

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, 2004

Description of the Office of the State Auditor

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

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

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

Audit Practice - conducts financial and legal compliance audits for local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

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

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

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.

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

Year Ended December 31, 2004



**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, 2004

	<u>Position</u>	<u>Agency</u>	<u>Term Expires</u>
Executive Board			
Rebecca Ramosz	Chair	Kandiyohi County	2006
Tammy Thompson	Vice Chair	Meeker County	2005
Carmen Clementson	Member	Kandiyohi County	2005
Gerald Brustuen	Member	Renville County	2006
Arliss Stenger	Member	Parent Representative	2007
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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PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE 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

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, 2004, 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, 2004, 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.

As discussed in the notes to the financial statements, PACT 4 adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

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 July 14, 2005, 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: July 14, 2005

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, 2004
(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 (PACT 4) financial performance during the fiscal year that ended December 31, 2004. The MD&A is a new element of 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. Certain comparative information between the current year, 2004, and the prior year, 2003, is required to be presented in the MD&A. However, since this is the first year of implementation of the new reporting model contained in GASB Statement 34, and that Statement permits the omission of prior year data in the year of implementation, PACT 4 has elected not to prepare comparative data due to the cost of adjusting prior year's financial statements to the new reporting model.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2004 fiscal year include the following:

- Total net assets are \$9,224,968. The net assets increased by \$3,144,483 for the year ended December 31, 2004.
- PACT 4 received three federally funded grants totaling \$2,812,265 to support activities. Two of these projects will continue into 2005.
- PACT 4 received two state funded grants: (1) Restorative Justice for \$23,287 from the Minnesota Department of Corrections; and (2) Early Risers from the Minnesota Department of Human Services Chemical Health Division for \$245,702. Both of these projects will continue into 2005.
- Government-wide net assets increased by 51.71 percent from the prior year.
- Overall government-wide revenues totaled \$7,708,576 and were \$3,144,483 more than expenses.
- The General Fund's fund balance increased \$3,022,864, or 49.40 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 \$9,224,968 on December 31, 2004.

Table 1
Net Assets

	2004	2003	Percent Change
Assets			
Cash and investments	\$ 7,897,654	(1)	(1)
Accounts receivable	6,994	(1)	(1)
Due from other governments	1,460,138	(1)	(1)
Prepaid items	12,225	(1)	(1)
Capital assets	26,926	(1)	(1)
Total Assets	\$ 9,403,937		
Liabilities			
Accounts payable	\$ 31,184	(1)	(1)
Salaries payable	46,652	(1)	(1)
Accrued payroll taxes	5,890	(1)	(1)
Due to other governments	3,139	(1)	(1)
Deferred revenue - unearned	6,623	(1)	(1)
Long-term liabilities			
Due within one year	21,370	(1)	(1)
Due after one year	64,111	(1)	(1)
Total Liabilities	\$ 178,969		
Net Assets			
Invested in capital assets	\$ 26,926	(1)	(1)
Unrestricted	9,198,042	(1)	(1)
Total Net Assets	\$ 9,224,968		

- (1) PACT 4 did not restate its 2003 financial statements in this first year of implementation of GASB 34. Comparative information will be provided in future years.

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

	<u>2004</u>	<u>2003</u>	<u>Percent Change</u>
Revenues			
Program revenues			
Intergovernmental	\$ 7,154,161	(1)	(1)
Charges for services	284,628	(1)	(1)
General revenues			
Gifts and contributions	178,570	(1)	(1)
Interest on investments	87,056	(1)	(1)
Miscellaneous	4,161	(1)	(1)
Total Revenues	\$ 7,708,576		
Expenses			
Program expenses			
General government	4,564,093	(1)	(1)
Increase (Decrease) in Net Assets	\$ 3,144,483	(1)	(1)
Net Assets - January 1, 2004	6,080,485	(1)	(1)
Net Assets - December 31, 2004	<u>\$ 9,224,968</u>		

- (1) PACT 4 did not restate its 2003 financial statements in this first year of implementation of GASB 34. Comparative information will be provided in future years.

CAPITAL ASSETS

As of December 31, 2004, PACT 4 had \$26,926 invested in capital assets. (See Table 3 below.) This amount represents a net decrease (including additions and deductions) of \$22,006, or 44.97 percent, from last year.

