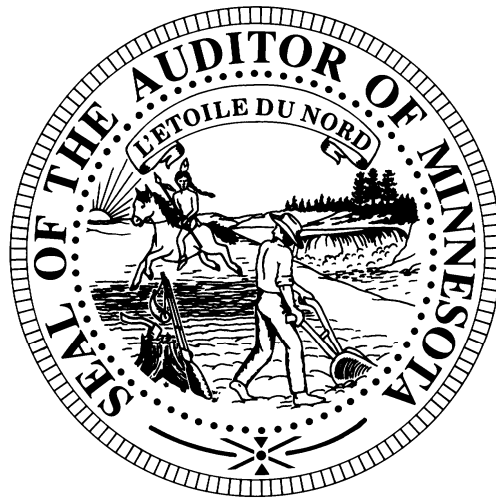


STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

YEAR ENDED DECEMBER 31, 2014

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 150 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 700 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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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 Office of the State Auditor's web site: www.auditor.state.mn.us.

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

Year Ended December 31, 2014



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

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

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

ORGANIZATION
DECEMBER 31, 2014

| | Position | Agency | Term Expires |
|------------------------|------------|-----------------------|--------------|
| Executive Board | | | |
| Lisa Kraft | Chair | Member at Large | 2014 |
| Corinne Torkelson | Vice Chair | Member at Large | 2015 |
| Diane Winter | Member | Public Health | 2014 |
| Deb West | Member | Corrections | 2014 |
| Gerald Brustuen | Member | Social Services | 2015 |
| Rebecca Romosz | Member | Parent Representative | 2015 |
| Allan Stoeckman | Member | Public Schools | 2016 |
| Tara Nelson | Member | Mental Health Center | 2016 |
| Sandy Hruby | Member | Parent Representative | 2016 |

Fiscal Supervisor
Andrea Prekker

Director
Deborah Sheehan

| | Position | Agency |
|--------------------------------------|------------|-------------------------------------|
| Chief Elected Officials Board | | |
| Doug Reese | Chair | Kandiyohi County Commissioner |
| Robert Fox | Vice Chair | Renville County Commissioner |
| Beth Oberg | Member | Meeker County Commissioner |
| Greg Renneke | Member | Yellow Medicine County Commissioner |
| Sheldon Nies | Member | McLeod County Commissioner |

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Executive Board
Putting All Communities Together for Families Collaborative
Willmar, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of Putting All Communities Together for Families Collaborative (PACT) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise PACT's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to PACT's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PACT's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 as of December 31, 2014, and the respective changes in financial position thereof and the respective budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2015, on our consideration of PACT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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* in considering PACT's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 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. The 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 28, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(Unaudited)**

This section of the annual financial report presents our Management's Discussion and Analysis (MD&A) of Putting All Communities Together for Families Collaborative's (PACT) financial performance during the fiscal year that ended December 31, 2014. 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 2014 fiscal year include the following:

- Total net position is \$3,006,337, of which \$3,003,093 is unrestricted and \$3,244 is invested in capital assets.
- The net position decreased by \$51,975 for the year ended December 31, 2014.
- PACT also has federally funded grants that pass through other counties and state departments: the Twenty-First Century Community Learning Centers from the Minnesota Department of Education for \$356,995; the Safe and Drug-Free Schools and Communities - National Programs passed through Renville County Public Health from the U.S. Department of Education for \$81,209 and through Yellow Medicine County Public Health for \$80,917; a Special Populations Chemical Health Grant entitled Guía, from the Minnesota Department of Human Services Alcohol and Drug Abuse Division, for \$162,011; and new in 2014 was the Family Group Decision Making Grant, passed through Renville County Human Services from the Minnesota Department of Human Services, for \$17,882. All projects noted will continue into 2015.
- Government-wide net position decreased 1.70 percent from the prior year.
- Overall government-wide revenues totaled \$2,269,561 and were \$51,975 less than expenses.
- The General Fund's fund balance decreased \$164,971, or 5.43 percent, from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The financial section consists of three parts: (1) Independent Auditor's Report; (2) required supplementary information, which includes 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'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'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 Position and the Statement of Activities, which provide information about the activities of PACT 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, 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 AS A WHOLE

Net Position - the net position was \$3,006,337 on December 31, 2014.

