 10,196,845	\$ 1,155,550

**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

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

1. Summary of Significant Accounting Policies

Putting All Communities Together 4 Families Collaborative (PACT 4) 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 issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by PACT 4 are discussed below.

A. Financial Reporting Entity

PACT 4 was established in 1996 by a joint powers agreement among Kandiyohi, Meeker, Renville, and Yellow Medicine Counties. The agreement was established to provide coordinated services to children and families. A county may withdraw from PACT 4 by giving a 30-day written notice to PACT 4; however, the contribution will remain in the integrated fund for the implementation period. In the event of termination, any property acquired as a result of the agreement and any surplus monies on hand shall be distributed to the parties of this agreement in proportion to their contributions.

Management of PACT 4 is vested in an Executive Board composed of nine members representing all counties. The Board includes an administrative representative of social services, public health services, community corrections, school districts, two parents (one parent of a child diagnosed with a serious emotional disturbance), and three members at large, one of whom is of a mental health background. The Board appoints a fiscal agent to handle and be responsible for safekeeping the funds of PACT 4.

Kandiyohi County Human Services acts as fiscal agent for PACT 4 through December 31, 2005.

B. Basic Financial Statements

The financial statements combine fund level financial statements (General Fund column) and government-wide financial statements (governmental activities column). These statements include the financial activities of PACT 4 overall.

**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

The government-wide columns are reported on a full accrual, economic resource basis that recognizes all long-term assets and receivables as well as long-term debt and obligations. PACT 4's net assets are reported in two parts: invested in capital assets and unrestricted net assets.

PACT 4 reports one governmental fund. The General Fund is PACT 4's primary operating fund. It accounts for all financial resources of PACT 4.

C. Measurement Focus and Basis of Accounting

The governmental activities columns 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. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund columns (General Fund) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. PACT 4 considers all revenues as available if collected within 60 days after the end of the current period. Intergovernmental revenues and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred. When both restricted and unrestricted resources are available for use, it is PACT 4's policy to use restricted resources first and then unrestricted resources as needed.

D. Reconciliation of Government-Wide and Fund Financial Statements

The financial statements include an adjustments column to reconcile the General Fund to the governmental activities.

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balance of substantially all funds are on deposit with Kandiyohi County and reported at fair value at December 31, 2005. Interest earnings for 2005 were \$259,216.

**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

PACT 4 has made arrangements to begin investing in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of PACT 4's position in the pool will be the same as the value of the pool shares.

2. Due From/To Other Governments

Amounts represent receivables and payables related to grants from other federal, state, and local governments for program administration.

3. Capital Assets

Capital assets, which consist of equipment, are reported in the governmental activities column in the statement of net assets. Capital assets are defined by PACT 4 as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Equipment of PACT 4 is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Machinery, furniture, and equipment	3 to 5

**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination pay and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the governmental activities.

5. Deferred Revenue

PACT 4's fund and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

7. Budgetary Information

Budgets are adopted on a basis consistent with generally accepted accounting principles. The Executive Board adopts estimated revenue and expenditure budgets for the General Fund.

The budget may be amended or modified at any time by the Executive Board. Comparisons of the estimated revenues and expenditures to actual are presented in the financial statements.

**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

F. Assets, Liabilities, and Net Assets or Equity

7. Budgetary Information (Continued)

Encumbrance accounting, under which commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used in the General Fund. Encumbrances outstanding at year-end are reported as reserved fund balance since they do not constitute expenditures or liabilities. Encumbrances lapse at year-end and are rebudgeted the following year.

2. Detailed Notes on All Funds

A. Assets

1. Cash Deposits

PACT 4's total cash is reported as \$9,999,055; of this balance, \$4,999,055 is on deposit with Kandiyohi County. The remaining amount is in transit with the MAGIC Fund.

Through December 31, 2005, cash transactions were administered by the Kandiyohi County Treasurer who is authorized to deposit cash in financial institutions designated by the County Board pursuant to Minn. Stat. § 118A.02. Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of investments available to the County. Minnesota statutes require that all county deposits be covered by insurance, surety bond, or collateral.

2. Receivables

PACT 4 did not have any receivables scheduled to be collected beyond one year as of December 31, 2005.

