STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

PUTTING ALL COMMUNITIES TOGETHER
4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

YEAR ENDED DECEMBER 31, 2010

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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PUTTING ALL COMMUNITIES TOGETHER
4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

Year Ended December 31, 2010

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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Introductory Section

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PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

ORGANIZATION
DECEMBER 31, 2010

	Position	Agency	Term Expires
Executive Board			
George Dubie	Chair	Mental Health Center	2010
Greg Schmidt	Vice Chair	Member at Large	2011
Arliss Stenger	Member	Parent Representative	2010
Loren Hacker	Member	Public Schools	2010
Tammy Thompson	Member	Corrections	2011
Jill Bruns	Member	Public Health	2011
Rebecca Romosz	Member	Parent Representative	2012
Gerald Brustuen	Member	Social Services	2012
Debi Brandt	Member	Member at Large	2012
Fiscal Supervisor			
Valerie Mersch			
Director			
Deborah Sheehan			

	Position	Agency
Chief Elected Officials Board		
Richard Larson	Chair	Kandiyohi County Commissioner
Amy Wilde	Vice Chair	Meeker County Commissioner
Robert Fox	Member	Renville County Commissioner
Jane Remiger	Member	Yellow Medicine County Commissioner

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Financial Section

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REBECCA OTTO
STATE AUDITOR

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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, 2010, 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. 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 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, 2010, 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 accompanying financial statements have been prepared as if PACT 4 were continuing under this name. As discussed in Note 5 to the financial statements, the Collaborative added McLeod County as a fifth county partner effective January 1, 2011. The name was subsequently changed from PACT 4 Families Collaborative to PACT for Families Collaborative. This had no effect on PACT 4's tax identification or filing obligations with the U.S. Department of the Treasury Internal Revenue Service or the Minnesota Secretary of State.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PACT 4's basic financial statements taken as a whole. The supplementary information, which is the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 12, 2011, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 12, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(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, 2010. 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 2010 fiscal year include the following:

- Total net assets are $4,896,517, all of which is unrestricted. PACT 4's capital assets are fully depreciated.

- The net assets decreased by $393,221 for the year ended December 31, 2010.

- PACT 4 also has federally funded grants that pass through state departments: the Twenty-First Century Community Learning Center from the Minnesota Department of Education for $700,204; the Safe and Drug-Free Schools and Communities - National Programs passed through Renville County Public Health from the U.S. Department of Education for $19,131; the Chemical Health Coalitions in Renville and Yellow Medicine Counties from the Minnesota Department of Human Services Alcohol and Drug Abuse Division for $393,350; and a special populations chemical health grant entitled Guía, also from the Minnesota Department of Human Services Chemical Health Division, for $309,705. Direct federal funding is received from the U.S. Department of Justice for a Juvenile Justice/Mental Health grant receiving $38,905 in 2010. In addition, PACT 4 has one state-funded grant for Birth to 5 Mental Health from the Minnesota Department of Human Services totaling $119,679. Funding from the U.S. Department of Justice for the Juvenile Justice/Mental Health planning grant was voluntarily stopped on December 31, 2010, by PACT 4 due to the denial of our implementation proposal; however, due to ongoing planning for the implementation process and another attempt at applying for funding, the grant remains open, and in-kind sources are being tracked and calculated into 2011. All other projects noted will continue into 2011.

- Government-wide net assets decreased 7.43 percent from the prior year.

- Overall government-wide revenues totaled $2,775,977 and were $393,221 less than expenses.

- The General Fund's fund balance decreased $222,900, or 4.52 percent, from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of three parts: (1) Independent Auditor's Report; (2) required supplementary information, which is the MD&A (this section); and (3) 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 $4,896,517 on December 31, 2010.