Table 1
Net Position

| | 2014 | 2013 | Percent Change (%) |
|------------------------------|---------------------|---------------------|-----------------------|
| Assets | | | |
| Cash and investments | \$ 2,825,674 | \$ 3,362,275 | (15.96) |
| Accrued interest receivable | 29,674 | 36,281 | (18.21) |
| Accounts receivable | 175,241 | 43,656 | 301.41 |
| Due from other governments | 399,198 | 180,448 | 121.23 |
| Capital assets | | | |
| Depreciable - net | 3,244 | 7,083 | (54.20) |
| Total Assets | \$ 3,433,031 | \$ 3,629,743 | (5.42) |
| Liabilities | | | |
| Accounts payable | \$ 88,027 | \$ 63,041 | 39.63 |
| Salaries payable | 81,624 | 74,646 | 9.35 |
| Accrued payroll taxes | 5,525 | 5,197 | 6.31 |
| Due to other governments | 114,737 | 90,895 | 26.23 |
| Unearned revenue | 63,566 | 269,141 | (76.38) |
| Long-term liabilities | | | |
| Due within one year | 18,304 | 17,128 | 6.87 |
| Due after one year | 54,911 | 51,383 | 6.87 |
| Total Liabilities | \$ 426,694 | \$ 571,431 | (25.33) |
| Net Position | | | |
| Investment in capital assets | \$ 3,244 | \$ 7,083 | (54.20) |
| Unrestricted | 3,003,093 | 3,051,229 | (1.58) |
| Total Net Position | \$ 3,006,337 | \$ 3,058,312 | (1.70) |

**Table 2
Change in Net Position**

| | <u>2014</u> | <u>2013</u> | <u>Percent Change (%)</u> |
|-------------------------------------|--------------|--------------|-------------------------------|
| Revenues | | | |
| Program revenues | | | |
| Intergovernmental | \$ 1,109,725 | \$ 987,556 | 12.37 |
| Charges for services | 845,723 | 421,266 | 100.76 |
| General revenues | | | |
| Gifts and contributions | 301,730 | 183,768 | 64.19 |
| Interest on investments | 8,142 | 6,873 | 18.46 |
| Miscellaneous | 4,241 | - | 100.00 |
| Total Revenues | \$ 2,269,561 | \$ 1,599,463 | 41.90 |
| Expenses | | | |
| Program expenses | | | |
| General government | 2,321,536 | 2,213,102 | 4.90 |
| Increase (Decrease) in Net Position | \$ (51,975) | \$ (613,639) | (91.53) |
| Beginning Net Position | 3,058,312 | 3,671,951 | (16.71) |
| Ending Net Position | \$ 3,006,337 | \$ 3,058,312 | (1.70) |

CAPITAL ASSETS

As of December 31, 2014, PACT had \$3,244 invested in capital assets (see Table 3 below). This amount represents a net decrease (including additions and deductions) of \$3,839, or 54.20 percent, from last year.

**Table 3
Capital Assets at Year-End**

| | <u>2014</u> | <u>2013</u> |
|-------------------------------------|-------------|-------------|
| Machinery, furniture, and equipment | \$ 140,361 | \$ 140,361 |
| Less: accumulated depreciation | (137,117) | (133,278) |
| Net Capital Assets | \$ 3,244 | \$ 7,083 |

FINANCIAL ANALYSIS OF PACT AT THE FUND LEVEL

The financial performance of PACT as a whole is reflected in its governmental fund as well. The General Fund, which is the only governmental fund of PACT, includes the primary operations of providing services that enhance the life circumstances of children and their families. As PACT completed the year, its governmental fund (as presented in the first column of the statements) reported a fund balance of \$2,875,235, which is below last year's fund balance of \$3,040,206, a decrease of 5.43 percent. PACT 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).

