

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

**Putting All Communities Together
For Families Collaborative
Willmar, Minnesota**

Year Ended December 31, 2019

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 100 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 Minnesota’s local 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
For Families Collaborative
Willmar, Minnesota**

Year Ended December 31, 2019



**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, 2019

| | <u>Position</u> | <u>Agency</u> | <u>Term Expires</u> |
|------------------------|-----------------|-----------------------|---------------------|
| Executive Board | | | |
| Tara Nelson | Chair | Mental Health Center | 2019 |
| Corinne Torkelson | Vice Chair | Member at Large | 2021 |
| Dawna Woodman | Member | Parent Representative | 2019 |
| Rae Ann Keeler-Aus | Member | Member at Large | 2019 |
| William Deterling | Member | Parent Representative | 2019 |
| Diane Winter | Member | Public Health | 2020 |
| Tami Jo Lieberg | Member | Corrections | 2020 |
| Michelle Mortensen | Member | Public Schools | 2020 |
| Kathleen Preuss | Member | Social Services | 2021 |

Fiscal Supervisor
Gladys Kirsch

Director
Rochelle Peterson

| | <u>Position</u> | <u>Agency</u> |
|--------------------------------------|-----------------|-------------------------------------|
| Chief Elected Officials Board | | |
| Robert Fox | Chair | Renville County Commissioner |
| Rich Pohlmeier | Vice Chair | McLeod County Commissioner |
| Corky Berg | Member | Kandiyohi County Commissioner |
| Steve Schmitt | Member | Meeker County Commissioner |
| Greg Renneke | Member | Yellow Medicine County Commissioner |

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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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, 2019, 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 from 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, 2019, and the respective changes in financial position thereof and the budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1.F. to the financial statements, in 2019, PACT adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, 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 November 9, 2020, 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 solely 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 effectiveness of PACT's 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.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

November 9, 2020

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

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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, 2019
(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, 2019. 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 2019 fiscal year include the following:

- Total net position is \$1,763,654, all of which is unrestricted.
- This is the first year PACT implemented the new Other Post Employment Benefits financial reporting standards (GASB 75). PACT’s net position decreased by \$27,039 related to the implementation.
- Net position increased for the year ending December 31, 2019, by \$32,829.
- PACT also has federally funded grants that pass through other counties and state departments:

| | |
|---|------------|
| Twenty-First Century Community Learning Centers from the Minnesota Department of Education | \$ 331,257 |
| Drug-Free Communities Support Program Grant passed through Renville County Public Health from the U.S. Department of Education | 92,918 |
| Special Populations Chemical Health Grant entitled Guía, from the Minnesota Department of Human Services Alcohol and Drug Abuse Division | 144,210 |
| Family Group Decision Making Grant passed through Renville County Human Services from the Minnesota Department of Human Services | 17,873 |
| Reentry Ready Recidivism Reduction Grant from Edward Byrne Memorial Justice Assistance through Minnesota Department of Public Safety Office of Justice Programs | 91,701 |
| System of Care – Wraparound from Minnesota Department of Human Services Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) | 52,759 |

Twenty-First Century Community Learning Centers from the Minnesota Department of Education ended on July 31, 2019. System of Care – Wraparound from Minnesota Department of Human Services Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED) contract ended on January 5, 2020. All other projects noted are expected to continue into 2020.

- Government-wide net position increased 1.90 percent from the prior year.
- Overall government-wide revenues totaled \$2,101,519 and were \$17,199 less than prior year; and \$32,829 more than expenses.
- The General Fund's fund balance increased \$154,503, or 6.06 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 \$1,763,654 on December 31, 2019.