Table 3
Capital Assets at Year-End

	<u>2004</u>	<u>2003</u>
Equipment	\$ 118,616	\$ 121,909
Less: accumulated depreciation	(91,690)	(72,977)
Net Capital Assets	<u>\$ 26,926</u>	<u>\$ 48,932</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 \$9,141,630, which is above last year's fund balance of \$6,118,766, an increase of 49.40 percent. Most of the increase is due to more than expected revenue received through the Local Collaborative Time Study (LCTS), which was \$4,153,104 during the year ending December 31, 2004, as opposed to \$1,378,365 in 2003. The increase of funds through this one funding resource totaled 201.31 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. PACT 4's officials considered many factors when planning for the calendar year ending December 31, 2005.

- The State of Minnesota has anticipated decreases in LCTS dollars, with significant reductions to local collaboratives. Recent experience demonstrates that there may be slight decreases in revenue over 2005 and more significant decreases coming in 2006 in LCTS dollars received by local collaboratives. PACT 4, however, continually reviews expenditures against revenue to determine what programs and administrative expenditures can or need be reduced and which user fees can be increased.
- PACT 4 will be impacted by the reduction in federal revenue as the largest of its federal grants, Wraparound Initiative, is anticipated to end August 30, 2005. This alone will reduce future PACT 4 budgets over \$1,000,000 in 2006.
- Beginning January 1, 2006, PACT 4 will become fiscally independent from Kandiyohi County, which has served PACT 4 as fiscal host for the past ten years. PACT 4 is currently researching options for fiscal software operations and another partner county to become fiscal host. As of this writing, all indications are leading to the approval of Renville County Human Services as fiscal host with PACT 4 pursuing the set up of Great Plains accounting software for not-for-profit and governmental agencies.

If approved, the Great Plains software is GASB 34 compliant and will track capital assets. This, with stronger controls over asset disposal, should serve as a step forward to correct the Auditor's finding in the 2004 management letter about Capital Asset Records.

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 the Director, Toni Braness, Kandiyohi County Health and Human Services Building, 2200 - 23rd Street N.E., Willmar, Minnesota 56201.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
STATEMENT OF NET ASSETS OF GOVERNMENTAL ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2004**

	General Fund	Adjustments (Note 1.C.)	Governmental Activities
<u>Assets</u>			
Cash and investments	\$ 7,897,654	\$ -	\$ 7,897,654
Accounts receivable	6,994	-	6,994
Due from other governments	1,460,138	-	1,460,138
Prepaid items	12,225	-	12,225
Depreciable capital assets, net	-	26,926	26,926
	\$ 9,377,011	\$ 26,926	\$ 9,403,937
 <u>Liabilities and Fund Balance/Net Assets</u>			
<u>Liabilities</u>			
Accounts payable	\$ 31,184	\$ -	\$ 31,184
Salaries payable	46,652	-	46,652
Accrued payroll taxes	5,890	-	5,890
Due to other governments	3,139	-	3,139
Deferred revenue - unavailable	141,893	(141,893)	-
Deferred revenue - unearned	6,623	-	6,623
Long-term liabilities			
Due within one year	-	21,370	21,370
Due in more than one year	-	64,111	64,111
	\$ 235,381	\$ (56,412)	\$ 178,969
 <u>Fund Balance/Net Assets</u>			
<u>Fund Balance</u>			
Reserved for encumbrances	\$ 304,911	\$ (304,911)	
Unreserved			
Designated for future expenditures	12,093	(12,093)	
Undesignated	8,824,626	(8,824,626)	
	\$ 9,141,630	\$ (9,141,630)	
Total Fund Balance	\$ 9,141,630	\$ (9,141,630)	
Total Liabilities and Fund Balance	\$ 9,377,011		
 <u>Net Assets</u>			
Invested in capital assets		\$ 26,926	\$ 26,926
Unrestricted		9,198,042	9,198,042
		\$ 9,224,968	\$ 9,224,968
Total Net Assets		\$ 9,224,968	\$ 9,224,968

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

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental revenue	\$ 7,012,268	\$ 141,893	\$ 7,154,161
Interest on investments	87,056	-	87,056
Gifts and contributions	178,570	-	178,570
Charges for services	284,628	-	284,628
Miscellaneous	4,161	-	4,161
	\$ 7,566,683	\$ 141,893	\$ 7,708,576
Expenditures/Expenses			
Current			
General government			
General	\$ 272,404	\$ (1,732)	\$ 270,672
Local collaborative time study	1,435,863	-	1,435,863
Restorative justice	23,287	-	23,287
Mental health grant for children	1,859,952	-	1,859,952
Mental health grant for infants and toddlers	285,235	-	285,235
Mental health grant for young adults	421,376	-	421,376
Early Risers	245,702	-	245,702
Depreciation	-	22,006	22,006
	\$ 4,543,819	\$ 20,274	\$ 4,564,093
Net Change in Fund Balance/Net Assets	\$ 3,022,864	\$ 121,619	\$ 3,144,483
Fund Balance/Net Assets - January 1	6,118,766	(38,281)	6,080,485
Fund Balance/Net Assets - December 31	\$ 9,141,630	\$ 83,338	\$ 9,224,968

Adjustments

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 no deferred revenues in 2003.