BUDGETARY HIGHLIGHTS

PACT's Board made budgetary amendments/revisions in 2014. The largest budget revision relates to the 21st Century grant, when additional funding was provided during the current year. As a result, the Executive Board approved the expenditure and related revenue budgets to be increased.

Actual revenues were less than budgeted revenues by \$254,785; expenditures were also less than budgeted by \$89,814. Factors contributing included grant changes and variations of grant revenues for grants that span more than one calendar year. The greatest variances are in grants coming through a state system.

The decrease in total net position is due to expenditures over revenues. Net position decreased by \$51,975. Revenues came in less than expected (budgeted) due to variations in grant revenues budgeted during the budget cycle and grant revenues actually received during the year. These grants (for example, 21st Century, Guía, Drug Free Communities, and Youth In Prevention Crossover, etc.) are based on a state fiscal year, audited on a calendar year, and budgeted on a cash basis accounting structure. The budget was fundamentally on target for cash basis but appears underestimated when compared on a modified accrual basis.

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

The income projection for 2015 is expected to be pretty much in line with or slightly higher than 2014. While grant funding is always a bit tenuous, most of our current grants are moving forward with continuations or extensions. 21st Century Community Learning Centers funding is anticipated to remain at current funding levels unless some major cuts are made on the federal level. There has been some discussion about making cuts, but the current Senate proposal would cut 10 percent to the overall budget of approximately \$1.7 billion. We do not anticipate these cuts to impact our programs directly, but there is always the off chance that our eight learning centers would be impacted. The Guía project funding has been extended for two years beginning July 1, 2015. Our funding from the Bush Foundation will be ending, but we are hopeful that we may be eligible for another round of grants from it or some comparable private grantor. Family Group Decision Making and Crossover funding will continue through 2015 and may be extended beyond this calendar year as well.

Our non-categorical LCTS (local collaborative time study) funding has fluctuated in such a manner that it is difficult to project actual income expectations, but the first quarter earnings were up for 2015, so we are hopeful that our targeted income projects will be met or exceeded.

On the expense side of the picture, we continue to streamline as many of our expenses as possible. Our Executive Board will continue to examine our future financial plans, keeping our budget as stable as possible between income and expenses. 2015 will mark the year that we will have spent down most of our reserves through our partner grants. We will look at ways we can use collaborative funds on behalf of children and families in our five counties in the most effective and impactful manner this year and into the future to assure a stable sustainable organization.

CONTACTING PACT FINANCIAL MANAGEMENT

This financial report is designed to give a general overview of PACT's finances and to show PACT's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact us at: PACT for Families Collaborative, Kandiyohi County Health and Human Services Building, 2200 - 23rd Street N.E., Suite 2030, Willmar, Minnesota 56201; (320) 231-7030.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

**STATEMENT OF NET POSITION OF GOVERNMENTAL ACTIVITIES
AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2014**

| | General Fund | Adjustments | Governmental Activities |
|---|-------------------------|-----------------------|------------------------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 2,825,674 | \$ - | \$ 2,825,674 |
| Accrued interest receivable | 29,674 | - | 29,674 |
| Accounts receivable | 175,241 | - | 175,241 |
| Due from other governments | 399,198 | - | 399,198 |
| Capital assets | | | |
| Depreciable - net | - | 3,244 | 3,244 |
| Total Assets | \$ 3,429,787 | \$ 3,244 | \$ 3,433,031 |
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ 88,027 | \$ - | \$ 88,027 |
| Salaries payable | 81,624 | - | 81,624 |
| Accrued payroll taxes | 5,525 | - | 5,525 |
| Due to other governments | 114,737 | - | 114,737 |
| Unearned revenue | 63,566 | - | 63,566 |
| Long-term liabilities | | | |
| Due within one year | - | 18,304 | 18,304 |
| Due in more than one year | - | 54,911 | 54,911 |
| Total Liabilities | \$ 353,479 | \$ 73,215 | \$ 426,694 |
| Deferred Inflows of Resources | | | |
| Unavailable revenue | \$ 201,073 | \$ (201,073) | \$ - |
| Fund Balance | | | |
| Assigned | \$ 237,040 | \$ (237,040) | |
| Unassigned | 2,638,195 | (2,638,195) | |
| Total Fund Balance | \$ 2,875,235 | \$ (2,875,235) | |
| Net Position | | | |
| Investment in capital assets | | \$ 3,244 | \$ 3,244 |
| Unrestricted | | 3,003,093 | 3,003,093 |
| Total Net Position | | \$ 3,006,337 | \$ 3,006,337 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position | \$ 3,429,787 | \$ 3,244 | \$ 3,433,031 |