Table 1
Net Assets

	2010	2009	Percent Change (%)
Assets			
Cash and investments	$ 4,627,812	$ 5,156,219	(10.25)
Accrued interest receivable	5,299	10,654	(50.26)
Accounts receivable	193,875	288,466	(32.79)
Due from other governments	448,925	424,035	5.87
Total Assets	$ 5,275,911	$ 5,879,374	(10.26)
Liabilities			
Accounts payable	$ 24,253	$ 40,842	(40.62)
Salaries payable	78,463	65,458	19.87
Accrued payroll taxes	4,159	4,679	(11.11)
Due to other governments	102,221	286,379	(64.31)
Deferred revenue - unearned	36,832	70,589	(47.82)
Long-term liabilities			
Due within one year	33,366	30,422	9.68
Due after one year	100,100	91,267	9.68
Total Liabilities	$ 379,394	$ 589,636	(35.66)
Net Assets			
Unrestricted	$ 4,896,517	$ 5,289,738	(7.43)

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

	2010	2009	Percent Change (%)
Revenues			
Program revenues			
Intergovernmental	$ 1,889,870	$ 2,013,279	(6.13)
Charges for services	710,153	776,144	(8.50)
General revenues			
Gifts and contributions	134,043	131,217	2.15
Interest on investments	41,911	103,454	(59.49)
Miscellaneous	-	500	(100.00)
Total Revenues	$ 2,775,977	$ 3,024,594	(8.22)
Expenses			
Program expenses			
General government	3,169,198	4,183,056	(24.24)
Increase (Decrease) in Net Assets	$ (393,221)	$ (1,158,462)	
Beginning Net Assets	5,289,738	6,448,200	
Ending Net Assets	$ 4,896,517	$ 5,289,738	

CAPITAL ASSETS

As of December 31, 2010, PACT 4's capital assets were fully depreciated. (See Table 3 below.)

Table 3
Capital Assets at Year-End

	2010	2009
Equipment	$ 143,568	$ 143,568
Less: accumulated depreciation	(143,568)	(143,568)
Net Capital Assets	$ -	$ -

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 $4,711,250, which is below last year's fund balance of $4,934,150, a decrease of 4.52 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

The addition of McLeod County as a fifth county partner beginning January 1, 2011, creates optimism for financial and programmatic opportunities. We expect there to be a revenue increase in our non-categorical funding (Local Collaborative Time Study) as well as partner contributions.

With this expansion, we revised the Bylaws and Joint Powers Agreements to include five counties and changed the spelling of our name from PACT 4 Families to PACT for Families. This name revision did not change any tax identification or filing obligations, as the U.S. Department of the Treasury Internal Revenue Service (IRS) and Minnesota Secretary of State were notified of this change and deemed it did not warrant any change in tax identification due to IRS Publication 1635. The only change in the name was "4" to "for" - our address, leadership, mission, and vision remains the same.

Funding for the Chemical Health Coalitions in Renville and Yellow Medicine Counties from the Minnesota Department of Human Services Alcohol and Drug Abuse Division and the Birth to 5 Mental Health grant from the Minnesota Department of Human Services will be ending on June 30, 2011, and will not continue into 2012.

Beginning in 2008, PACT 4's Executive Board began re-envisioning for the future of the organization both fiscally and programmatically. This process has enabled us to respond to our mission and our partners in a time of vastly diminishing financial resources. As we continued this process through 2010, our projections have been mostly on target, but fewer grants appear on the horizon, so we will need to remain vigilant in analyzing sources of revenue as well as expenditures.

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 Families Collaborative, Kandiyohi County Health and Human Services Building, 2200 - 23rd Street N.E., Suite 2030, Willmar, Minnesota 56201.

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 DECEMBER 31, 2010

	General Fund	Adjustments	Governmental Activities
Assets			
Cash and pooled investments	$ 4,627,812	$ -	$ 4,627,812
Accrued interest receivable	5,299	-	5,299
Accounts receivable	193,875	-	193,875
Due from other governments	448,925	-	448,925
Total Assets	**$ 5,275,911**	**$ -**	**$ 5,275,911**
Liabilities and Fund Balance/Net Assets			
Liabilities			
Accounts payable	$ 24,253	$ -	$ 24,253
Salaries payable	78,463	-	78,463
Accrued payroll taxes	4,159	-	4,159
Due to other governments	102,221	-	102,221
Deferred revenue - unavailable	318,733	(318,733)	-
Deferred revenue - unearned	36,832	-	36,832
Long-term liabilities			
Due within one year	-	33,366	33,366
Due in more than one year	-	100,100	100,100
Total Liabilities	**$ 564,661**	**$ (185,267)**	**$ 379,394**
Fund Balance			
Reserved for encumbrances	$ 504,097	$ (504,097)	
Unreserved			
Undesignated	4,207,153	(4,207,153)	
Total Fund Balance	**$ 4,711,250**	**$ (4,711,250)**	
Net Assets			
Unrestricted		**$ 4,896,517**	**$ 4,896,517**
Total Liabilities and Fund Balance/Net Assets	**$ 5,275,911**	**$ -**	**$ 5,275,911**