\$ 141,893

Capital outlays are included in expenditures but depreciation is not. Expenses do not include capital outlays, but allocate the cost of capital assets over their useful lives as depreciation.

Depreciation expense

(22,006)

Decreases in compensated absences payable reduce expenses but do not result in current financial resources and, therefore, are not reported in the fund operating statement.

1,732

Total Adjustments Between the Change in Fund Balance and the Change in Net Assets

\$ 121,619

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

EXHIBIT 3

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 5,267,187	\$ 5,267,187	\$ 7,012,268	\$ 1,745,081
Interest on investments	60,000	60,000	87,056	27,056
Gifts and contributions	120,000	120,000	178,570	58,570
Charges for services	137,520	137,520	284,628	147,108
Miscellaneous	-	-	4,161	4,161
Total Revenues	\$ 5,584,707	\$ 5,584,707	\$ 7,566,683	\$ 1,981,976
Expenditures				
Current				
General government				
General	\$ 4,185,541	\$ 4,185,541	\$ 272,404	\$ 3,913,137
Local collaborative time study	2,289,298	2,289,298	1,435,863	853,435
Restorative justice	-	-	23,287	(23,287)
Mental health grant for children	-	-	1,859,952	(1,859,952)
Mental health grant for infants and toddlers	-	-	285,235	(285,235)
Mental health grant for young adults	-	-	421,376	(421,376)
Early Risers	-	-	245,702	(245,702)
Depreciation	-	-	-	-
Total Expenditures	\$ 6,474,839	\$ 6,474,839	\$ 4,543,819	\$ 1,931,020
Net Change in Fund Balance	\$ (890,132)	\$ (890,132)	\$ 3,022,864	\$ 3,912,996
Fund Balance - January 1	6,118,766	6,118,766	6,118,766	-
Fund Balance - December 31	\$ 6,118,766	\$ 6,118,766	\$ 9,141,630	\$ -

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

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

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) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board 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.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of PACT 4's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of PACT 4's activities.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). PACT 4 has elected to implement all provisions of the statement in the current year.

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.

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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.

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.

The government-wide columns are reported on a full accrual, economic resource basis, which 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 revenue 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 to be available if collected within 60 days after the end of the current period. Intergovernmental revenue and interest is considered to be susceptible to

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

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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, then unrestricted resources as they are 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. The details of the adjustments are:

Balance Sheet to Statement of Net Assets

Amounts reported for governmental activities are different from those reported in the General Fund because capital assets, net of depreciation, of \$26,926, are not financial resources and, therefore, are not reported in the General Fund. Also, certain long-term assets (\$141,893) are deferred in the General Fund because they are not available to finance current expenditures. Long-term liabilities of \$85,481, relating to compensated absences, are not due and payable within the current period and, therefore, not reported in the fund.

E. Assets, Liabilities, and Net Assets or Equity

1. Cash Deposits

Cash is on deposit with Kandiyohi County.

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. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**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. Capital Assets

Capital assets, which consist of equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by PACT 4 as assets with an initial, individual cost of more than \$2,500 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

5. 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.

6. 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.

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

1. Summary of Significant Accounting Policies

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

7. Fund Equity

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

8. 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.

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 \$7,897,654.

Cash transactions are 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.

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

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

PACT 4 did not have any receivables scheduled to be collected beyond one year as of December 31, 2004.

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Machinery, furniture, and equipment	\$ 121,909	\$ -	\$ 3,293	\$ 118,616
Less: accumulated depreciation for Machinery, furniture, and equipment	<u>(72,977)</u>	<u>(22,006)</u>	<u>(3,293)</u>	<u>(91,690)</u>
Total Capital Assets, Net	<u>\$ 48,932</u>	<u>\$ (22,006)</u>	<u>\$ -</u>	<u>\$ 26,926</u>

Depreciation expense of \$22,006 was charged to PACT 4's general government function.

B. Liabilities

1. Deferred Revenue

Unearned deferred revenue in the amount of \$6,623 consists of contributions for membership in PACT 4 that have been received but not yet earned. Deferred revenue of \$141,893 in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period is reported in the General Fund.