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

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION OF GOVERNMENTAL ACTIVITIES
AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2014**

Reconciliation of the General Fund Balance to Net Position

| | |
|---|-----------------------------------|
| Fund Balance - General Fund | \$ 2,875,235 |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund. | 3,244 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental fund. | 201,073 |
| Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental fund. | <u>(73,215)</u> |
| Net Position - Governmental Activities | <u><u>\$ 3,006,337</u></u> |

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

EXHIBIT 2

**STATEMENT OF ACTIVITIES OF GOVERNMENTAL ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2014**

| | General Fund | Adjustments | Governmental Activities |
|---|-------------------------|--------------------|------------------------------------|
| Revenues | | | |
| Intergovernmental | \$ 1,092,307 | \$ 17,418 | \$ 1,109,725 |
| Interest on investments | 21,225 | (13,083) | 8,142 |
| Gifts and contributions | 301,730 | - | 301,730 |
| Charges for services | 728,519 | 117,204 | 845,723 |
| Miscellaneous | 4,241 | - | 4,241 |
| | \$ 2,148,022 | \$ 121,539 | \$ 2,269,561 |
| Expenditures/Expenses | | | |
| Current | | | |
| General government | | | |
| General | \$ 342,375 | \$ 4,704 | \$ 347,079 |
| Local Collaborative Time Study | 1,186,760 | - | 1,186,760 |
| Twenty-First Century Community Learning Centers | 356,995 | - | 356,995 |
| Guia | 162,011 | - | 162,011 |
| Drug-Free Communities - Renville County | 81,209 | - | 81,209 |
| Drug-Free Communities - Yellow Medicine County | 80,917 | - | 80,917 |
| Brain Conference | 10,751 | - | 10,751 |
| Pohlad Foundation | 11,628 | - | 11,628 |
| Parent Advisory Committee | 1,503 | - | 1,503 |
| Crossover - Youth Intervention Program | | | |
| Department of Public Safety Grant | 12,979 | - | 12,979 |
| Bush Foundation Truancy Grant | 47,983 | - | 47,983 |
| Family Group Decision Making Grant | 17,882 | - | 17,882 |
| Depreciation | - | 3,839 | 3,839 |
| | \$ 2,312,993 | \$ 8,543 | \$ 2,321,536 |
| Total Expenditures/Expenses | \$ 2,312,993 | \$ 8,543 | \$ 2,321,536 |
| Net Change in Fund Balance/Net Position | \$ (164,971) | \$ 112,996 | \$ (51,975) |
| Fund Balance/Net Position - January 1 | 3,040,206 | 18,106 | 3,058,312 |
| Fund Balance/Net Position - December 31 | \$ 2,875,235 | \$ 131,102 | \$ 3,006,337 |

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

***EXHIBIT 2
(Continued)***

**STATEMENT OF ACTIVITIES OF GOVERNMENTAL ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

| | |
|----------------------------|--------------|
| Net Change in Fund Balance | \$ (164,971) |
|----------------------------|--------------|

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 deferred as unavailable. PACT had \$79,534 of deferred inflows of resources in 2013.

| | |
|--|---------|
| | 121,539 |
|--|---------|

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

| | |
|---------------------------|---------|
| Current year depreciation | (3,839) |
|---------------------------|---------|

Increases in compensated absences payable increase expenses but do not affect current financial resources and, therefore, are not reported in the governmental fund operating statement.