| | Table 1 | | |
|---|---------------------|---------------------|-----------------------|
| | Net Position | | |
| | 2019 | 2018* | Percent Change (%) |
| Assets | | | |
| Cash and investments | \$ 2,517,341 | \$ 2,472,797 | 1.80 |
| Accrued interest receivable | 10,896 | 8,825 | 23.47 |
| Accounts receivable | - | 4,163 | (100.00) |
| Due from other governments | 529,049 | 681,883 | (22.41) |
| Total Assets | \$ 3,057,286 | \$ 3,167,668 | (3.48) |
| Deferred Outflows of Resources | | | |
| Deferred other postemployment benefits outflows | \$ 419 | \$ - | 100.00 |
| Deferred pension outflows | 67,505 | 167,477 | (59.69) |
| Total Deferred outflows of resources | \$ 67,924 | \$ 167,477 | (59.44) |
| Liabilities | | | |
| Accounts payable | \$ 17,371 | \$ 21,927 | (20.78) |
| Salaries payable | 52,934 | 44,445 | 19.10 |
| Accrued payroll taxes | 3,654 | 3,053 | 19.69 |
| Due to other governments | 50,819 | 169,527 | (70.02) |
| Long-term liabilities | | | |
| Due within one year | 18,072 | 19,152 | (5.64) |
| Due in more than one year | 54,215 | 57,455 | (5.64) |
| Other postemployment benefits liability | 27,458 | 24,457 | 12.27 |
| Net pension liability | 868,016 | 876,519 | (0.97) |
| Total Liabilities | \$ 1,092,539 | \$ 1,216,535 | (10.19) |
| Deferred Inflows of Resources | | | |
| Deferred pension inflows | \$ 269,017 | \$ 387,785 | (30.63) |
| Net Position | | | |
| Unrestricted | \$ 1,763,654 | \$ 1,730,825 | 1.90 |

*For 2018, a restatement of prior year net position was required because of a change in accounting principles. The change is reflected in the 2018 column (see Note 1.F.)

**Table 2
Change in Net Position**

| | <u>2019</u> | <u>2018*</u> | <u>Percent Change (%)</u> |
|-------------------------------------|--------------|--------------|-------------------------------|
| Revenues | | | |
| Program revenues | | | |
| Intergovernmental | \$ 1,232,251 | \$ 1,305,698 | (5.63) |
| Charges for services | 544,314 | 541,401 | 0.54 |
| General revenues | | | |
| Gifts and contributions | 217,957 | 242,249 | (10.03) |
| Investment earnings | 106,997 | 29,370 | 264.31 |
| Total Revenues | \$ 2,101,519 | \$ 2,118,718 | (0.81) |
| Expenses | | | |
| Program expenses | | | |
| General government | 2,068,690 | 2,193,265 | (5.68) |
| Increase (Decrease) in Net Position | \$ 32,829 | \$ (74,547) | (144.04) |
| Beginning Net Position | 1,730,825 | 1,805,372 | (4.13) |
| Ending Net Position | \$ 1,763,654 | \$ 1,730,825 | 1.90 |

*For 2018, a restatement of prior year net position was required because of a change in accounting principles. The change is reflected in the 2018 column (see Note 1.F.)

CAPITAL ASSETS

As of December 31, 2019, PACT had \$0 invested in capital assets (see Table 3 below).

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

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|-------------|-------------|
| Machinery, furniture, and equipment | \$ 154,248 | \$ 161,970 |
| Less: accumulated depreciation | (154,248) | (161,970) |
| Net Capital Assets | \$ - | \$ - |

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 \$2,705,808, which is above last year's fund balance of \$2,551,305 by \$154,503, an increase of 6.06 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 no budgetary amendments/revisions in 2019. Actual revenues were less than budgeted by \$43,997; expenditures were also less than budgeted by \$428,318. 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 increase in total net position is due to revenues over expenses. Net position increased by \$32,829. Revenues came in below 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, Twenty-First Century, Guía, Reentry Ready, and Drug-Free Communities, etc.) are based on a state or federal 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 2020 is expected to be in line with, or just slightly higher than, 2019. While grant funding is always a bit tenuous, most of our current grants are moving forward along with some additional grants. Twenty-First Century Community Learning Centers Funding Cohort 6 ended on July 31, 2019. In addition, we withdrew from our contract with the Minnesota Department of Human Services through a System of Care SAMHSA (Substance Abuse Mental Health Services Administration) grant effective January 5, 2020. PACT moved from grantee of the Family Group Decision Making funds to a contracted agency of Renville County, effective July 1, 2020. Having Renville County the grant holder and fiscal agent is more effective for reporting and streamlining services for our five counties. PACT will provide services for the counties and bill directly to the grant holder, Renville County. Reentry Ready, Drug-Free Communities, and Guía will continue through 2020. We continue to seek and obtain local and foundational dollars to build resilience and independence for families who face challenges.