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

EXHIBIT 1
(Continued)

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2010

Reconciliation of the General Fund Balance to Net Assets		
Fund Balance - General Fund	$	**4,711,250**
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund.		318,733
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental fund.		(133,466)
Net Assets - Governmental Activities	**$**	**4,896,517**

PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2010

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	$ 2,048,414	$ (158,544)	$ 1,889,870
Interest on investments	41,911	-	41,911
Gifts and contributions	134,043	-	134,043
Charges for services	710,153	-	710,153
Total Revenues	**$ 2,934,521**	**$ (158,544)**	**$ 2,775,977**
Expenditures/Expenses			
Current			
General government			
General	$ 357,429	$ 11,777	$ 369,206
Local Collaborative Time Study	1,202,558	-	1,202,558
Twenty-First Century Community Learning Centers	700,204	-	700,204
Birth to 5 Mental Health	119,679	-	119,679
Renville County Chemical Health Grant	197,510	-	197,510
Yellow Medicine County Chemical Health Grant	195,840	-	195,840
Guia	309,705	-	309,705
Federal Department of Justice - Juvenile Justice and Mental Health	38,905	-	38,905
Drug Free Communities - Renville County	19,131	-	19,131
Brain Conference	5,460	-	5,460
Pohlad Foundation	11,000	-	11,000
Total Expenditures/Expenses	**$ 3,157,421**	**$ 11,777**	**$ 3,169,198**
Net Change in Fund Balance/Net Assets	**$ (222,900)**	**$ (170,321)**	**$ (393,221)**
Fund Balance/Net Assets - January 1	**4,934,150**	**355,588**	**5,289,738**
Fund Balance/Net Assets - December 31	**$ 4,711,250**	**$ 185,267**	**$ 4,896,517**

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

PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

EXHIBIT 2
(Continued)

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2010

Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities		
Net Change in Fund Balance	$	**(222,900)**
Under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues is the increase or decrease in revenues defined as unavailable. PACT 4 had $477,277 of deferred revenue unavailable in 2009.		(158,544)
Increases in compensated absences payable increase expenses but do not require the use of current financial resources and, therefore, are not reported in the governmental fund operating statement.		(11,777)
Change in Net Assets of Governmental Activities	**$**	**(393,221)**

PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

EXHIBIT 3

BUDGETARY COMPARISON
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ 2,366,457	$ 2,366,457	$ 2,048,414	$ (318,043)
Interest on investments	126,500	126,500	41,911	(84,589)
Gifts and contributions	159,250	159,250	134,043	(25,207)
Charges for services	538,299	538,299	710,153	171,854
Total Revenues	**$ 3,190,506**	**$ 3,190,506**	**$ 2,934,521**	**$ (255,985)**
Expenditures				
Current				
General government				
General	$ 865,077	$ 865,077	$ 357,429	$ 507,648
Local Collaborative Time Study	928,847	928,847	1,202,558	(273,711)
Twenty-First Century Community Learning Centers	871,697	871,697	700,204	171,493
Birth to 5 Mental Health	166,349	166,349	119,679	46,670
Renville County Chemical Health Grant	200,336	200,336	197,510	2,826
Yellow Medicine County Chemical Health Grant	198,600	198,600	195,840	2,760
Guia	292,000	292,000	309,705	(17,705)
Federal Department of Justice - Juvenile Justice and Mental Health	50,000	50,000	38,905	11,095
Drug-Free Communities - Renville County	-	-	19,131	(19,131)
Brain Conference	7,600	7,600	5,460	2,140
Pohlad Foundation	10,000	10,000	11,000	(1,000)
Total Expenditures	**$ 3,590,506**	**$ 3,590,506**	**$ 3,157,421**	**$ 433,085**
Net Change in Fund Balance	**$ (400,000)**	**$ (400,000)**	**$ (222,900)**	**$ 177,100**
Fund Balance - January 1	**4,934,150**	**4,934,150**	**4,934,150**	**-**
Fund Balance - December 31	**$ 4,534,150**	**$ 4,534,150**	**$ 4,711,250**	**$ 177,100**

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

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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, 2010. 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.