| | |
|--|----------------|
| | <u>(4,704)</u> |
|--|----------------|

| | |
|--|----------------------------------|
| Change in Net Position of Governmental Activities | <u><u>\$ (51,975)</u></u> |
|--|----------------------------------|

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

EXHIBIT 3

**BUDGETARY COMPARISON
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental | \$ 1,079,620 | \$ 1,224,005 | \$ 1,092,307 | \$ (131,698) |
| Interest on investments | 11,625 | 11,625 | 21,225 | 9,600 |
| Gifts and contributions | 216,357 | 215,857 | 301,730 | 85,873 |
| Charges for services | 541,611 | 541,611 | 728,519 | 186,908 |
| Miscellaneous | 414,247 | 409,709 | 4,241 | (405,468) |
| Total Revenues | \$ 2,263,460 | \$ 2,402,807 | \$ 2,148,022 | \$ (254,785) |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| General | \$ 318,147 | \$ 313,809 | \$ 342,375 | \$ (28,566) |
| Local Collaborative Time Study | 1,173,871 | 1,173,671 | 1,186,760 | (13,089) |
| Twenty-First Century Community Learning Centers | 300,000 | 444,385 | 356,995 | 87,390 |
| Guia | 170,000 | 170,000 | 162,011 | 7,989 |
| Drug-Free Communities - Renville County | 83,891 | 83,891 | 81,209 | 2,682 |
| Drug-Free Communities - Yellow Medicine County | 84,180 | 84,180 | 80,917 | 3,263 |
| Brain Conference | 12,000 | 12,000 | 10,751 | 1,249 |
| Pohlad Foundation | 12,000 | 11,500 | 11,628 | (128) |
| Parent Advisory Committee | 14,000 | 14,000 | 1,503 | 12,497 |
| Crossover - Youth Intervention Program | | | | |
| Department of Public Safety Grant | 41,014 | 41,014 | 12,979 | 28,035 |
| Bush Foundation Truancy Grant | 54,357 | 54,357 | 47,983 | 6,374 |
| Family Group Decision Making Grant | - | - | 17,882 | (17,882) |
| Total Expenditures | \$ 2,263,460 | \$ 2,402,807 | \$ 2,312,993 | \$ 89,814 |
| Net Change in Fund Balance | \$ - | \$ - | \$ (164,971) | \$ (164,971) |
| Fund Balance - January 1 | 3,040,206 | 3,040,206 | 3,040,206 | - |
| Fund Balance - December 31 | \$ 3,040,206 | \$ 3,040,206 | \$ 2,875,235 | \$ (164,971) |

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Summary of Significant Accounting Policies

Putting All Communities Together for Families Collaborative (PACT) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2014. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by PACT are discussed below.

A. Financial Reporting Entity

PACT was established in 1996 by a joint powers agreement among Kandiyohi, Meeker, Renville, and Yellow Medicine Counties. Effective January 1, 2011, an additional joint powers agreement was entered into adding McLeod County as a fifth county partner to PACT. As a result, the name was changed from PACT 4 Families Collaborative to PACT for Families Collaborative. This had no effect on PACT's tax identification or filing obligations with the U.S. Department of the Treasury Internal Revenue Service or the Minnesota Secretary of State. The joint powers agreements were established to provide coordinated services to children and families. A county may withdraw from PACT by giving a 30-day written notice to PACT; 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 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.

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

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

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 overall.

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

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

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 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 except for compensated absences, which are recognized as expenditures to the extent that they have matured.

When both restricted and unrestricted resources are available for use, it is PACT's policy to use restricted resources first and then unrestricted resources as needed.

D. Reconciliation of Government-Wide Fund Financial Statements

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

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

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

PACT 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. The investment in the pool is measured at the amortized cost per share provided by the pool, which closely approximates fair value.

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 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 is depreciated using the straight-line method over the following estimated useful lives:

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

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

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

4. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated Paid Time Off (PTO) 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. A liability for these amounts is reported in the General Fund only if they have matured, for example, as a result of employee resignations and retirements.