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 we are hopeful that our targeted income projects will be met or exceeded.

The accounting and financial reporting standards of GASB Statements 68, 71, and 75 requires the net pension liability and other postemployment benefit obligation and related deferred inflows of resources and deferred outflows of resources be recognized on the Statement of Net Position. Therefore, a reduction from fund balance to net position on Exhibit 1 was recorded for \$1,096,567.

On the expense side of the picture, we continue to streamline as many of our expenses as possible. Our Executive Board continues to examine our future financial plans, keeping our budget as stable as possible between income and expenses during these uncertain times. We look at ways we can use collaborative funds on behalf of children and families in our five counties in the most effective and resourceful manner, especially during the 2020 COVID pandemic.

In mid to late calendar year 2020 we are looking forward to implementing four new grants as follows:

Mental Health Awareness Training is a federal grant through SAMHSA (Substance Abuse Mental Health Services Administration) that will provide mental health awareness training to elementary, middle, and high school teachers and staff within the service area of PACT for Families Collaborative. We will train school personnel in our member school districts, help high school youth learn peer support skills, and equip parents with increased knowledge of mental health resources in their community.

Family Permanency through the MN Department of Human Services will serve pre-adoptive, adoptive, foster care and kinship families, including their children, teens, young adults, and siblings. The project's title, *Families Forever*, will support families, youth, and staff involved in the placement of youth to ensure the youth and families have the tools and resources to fulfill the special needs of this target population. The goal is to support permanent placement and reduce disrupted placements, in order to reduce harm to children.

Journey to Independence is a federal System of Care Funding through SAMHSA (Substance Abuse Mental Health Services Administration). This project proposes expanded support to youth ages 16-21 who struggle with recognized severe emotional disturbances or serious mental illness (SED/SMI) or emerging mental health issues, and their parents by utilizing the Transition to Independence Planning (TIP) Model® and collaborating with key community, mental health providers, and policy makers. The project will assist youth in developing greater self-sufficiency and independence while emphasizing the role of parents/guardians in guiding and supporting their youth through the transition to adulthood. *Journey to Independence* represents a shift in service delivery and wraparound support that will improve the resilience of our targeted rural youth, nurture more durable parent-child bonds, and sway communities to adopt similar systems of care and to recognize the value of investing in this particular transition point.

Partnerships for Success through SAMHSA (Substance Abuse Mental Health Services Administration) is a project to increase prevention infrastructure to counteract the onset of substance abuse and reduce progression and its related problems. Specifically, it is to support a reduction in underage drinking, marijuana use, and addiction to nicotine through vaping/e-cigarette

use among youth and adults aged 9 and up by increasing the capacity of school districts and organizations in Kandiyohi, Renville, and Yellow Medicine counties to implement effective prevention programming.

CONTACTING PACT'S 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 Northeast, Suite 2030, Willmar, Minnesota 56201; (320) 231-7030.

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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, 2019**

| | General Fund | Adjustments | Governmental Activities |
|---|-------------------------|--------------------|------------------------------------|
| <u>Assets and Deferred Outflows of Resources</u> | | | |
| Assets | | | |
| Cash and pooled investments | \$ 2,517,341 | \$ - | \$ 2,517,341 |
| Accrued interest receivable | 10,896 | - | 10,896 |
| Due from other governments | 529,049 | - | 529,049 |
| Total Assets | \$ 3,057,286 | \$ - | \$ 3,057,286 |
| Deferred Outflows of Resources | | | |
| Deferred other postemployment benefits outflows | \$ - | \$ 419 | \$ 419 |
| Deferred pension outflows | - | 67,505 | 67,505 |
| Total Deferred Outflows of Resources | \$ - | \$ 67,924 | \$ 67,924 |
| Total Assets and Deferred Outflows of Resources | \$ 3,057,286 | \$ 67,924 | \$ 3,125,210 |
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ 17,371 | \$ - | \$ 17,371 |
| Salaries payable | 52,934 | - | 52,934 |
| Accrued payroll taxes | 3,654 | - | 3,654 |
| Due to other governments | 50,819 | - | 50,819 |
| Long-term liabilities | | | |
| Due within one year | - | 18,072 | 18,072 |
| Due in more than one year | - | 54,215 | 54,215 |
| Other postemployment benefits liability | - | 27,458 | 27,458 |
| Net pension liability | - | 868,016 | 868,016 |
| Total Liabilities | \$ 124,778 | \$ 967,761 | \$ 1,092,539 |
| Deferred Inflows of Resources | | | |
| Unavailable revenue | \$ 226,700 | \$ (226,700) | \$ - |
| Deferred pension inflows | - | 269,017 | 269,017 |
| Total Deferred Inflows of Resources | \$ 226,700 | \$ 42,317 | \$ 269,017 |