**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated Machinery, furniture, and equipment	\$ 118,616	\$ 47,803	\$ 17,825	\$ 148,594
Less: accumulated depreciation for Machinery, furniture, and equipment	<u>(91,690)</u>	<u>(23,925)</u>	<u>(17,825)</u>	<u>(97,790)</u>
Total Capital Assets, Net	<u>\$ 26,926</u>	<u>\$ 23,878</u>	<u>\$ -</u>	<u>\$ 50,804</u>

Depreciation expense of \$23,925 was charged to PACT 4's general government function.

B. Liabilities

1. Deferred Revenue

Deferred revenue of \$950,955, in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period, is reported in the General Fund.

2. Operating Leases

PACT 4 is committed under an operating lease for the rental of facilities through May 1, 2008. From that point forward, PACT 4 will maintain the space on a month-to-month basis based on amounts from the previous agreement. PACT 4 entered into vehicle leases with the State of Minnesota Department of Administration - Travel Management Division for two vehicles in 2001 and an additional two vehicles in 2002. The terms of the vehicle leases are eight years, or 75,000 miles, whichever comes first. PACT 4 pays per mile in addition to a base monthly fee. The mileage rate and base fee are subject to periodic increases as

**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities

2. Operating Leases (Continued)

Travel Management deems necessary. One vehicle was returned in February 2004, and two more vehicles were returned in January 2005. As of year-end 2005, PACT 4 had only one vehicle leased, which was returned to Travel Management on February 8, 2006.

Lease expenditures for 2005 were:

Facilities	\$	57,061
Vehicles		6,933
Total	\$	63,994

The future minimum lease payments under these leases are as follows:

	Facilities	Vehicles	Total
2006	\$ 58,680	\$ 524	\$ 59,204
2007	58,680	-	58,680
2008	19,560	-	19,560
Total	\$ 136,920	\$ 524	\$ 137,444

3. Vacation and Sick Leave

Employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 28 days per year. Sick leave accrual is 12 to 18 days per year. PACT 4 pays unused accumulated vacation and vested sick leave to employees upon termination. Sick leave is available to employees in case of illness-related absences. Unvested sick leave is not paid to employees at termination. Unused accumulated vacation, vested sick leave, and sick leave expected to vest are accrued as compensated absences. Unvested sick leave not expected to vest, valued at \$184,940 at December 31, 2005, is not reported in the financial statements.

**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities (Continued)

4. Long-Term Debt - Compensated Absences

Changes in PACT 4's compensated absences balances for the year ended December 31, 2005, are:

	Payable January 1	Additions	Deductions	Payable December 31
Vacation leave	\$ 77,407	\$ 112,579	\$ 17,728	\$ 172,258
Sick leave	8,074	16,148	8,074	16,148
Total	\$ 85,481	\$ 128,727	\$ 25,802	\$ 188,406

Compensated absences estimated to be paid within one year are \$47,102.

3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of PACT 4 are covered by defined benefit pension 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

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3. Pension Plans

A. Plan Description (Continued)

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. Under 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.

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. PACT 4 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 were required to contribute 9.10 and

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WILLMAR, MINNESOTA**

3. Pension Plans

B. Funding Policy (Continued)

5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.5 percent. PACT 4 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

PACT 4's contributions for the years ending December 31, 2005, 2004, and 2003, were \$79,764, \$69,774, and \$88,600, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Summary of Significant Contingencies and Other Items

A. Risk Management

PACT 4 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. PACT 4 has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to protect against liabilities from workers' compensation and property and casualty. PACT 4 purchases commercial insurance for other risks of loss. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three 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 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess PACT 4 in a method and amount to be determined by MCIT.

**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Property and Casualty Division of MCIT is self-sustaining, and PACT 4 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 PACT 4 in a method and amount to be determined by MCIT.

B. Claims and Litigation

PACT 4, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. PACT 4's attorney estimates that the potential claims against PACT 4 resulting from such litigation not covered by insurance would not materially affect the financial statements of PACT 4.

C. Change in Fiscal Agent

As of December 31, 2005, Kandiyohi County is no longer the fiscal agent for PACT 4. Renville County became the new fiscal host effective January 1, 2006. The role of the fiscal agent has been minimized along with this change. Beginning in 2006, PACT 4 is responsible for performing its own depositing and investing activities, as well as handling its receipts and processing its disbursements. Kandiyohi County previously handled or assisted in these processes. Additionally, PACT 4 assumed the responsibility of independently carrying the health and dental insurance for its employees rather than being enrolled through Kandiyohi County.