Renville County Human Services has acted as fiscal agent for PACT 4 since January 1, 2006.

1. Summary of Significant Accounting Policies (Continued)

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 as 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 as available if collected within 60 days after the end of the current period. Intergovernmental revenue 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.

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

PACT 4 invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which was created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of PACT 4's position in the pool is the same as the value of the pool shares.

2. Due From/To Other Governments

Due from/to other governments 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 government-wide financial statements. 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:

Assets	Years
Machinery, furniture, and equipment	3 to 5

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 all 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.

1. Summary of Significant Accounting Policies

   E. 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

   A. Assets

      1. Deposits and Investments

         a. Deposits

            PACT 4 is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. PACT 4 is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

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

2. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, PACT 4's deposits may not be returned to it. PACT 4 does not have a deposit policy for custodial credit risk. As of December 31, 2010, PACT 4 had no exposure to custodial credit risk, as all bank balances had been swept into the MAGIC Fund investment account.

b. Investments

PACT 4 may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118.05:

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high-risk" by Minn. Stat. § 118A.04, subd. 6;

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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

PACT 4 does not have additional policies for the investment risks, described below, beyond complying with the requirements of Minnesota statutes.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. All investments held at December 31, 2010, had maturity dates of 365 days or less at the time of their purchase.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by PACT 4's investment in a single issuer. PACT 4 did not have an investment in any one issuer that represented five percent or more of PACT 4's investments.

The following table presents PACT 4's investment balances at December 31, 2010, and information relating to potential investment risks:

Investment - Issuer	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk (%)	Interest Rate Risk: Maturity Date	Fair Value
Negotiable certificates of deposit					
PFM Asset Management					
Various	N/A	N/A	4.54	05/31/2011	$ 210,000
Various	N/A	N/A	10.59	11/25/2011	490,000
Various	N/A	N/A	21.43	12/16/2011	992,000
Various	N/A	N/A	48.22	12/28/2011	2,232,000
Total negotiable certificates of deposit			84.78		$ 3,924,000
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	15.22		703,812
Total investments			100.00		$ 4,627,812
Deposits					-
Total Cash and Investments					$ 4,627,812

N/A - Not Applicable
N/R - Not Rated

2. Detailed Notes

   A. Assets (Continued)

      2. Accrued Interest

         Interest accrued related to the negotiable certificates of deposit purchased through the MAGIC Fund investment account as of December 31, 2010, is $5,299.

      3. Receivables

         PACT 4 did not have any receivables scheduled to be collected beyond one year as of December 31, 2010.

      4. Capital Assets

         Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Machinery, furniture, and equipment	$ 143,568	$ -	$ -	$ 143,568
Less: accumulated depreciation for:				
Machinery, furniture, and equipment	(143,568)	-	-	(143,568)
Total Capital Assets, Net	$ -	$ -	$ -	$ -

         There was no depreciation expense charged to PACT 4's general government function ending December 31, 2010.

2. Detailed Notes (Continued)

B. Liabilities

1. Deferred Revenue

Deferred revenue of $318,733 in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period is reported in the General Fund. Deferred revenue of $36,832 relates to funds for resources received, but not yet earned.

2. Operating Leases

PACT 4 is committed under an operating lease for its current office space through April 30, 2012. This lease is expected to continue or be replaced with a similar lease. The future minimum payments for the lease are as follows:

Year Ending December 31	Amount
2011	$ 48,205
2012	16,068
Total Lease	$ 64,273

Lease expenditures for the facilities in 2010 were $49,311.

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 is accrued as compensated absences. Unvested sick leave not expected to vest, valued at $175,427 at December 31, 2010, and is not reported in the financial statements.