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

2. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Operating Leases

PACT 4 is committed under an operating lease for the rental of facilities through April 30, 2005. 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 Travel Management deems necessary. One vehicle was returned in February 2004 and two more vehicles were returned in December 2004. As of year-end 2004, PACT 4 has only one vehicle leased.

Lease expenditures for 2004 were:

Facilities	\$	53,823
Vehicles		17,093
Total	\$	70,916

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

	Facilities	Vehicles	Total
2005	\$ 17,941	\$ 3,384	\$ 21,325
2006	-	3,384	3,384
2007	-	3,384	3,384
2008	-	3,393	3,393
2009	-	3,384	3,384
2010	-	603	603
	\$ 17,941	\$ 17,532	\$ 35,473

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

2. Detailed Notes on All Funds

B. Liabilities (Continued)

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 \$133,694 at December 31, 2004, is not reported in the financial statements.

4. Long-Term Debt - Compensated Absences

Changes in PACT 4's compensated absences balances for the year ended December 31, 2004, are:

	Payable January 1	Additions	Deductions	Payable December 31
Vacation leave	\$ 87,213	\$ 150,477	\$ 160,283	\$ 77,407
Sick leave	-	8,074	-	8,074
Total	\$ 87,213	\$ 158,551	\$ 160,283	\$ 85,481

Compensated absences estimated to be paid within one year are \$21,370.

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.

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

3. Pension Plans

A. Plan Description (Continued)

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. 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 web at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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

3. Pension Plans (Continued)

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 are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. PACT 4 is required to contribute the following percentages of annual covered payroll:

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

PACT 4's contributions for the years ending December 31, 2004, 2003, and 2002, were \$69,774, \$88,600, and \$80,611, 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 the MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess PACT 4 in a method and amount to be determined by the 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 the MCIT is self-sustaining, and PACT 4 pays an annual premium to cover current and future losses. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, the MCIT may assess PACT 4 in a method and amount to be determined by the 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.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-1 Capital Asset Records

A well-maintained fixed asset system helps PACT 4 control the purchase, use, and disposal of capital assets. During our audit, significant improvements in capital asset records were noted. However, controls over asset disposal need to be strengthened. In addition, depreciation records for certain capital assets need to be maintained for continued reporting in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*.

We recommend that the Executive Board ensure that PACT 4's capital asset policies and procedures provide for the proper internal control over capital assets, including dispositions and depreciation.

ITEM ARISING THIS YEAR

04-1 Gift Card Policy

PACT 4 issues gift cards and gift 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.
- Temporary assistance to individuals.

PACT 4 currently has some policies regarding the use of gift cards and gift certificates, but these policies are not consistently followed nor are the policies all-inclusive. For example, the current policy requires prior supervisor approval and receipts to be submitted when employees use gift cards for supplies or meals when traveling. This policy is not always followed. Although PACT 4's policies provide that individuals receiving gift cards or gift certificates as a form of temporary assistance are limited to receiving such assistance only once every three years, PACT 4 makes no attempt to ensure that the goods or services on which the request was based were actually received. For gift cards provided as payment or incentive to volunteers and participants, a list naming the specific recipients is not always maintained. Finally, PACT 4 has not monitored gift card payments for possible Internal Revenue Service income reporting purposes.

We recommend PACT 4 strengthen its policies relative to the use of gift cards and gift certificates and that these policies be strictly and consistently enforced. Whenever possible, receipts should be returned to the office manager to support the expenditure. 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 who earns more than \$600 is required to receive a Form 1099.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE 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 COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 Putting All Communities Together 4 Families Collaborative (PACT 4) as of and for the year ended December 31, 2004, and have issued our report thereon dated July 14, 2005. 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 opinions 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 00-1 and 04-1.

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, we believe neither of the reportable conditions indicated above is a material weakness.

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 deposits and investments because these funds are included with Kandiyohi County funds and 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 and management, and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 14, 2005



PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE 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 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 each of its major federal programs for the year ended December 31, 2004. PACT 4's major federal programs are 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 each of its major federal programs is the responsibility of the 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 each of its major federal programs for the year ended December 31, 2004.

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 PACT 4 as of and for the year ended December 31, 2004, and have issued our report thereon dated July 14, 2005. 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: July 14, 2005

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

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal 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	\$ 1,859,952
Consolidated Knowledge Development and Application Program Mental Health Grant for Infants and Toddlers	93.230	285,235
Mental Health Grant for Young Adults	93.230	421,376
Passed Through Minnesota Department of Human Services Block Grants for Prevention and Treatment of Substance Abuse Early Risers Grant	93.959	<u>245,702</u>
Total Federal Awards		<u>\$ 2,812,265</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 2004, PACT 4 did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.