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**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

Schedule 1

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Putting All Communities Together 4 Families Collaborative (PACT 4).
- B. Reportable conditions in internal control were disclosed by the audit of financial statements of PACT 4 and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." One of the reportable conditions is a material weakness.
- C. No instances of noncompliance material to the financial statements of PACT 4 were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for PACT 4 expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Comprehensive Community Mental Health
Services Administration
 - CFDA #93.104
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. PACT 4 was determined to be a low-risk auditee.

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Gift Card Policy

PACT 4 issues gift cards/certificates for various purposes. As allowed by grants, these may include such things as:

- payments to individuals for services performed, such as when individuals are hired or volunteers solicited to review grant proposals and awards,
- purchase of supplies or payment for meals when traveling that would ordinarily be out-of-pocket and reimbursable,
- incentives for individuals to participate in PACT 4's grant programs and studies, and
- temporary assistance to individuals.

PACT 4 also had a policy regarding the use of gift cards/certificates; however, the policy was not consistently followed, nor was the policy all-inclusive. In our prior audit, we noted that for gift cards/certificates provided as payment or incentive to volunteers and participants, a list naming the specific recipients was not always maintained. We also found that PACT 4 made no attempt to ensure that the goods or services on which a request for temporary assistance was based were actually received. We had recommended that PACT 4 strengthen its policies relative to the use of gift cards/certificates and strictly and consistently enforce these policies. In addition, we recommended documentation be improved supporting the use of gift cards/certificates.

As follow-up in the current audit, there was no evidence that the Board/management of PACT 4 properly addressed or responded to the prior year issues raised. It is management's responsibility to establish and maintain internal control, which at best, provides only reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed in accordance with management's authorizations and recorded properly. It is also management's responsibility to design and implement programs and controls to prevent and detect fraud.

Schedule 1
(Continued)

In addition to the lack of an appropriate control environment, follow-up in the current audit provided evidence of management manipulation, override of controls, and misconduct by the PACT 4 Executive Director. The following items were noted:

- Fifteen out of 31 applications approved by the PACT 4 Executive Director for temporary assistance, for a total of \$6,240 in gift cards, contained false information.
- Gift cards approved by the PACT 4 Executive Director for temporary assistance did not reach the intended recipients.
- Additional applications approved by the PACT 4 Executive Director for temporary assistance raised questions concerning their accuracy and questions regarding whether all gift cards were actually received by the intended recipients.
- For gift cards provided as payment or incentive to volunteers and participants, a list naming the specific recipients was not always maintained.
- The Chair of the PACT 4 Executive Board received gift cards for private meetings with the Executive Director.
- PACT 4 has not monitored gift card payments for possible Internal Revenue Service income reporting purposes, or issued Form 1099s where appropriate.

Because our examination disclosed evidence of malfeasance, misfeasance, or nonfeasance, a detailed report supporting our findings has been provided to the County Attorney, in compliance with Minn. Stat. § 6.48. We recommend the PACT 4 Board review the detailed report of our findings when it becomes available to the Executive Board, and take appropriate action as necessary.

PACT 4 must strengthen its policies relative to the use of gift cards/certificates and strictly and consistently enforce these policies. Oversight and monitoring of gift card/certificate use should be improved. Records maintained for gift cards should include specific identification of who received the gift card, the reason the gift card was issued, and whether the user was notified the value received was for payment of services rendered and should be considered income by the user. PACT 4 should comply with Internal Revenue Service regulations where an individual, whether an employee or not, who earns more than \$600 is required to receive a Form 1099.

Client's Response:

Thank you for your thorough review of the financial statements of PACT 4 for the 2005 calendar year. A couple points in your report require some further clarification for the complete record of this review.

Under the findings related to the financial statement 04-1, the Gift Card Policy, it is apparently true that the policy was not followed by one individual in the organization--the Director. As soon as the Executive Board was made aware of this situation, it took swift action to put the Director on administrative leave. There is no evidence to suggest that anyone else in the organization did not follow this policy as written.

It has been the practice of PACT 4 to provide gift cards to recognize the substantial amount of time contributed by parents assisting this organization in a number of ways. PACT 4 is a children's mental health and family collaborative, and without the involvement of these parents, the organization would not be able to target its services in ways that make a difference for families in our four-county area.

The Chair of the PACT 4 Executive Board is a parent and as such was acknowledged with gift cards for her many hours in this role. Past audit recommendations related to the gift card program were recognized by the Chair and the Board. It was understood that appropriate responsive action was being undertaken by the Director. Given the perceived value of the gift card program, it was expected that the Director was addressing the concerns related to that program and that in the interim she was making appropriate decisions with respect to the disbursement of gift cards to parents, agency partners, employees and Board members.