2. Detailed Notes

B. Liabilities (Continued)

4. Long-Term Debt - Compensated Absences

Changes in PACT 4's compensated absences balances for the year ended December 31, 2010, are:

	Payable January 1	Additions	Deductions	Payable December 31
Vacation leave	$ 97,902	$ 87,679	$ 93,729	$ 91,852
Sick leave	23,787	20,622	2,795	41,614
Total	$ 121,689	$ 108,301	$ 96,524	$ 133,466

Compensated absences estimated to be paid within one year are $33,366.

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). PERA administers the General 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.

General 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.

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 (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

3. Pension Plans

A. Plan Description (Continued)

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced Social Security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General 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. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. 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. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

3. Pension Plans

B. Funding Policy (Continued)

PACT 4 is required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00

PACT 4's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund were $86,808, $81,971, and $82,425, respectively, equal to the contractually required contribution rates 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 Intergovernmental 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 $450,000 per claim in 2010 and 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess PACT 4 in a method and amount to be determined by MCIT.

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.

5. Subsequent Events

Effective January 1, 2011, McLeod County became the fifth county partner with the Collaborative. The By-Laws and Joint Powers Agreements were amended to include five counties, and changed the name of PACT 4 Families Collaborative to PACT for Families Collaborative. The U.S. Department of the Treasury Internal Revenue Service and the Minnesota Secretary of State were notified of this name change and deemed that it did not warrant any change in tax identification or filing obligations.

SUPPLEMENTARY INFORMATION

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PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

EXHIBIT A-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Justice			
Direct			
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	**$**	**38,905**
U.S. Department of Education			
Passed Through Renville County Public Health			
Safe and Drug-Free Schools and Communities - National Programs	84.184	**$**	**19,131**
Passed Through Minnesota Department of Education			
Twenty-First Century Community Learning Centers	84.287	**$**	**700,204**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Block Grants for Prevention and Treatment of Substance Abuse			
Renville County Chemical Health Grant	93.959	$	197,510
Yellow Medicine County Chemical Health Grant	93.959		195,840
Guia Special Populations Chemical Health Grant	93.959		309,705
Total U.S. Department of Health and Human Services (CFDA #93.959)		**$**	**703,055**
Total Federal Awards		**$**	**1,461,295**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities 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 financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of PACT 4 under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of PACT 4, it is not intended to and does not present the financial position or changes in net assets of PACT 4.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Subrecipients

Of the expenditures presented in the schedule, PACT 4 provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
84.287	Twenty-First Century Community Learning Centers	$ 574,019

5. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. PACT 4 had no ARRA funding to report in 2010.

Management and Compliance Section

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PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses unqualified opinions on the basic financial statements of Putting All Communities Together 4 Families Collaborative (PACT 4).

B. No matters involving internal control over financial reporting were 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*."

C. No instances of noncompliance material to the financial statements of PACT 4 were disclosed during the audit.

D. Significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133." None were material weaknesses.

E. The Auditor's Report on Compliance for the major federal award programs for PACT 4 expresses an unqualified opinion.

F. Findings relative to major federal award programs for PACT 4 were reported as required by Section 510(a) of OMB Circular A-133.

G. The major programs are:

Criminal and Juvenile Justice and Mental Health Collaboration Program	CFDA #16.745
Twenty-First Century Community Learning Centers	CFDA #84.287

H. The threshold for distinguishing between Types A and B programs was $300,000.

I. PACT 4 was not determined to be a low-risk auditee.

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

10-1 Subrecipient Monitoring - Twenty-First Century Community Learning Centers (CFDA #84.287)

PACT 4 provided federal awards to subrecipients for the Twenty-First Century Community Learning Centers (CFDA #84.287) during the year ended December 31, 2010.

OMB Circular A-133, Subpart C, § .400, indicates auditee responsibilities for entities that provide federal awards to subrecipients as a pass-through entity. Included in these responsibilities are: (1) at the time of the award, identifying to the subrecipient the federal award information (CFDA title and number, award name, name of federal agency, and applicable compliance requirements); (2) monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers the federal award in compliance with federal requirements; (3) ensuring that required audits are performed, if applicable, and requiring the subrecipient to take prompt corrective action on any audit findings; and (4) evaluating the impact of subrecipient activities on PACT 4's ability to comply with applicable federal regulations.