5. Unearned Revenue

PACT's General Fund and the governmental activities statement of net position report unearned revenue in connection with resources that have been received, but not yet earned. In 2014, PACT reported \$63,566 in unearned revenue related to contributions and services deposited in the current year for the next year's activity.

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. No deferred outflows of resources affect the governmental funds or governmental activities financial statements in the current year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. PACT has only one type of item which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category.

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

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

6. Deferred Outflows/Inflows of Resources (Continued)

Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. In 2014, there was \$201,073 in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period as reported in the General Fund.

7. Classification of Net Position

Net position in the government-wide statements is classified in the following categories:

Investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law though constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

8. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which PACT is bound to observe constraints imposed upon the use of the resources in the governmental fund. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

8. Classification of Fund Balances (Continued)

Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Executive Board of Directors or Chief Elected Officials Board.

Those committed amounts cannot be used for any other purpose unless the Executive Board of Directors or Chief Elected Officials Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. The action must be approved no later than the close of the reporting period and remains binding unless removed in the same manner.

Assigned - amounts PACT intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the PACT Director who has been delegated that authority by a resolution of the Executive Board of Directors and the Chief Elected Officials Board.

Unassigned - the residual classification for the General Fund, it includes all spendable amounts not contained in the other fund balance classifications.

PACT applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

At December 31, 2014, the General Fund had \$237,040 in fund balance assigned to grants awarded. The remaining fund balance is classified as unassigned.

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

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

9. Minimum Fund Balance

The General Fund is heavily reliant on intergovernmental revenues in the form of federal and state grant awards, some of which are on a reimbursement basis. PACT adopted a minimum fund balance policy for its General Fund to maintain a minimum unassigned fund balance for cash flows equal to 35 to 50 percent of the General Fund operating expenditures. In the event that the balance drops below the established minimum level at the completion of any fiscal year, the Executive Board of Directors shall create a plan to restore the balance to the appropriate level.

The fund balance policy was adopted by the Executive Board of Directors on November 1, 2011, and by the Chief Elected Officials Board on November 9, 2011.

At December 31, 2014, unassigned fund balance for the General Fund was above the minimum fund balance level.

10. 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 contracts and other commitments for expenditures are recorded, is used in the General Fund. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if unperformed contracts in process at year-end are completed. Encumbrances lapse at year-end and are rebudgeted the following year. Encumbrances outstanding at year-end were not reported as expenditures in the financial statements and, therefore, are included as part of restricted, committed, or assigned fund balance, as appropriate.

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

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

11. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

12. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for PACT's calendar year 2015. PACT has not yet determined the financial statement impact of adopting this new standard.

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

2. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits

PACT 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 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.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, PACT's deposits may not be returned to it. PACT does not have a deposit policy for custodial credit risk. As of December 31, 2014, PACT had no exposure to custodial credit risk, as all bank balances had been swept into the Minnesota Association of Governments Investing for Counties (MAGIC) Fund investment account.

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

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

b. Investments

PACT 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;
- (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.

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

2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

PACT 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, 2014, had maturity dates between February 2015 and December 2015.

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. PACT does not have an investment policy for credit risk.

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 in the possession of an outside party. PACT does not have an investment policy for custodial credit risk. As of December 31, 2014, PACT had no exposure to custodial credit risk.

Concentration of Credit Risk

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

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

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

The following table presents PACT's deposit and investment balances at December 31, 2014, and information relating to potential investment risks:

| Investment - Issuer | Credit Risk | | Concentration Risk (%) | Interest Rate Risk | Fair Value |
|--|------------------|------------------|------------------------------|-----------------------|--------------|
| | Credit Rating | Rating Agency | | Maturity Date | |
| Negotiable certificates of deposit | | | | | |
| PFM Asset Management | | | | | |
| Various | N/A | N/A | 14.02 | 02/05/2015 | \$ 405,000 |
| Various | N/A | N/A | 25.44 | 02/17/2015 | 735,000 |
| Various | N/A | N/A | 8.55 | 04/08/2015 | 247,000 |
| Various | N/A | N/A | 8.55 | 04/15/2015 | 247,000 |
| Various | N/A | N/A | 17.17 | 09/10/2015 | 496,000 |
| Various | N/A | N/A | 8.59 | 12/30/2015 | 248,000 |
| Total negotiable certificates of deposit | | | 82.32 | | \$ 2,378,000 |
| Investment pools/mutual funds | | | | | |
| MAGIC Fund | N/R | N/A | 17.68 | | 447,674 |
| Total investments | | | 100.00 | | \$ 2,825,674 |
| Deposits | | | | | |
| Total Cash and Investments | | | | | \$ 2,825,674 |

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

2. Accrued Interest

Interest accrued related to the negotiable certificates of deposit purchased through the MAGIC Fund investment account as of December 31, 2014, is \$29,674.

3. Receivables

PACT did not have any receivables scheduled to be collected beyond one year as of December 31, 2014.

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

2. Detailed Notes

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|----------------------|------------|----------|-------------------|
| Capital assets depreciated | | | | |
| Machinery, furniture, and equipment | \$ 140,361 | \$ - | \$ - | \$ 140,361 |
| Less: accumulated depreciation for Machinery, furniture, and equipment | (133,278) | (3,839) | - | (137,117) |
| Total Capital Assets, Net | \$ 7,083 | \$ (3,839) | \$ - | \$ 3,244 |

Depreciation expense of \$3,839 was charged to PACT's general government function for the year ending December 31, 2014.

B. Liabilities

1. Operating Leases

PACT is committed under an operating lease for its current office space through June 30, 2016. This lease is expected to continue or be replaced with a similar lease, however, no signed agreement is yet in place. Lease expenditures for the facilities in 2014 were \$34,979. Future minimum payments for the current lease total \$52,858 ending June 30, 2016.

2. Paid-Time-Off (PTO)

Employees are granted Paid Time Off (PTO) in varying amounts based on their length of service and allows full-time and eligible less than full-time employees (either exempt or non-exempt) to accrue compensated time off without categorical barriers. PTO accrues per pay period on a step basis, with a maximum number of hours allowed to remain in the bank at the end of any given year.

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

2. Detailed Notes

B. Liabilities

2. Paid-Time-Off (PTO) (Continued)

If a staff member's PTO bank exceeds the 320 hour maximum, he or she will be allowed until the last day of the year to reduce banked hours, or on January 1 of each year, the PTO bank will be reduced to the maximum allowance. PTO leave accrual varies from 18 to 31 days per year. PACT pays unused accumulated vested PTO leave to eligible employees upon termination.

Unvested PTO leave is not paid to employees at termination. Unvested PTO not expected to vest, valued at \$53,277 at December 31, 2014, is not reported in the financial statements.

3. Long-Term Liabilities - Compensated Absences

Changes in PACT's compensated absences balances for the year ended December 31, 2014, are:

| | Payable January 1 | Additions | Deductions | Payable December 31 |
|---------------|----------------------|-----------|------------|------------------------|
| Vested PTO | \$ 68,511 | \$ 5,322 | \$ 618 | \$ 73,215 |

Compensated absences estimated to be paid within one year are \$18,304.

3. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of PACT 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.

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

3. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 of PACT's employees belong to the Coordinated Plan. All new members must participate in the Coordinated Plan and benefits vest after five years of credited service.

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. Defined 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 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, 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 remaining year. Under Method 2, the annuity accrual rate is 1.7 percent of average salary for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. 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.

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

3. Pension Plans

A. Defined Benefit Plans (Continued)

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 makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Coordinated Plan members were required to contribute 6.25 percent of their annual covered salary in 2014.

In 2014, PACT is required to contribute the following percentages of annual covered payroll:

| | |
|---|------|
| General Employees Retirement Fund Coordinated Plan members | 7.25 |
|---|------|

PACT contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund were:

| 2014 | 2013 | 2012 |
|-----------|-----------|-----------|
| \$ 81,557 | \$ 80,010 | \$ 86,130 |

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers).