The Chair and the entire Executive Board relied upon the Director to keep them informed of all matters of concern. It was expected that she would call the Board together as needed for matters requiring its review and action. The Chair and the individual Board members have always taken the tasks of this Board quite seriously. In their service they saw no signs of improper conduct that would have called for Board action. The Board was appalled to learn of misconduct by an individual whom they had trusted to be working for the good of this agency and for the good of the families it serves.

The current policy on gift card use is being revised to incorporate recommendations from the auditor. One change to provide better control is a limitation of the number of vendors participating in the program. In addition, the fiscal agent for PACT 4 will

conduct a review on a regular basis to assure this and all relevant fiscal policies are being implemented and executed as written. The fiscal agent will report her findings to the Executive Board to assure internal controls are being maintained.

Please be assured that the Executive Board for PACT 4 will carefully review the anticipated report of findings. This Board will take all appropriate action to make its operations fiscally sound.

Once again, thank you for your complete and thorough review of the financial situation at PACT 4. Your integrity during the audit and your assistance since its completion is greatly appreciated.

ITEM ARISING THIS YEAR

05-1 **Meal Reimbursement**

PACT 4's policy allows for meal reimbursement in specific circumstances. Meals can be reimbursed for meetings/meals related to family/youth meetings with a prior approved expenditure authorization form. Receipts are to be turned in for reimbursement, and are to be itemized, and support including details of who was in attendance, purpose of the meeting, and why it was necessary for the meeting to occur over a meal must accompany the receipt. Additionally, meals can be reimbursed if it involves an overnight stay or is part of a registration fee. During our disbursement testing, we noted reimbursements for meal expenditures that did not meet either of the above criteria.

We recommend PACT 4 strictly adhere to the policy in place regarding the reimbursement of meal expenditures.

PREVIOUSLY REPORTED ITEM RESOLVED

Capital Asset Records (00-1)

We recommended PACT 4 develop and implement a system to track capital assets which would adequately reflect the purchase, use, and disposal of capital assets as well as depreciation of those assets in accordance with the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*.

Resolution

PACT 4 developed and implemented a system for monitoring capital assets that sufficiently tracks such assets and the related depreciation.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.



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PATRICIA ANDERSON
STATE AUDITOR

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Executive Board
Putting All Communities Together 4 Families Collaborative

We have audited the financial statements of the governmental activities and the General Fund of Putting All Communities Together 4 Families Collaborative (PACT 4) as of and for the year ended December 31, 2005, and have issued our report thereon dated August 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PACT 4's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect PACT 4's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-1 and 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the

internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed above, we consider item 04-1 to be a material weakness. We also noted other matters involving the internal control over financial reporting that we will be reporting to the management of PACT 4 in a separate letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PACT 4's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 public indebtedness because PACT 4 does not have debt, except for compensated absences.

The results of our tests indicate that, for the items tested, PACT 4 complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Executive Board, management, and federal awarding agencies and pass-through entities 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: August 8, 2006



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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Executive Board
Putting All Communities Together 4 Families Collaborative

Compliance

We have audited the compliance of Putting All Communities Together 4 Families Collaborative (PACT 4) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. PACT 4's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of PACT 4's management. Our responsibility is to express an opinion on PACT 4's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PACT 4's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on PACT 4's compliance with those requirements.

In our opinion, PACT 4 complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of PACT 4 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered PACT 4's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and the General Fund of PACT 4 as of and for the year ended December 31, 2005, and have issued our report thereon dated August 8, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise PACT 4's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Executive Board, management, and federal awarding agencies and pass-through entities 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: August 8, 2006

**PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Direct		
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances		
Mental Health Grant for Children	93.104	\$ 899,990
Consolidated Knowledge Development and Application Program		
Mental Health Grant for Young Adults	93.230	441,267
Passed Through Minnesota Department of Human Services		
Block Grants for Prevention and Treatment of Substance Abuse		
Early Risers Grant	93.959	264,995
Total Federal Awards		<u>\$ 1,606,252</u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Putting All Communities Together 4 Families Collaborative (PACT 4). PACT 4's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2005, PACT 4 did not pass any federal money to subrecipients.
4. A pass-through grant number was not assigned by the pass-through agency.