Based on our review of the agreements between PACT 4 and its subrecipients, PACT 4 did not provide the CFDA number, federal agency providing the funding, or a detailed list of compliance requirements to the subrecipients. PACT 4 was also not obtaining audit reports from the schools to verify that the subrecipients had no instances of noncompliance noted during their audits.

We recommend that PACT 4 develop a system and written policies and procedures to ensure compliance requirements over subrecipients are met, subrecipients are properly informed of all aspects of the sub-award, and subrecipients are monitored in accordance with OMB Circular A-133.

Corrective Action Plan:

Contact Person(s):

Jolene Borka, Deborah Sheehan

Corrective Action Plan:

The contract between PACT for Families and subrecipients for the Twenty-First Century Learning Centers grant will be revised to include the CFDA number, federal agency providing the funding, and a list of compliance requirements including the need to submit an audit report. Contracts will be renewed with subrecipients beginning August 1, 2011, and payments will not be made until PACT for Families has received the most recent audit report from the subrecipient school.

Anticipated Completion Date:

August 1, 2011

10-2 Procurement, Suspension and Debarment - Twenty-First Century Community Learning Centers (CFDA #84.287)

Federal Regulation 45 CFR 92.35 prohibits any state or agency from purchasing goods and services with federal money from vendors who have been suspended or debarred by the federal government. Compliance with this requirement can be determined by searching for the contractor or vendor in question on the "Excluded Parties List System" via the internet address: http://epls.gov/.

Based on procedures performed during our audit of the Twenty-First Century Community Learning Centers (CFDA #84.287) program, it was discovered that PACT 4 is not verifying suspension and debarment relative to any of its subrecipients or vendors. OMB Circular A-133 states that this requirement is applicable to this grant.

We recommend PACT 4 develop written policies and procedures for monitoring compliance with the procurement, suspension, and debarment requirements. These procedures should be completed prior to receiving any goods or services from vendors and before contracts are agreed upon with subrecipients.

Corrective Action Plan:

Contact Person(s):

Jolene Borka, Ian Graue

Corrective Action Plan:

Currently our contracts do include a section on debarment and suspension. PACT for Families will verify on the website EPLS.gov that all subrecipients are verified for suspension and debarment. We will add language to include the requirement that subrecipients check with the website EPLS.gov prior to receiving any goods or services from vendors. The coordinator for this grant will add to his checklist for site visits, a review of subrecipient procedures for verifying suspension and debarment and assure there are records kept to this effect by subrecipients.

Anticipated Completion Date:

Contracts will be revised as of August 1, 2011, and site visits beginning at this time will include the new procedures.

IV. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for PACT 4 for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).

- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.

- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.

- *Unassigned* - spendable amounts not contained in the other classifications.

The Collaborative should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The Collaborative can start with the following steps:

- review the requirements of GASB Statement 54;

- review current fund balance and compare to the new classifications;

- reclassify January 1, 2011, fund balance using the new classifications;

- review/update/prepare a comprehensive fund balance policy;

- prepare appropriate Executive Board resolutions to commit fund balance; and

- if the Executive Board intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Additional implementation steps could include deciding on how fund balance will be presented in the financials, for example, detailed vs. aggregate methods, and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at: http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.

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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, 2010, which collectively comprise PACT 4's basic financial statements, and have issued our report thereon dated August 12, 2011. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PACT 4's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PACT 4's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of PACT 4's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 Political Subdivisions*, 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 Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because PACT 4 does not have debt.

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

Included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to PACT 4, and we are reporting it for that purpose.

This report is intended solely for the information and use of the Executive Board, management, others within PACT 4, 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/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

August 12, 2011

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Executive Board
Putting All Communities Together 4 Families Collaborative

Compliance

We have audited Putting All Communities Together 4 Families Collaborative (PACT 4)'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. 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 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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

<u>Internal Control Over Compliance</u>

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 to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PACT 4's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 10-1 and 10-2. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

PACT 4's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit PACT 4's corrective action plans and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Executive Board, management and others within PACT 4, 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/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

August 12, 2011