4. Summary of Significant Contingencies and Other Items

A. Risk Management

PACT 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 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 purchases commercial insurance for other risks of loss. There were no significant reductions in insurance coverage from the previous year or settlements in excess of coverage for any of the past three years.

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

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 \$480,000 per claim in 2014 and \$490,000 per claim in 2015. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess PACT in a method and amount to be determined by MCIT.

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

B. Claims and Litigation

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

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SUPPLEMENTARY INFORMATION

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

EXHIBIT A-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|---|------------------------------------|---------------------------------|
| U.S. Department of Education | | |
| Passed Through Renville County Safe and Drug-Free Schools and Communities - National Programs (Total Safe and Drug-Free Schools and Communities - National Programs 84.184 - \$162,126) | 84.184 | \$ 81,209 |
| Passed Through Yellow Medicine County Safe and Drug-Free Schools and Communities - National Programs (Total Safe and Drug-Free Schools and Communities - National Programs 84.184 - \$162,126) | 84.184 | 80,917 |
| Passed Through Minnesota Department of Education Twenty-First Century Community Learning Centers | 84.287 | <u>356,995</u> |
| Total U.S. Department of Education | | <u>\$ 519,121</u> |
| U.S. Department of Health and Human Services | | |
| Passed Through Renville County Promoting Safe and Stable Families Family Group Decision Making Grant | 93.556 | \$ 17,882 |
| Passed Through Minnesota Department of Human Services Block Grants for Prevention and Treatment of Substance Abuse Guia Special Populations Chemical Health Grant | 93.959 | <u>162,011</u> |
| Total U.S. Department of Health and Human Services | | <u>\$ 179,893</u> |
| Total Federal Awards | | <u><u>\$ 699,014</u></u> |

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Putting All Communities Together for Families Collaborative (PACT). PACT'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 under programs of the federal government for the year ended December 31, 2014. 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, it is not intended to and does not present the financial position or changes in net position of PACT.

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 entity identifying numbers were not assigned by the pass-through agencies.

4. Subrecipients

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

| <u>CFDA Number</u> | <u>Program Name</u> | <u>Amount Provided to Subrecipients</u> |
|------------------------|---|---|
| 84.287 | Twenty-First Century Community Learning Centers | \$ <u>257,652</u> |

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major program is:

Twenty-First Century Community Learning Centers CFDA #84.287

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

PACT qualified as a low-risk auditee? **Yes**

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. ITEM FOR CONSIDERATION

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of PACT's government-wide statement of financial position. PACT's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years--deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that, if material, will be reported in PACT's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.



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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*

Independent Auditor's Report

Executive Board
Putting All Communities Together for Families Collaborative
Willmar, Minnesota

We have audited, 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, the financial statements of the governmental activities and the General Fund of Putting All Communities Together for Families Collaborative (PACT) as of and for the year ended of December 31, 2014, and the related notes to the financial statements, which collectively comprise PACT's basic financial statements, and have issued our report thereon dated July 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PACT's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PACT'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's

financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PACT's financial statements are free from 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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of PACT's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because PACT does not have debt.

In connection with our audit, nothing came to our attention that caused us to believe that PACT failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding PACT's noncompliance with the above referenced provisions.

Other Matters

Also included in the Schedule of Findings and Questioned Costs is an item for consideration. We believe this information to be of benefit to PACT, and it is reported for that purpose.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of PACT's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PACT's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 28, 2015

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Executive Board
Putting All Communities Together for Families Collaborative
Willmar, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Putting All Communities Together for Families Collaborative's (PACT) 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 PACT's major federal program for the year ended December 31, 2014. PACT's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for PACT's major federal program based on our audit of the types of compliance requirements referred to above. 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'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 on compliance for the major federal program. However, our audit does not provide a legal determination of PACT's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, PACT complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of PACT is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered PACT's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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'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. 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 the attention of those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 28, 2015