**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, 2019**

| | General Fund | Adjustments | Governmental Activities |
|---|-------------------------|-----------------------|------------------------------------|
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u> | | | |
| (Continued) | | | |
| Fund Balance | | | |
| Assigned | \$ 88,653 | \$ (88,653) | |
| Unassigned | 2,617,155 | (2,617,155) | |
| Total Fund Balance | \$ 2,705,808 | \$ (2,705,808) | |
| Net Position | | | |
| Unrestricted | | \$ 1,763,654 | \$ 1,763,654 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position | \$ 3,057,286 | \$ 67,924 | \$ 3,125,210 |
| Reconciliation of the General Fund Balance to Net Position | | | |
| Fund Balance – General Fund | | | \$ 2,705,808 |
| Deferred outflows of resources are not available resources and, therefore, are not reported in the governmental fund. | | | |
| Deferred other postemployment benefits outflows | | \$ 419 | |
| Deferred pension outflows | | 67,505 | 67,924 |
| 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. | | | |
| | | | 226,700 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund. | | | |
| Compensated absences | | \$ (72,287) | |
| Other postemployment benefits liability | | (27,458) | |
| Net pension liability | | (868,016) | (967,761) |
| Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental fund. | | | |
| | | | (269,017) |
| Net Position – Governmental Activities | | | \$ 1,763,654 |

**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, 2019**

| | General Fund | Adjustments | Governmental Activities |
|--|-------------------------|---------------------|------------------------------------|
| Revenues | | | |
| Intergovernmental | \$ 1,322,422 | \$ (90,171) | \$ 1,232,251 |
| Investment earnings | 104,926 | 2,071 | 106,997 |
| Gifts and contributions | 217,957 | - | 217,957 |
| Charges for services | 606,925 | (62,611) | 544,314 |
| Total Revenues | \$ 2,252,230 | \$ (150,711) | \$ 2,101,519 |
| Expenditures/Expenses | | | |
| Current | | | |
| General government | | | |
| General | \$ 268,000 | \$ (29,037) | \$ 238,963 |
| Local Collaborative Time Study | 1,084,769 | - | 1,084,769 |
| Twenty-First Century Community Learning Centers | 331,257 | - | 331,257 |
| Guia | 144,210 | - | 144,210 |
| Drug-Free Communities | 92,918 | - | 92,918 |
| Reentry Ready | 91,701 | - | 91,701 |
| Brain Conference | 1,592 | - | 1,592 |
| Parent Advisory Committee | 49 | - | 49 |
| System Of Care – Wraparound | 52,759 | - | 52,759 |
| Family Group Decision Making | 17,873 | - | 17,873 |
| Connecting Families Program | 12,599 | - | 12,599 |
| Total Expenditures/Expenses | \$ 2,097,727 | \$ (29,037) | \$ 2,068,690 |
| Net Change in Fund Balance/Net Position | \$ 154,503 | \$ (121,674) | \$ 32,829 |
| Fund Balance/Net Position – January 1, as restated (See Note 1.F.) | 2,551,305 | (820,480) | 1,730,825 |
| Fund Balance/Net Position – December 31 | \$ 2,705,808 | \$ (942,154) | \$ 1,763,654 |

**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, 2019**

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

| | | |
|---|-----------|----------------------|
| Net Change in Fund Balance | \$ | 154,503 |
| <p>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 \$377,411 of unavailable revenue in 2018.</p> | | |
| | | (150,711) |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund operating statement.</p> | | |
| Change in compensated absences | \$ 4,320 | |
| Change in other postemployment benefits liability | (3,001) | |
| Change in net pension liability | 8,503 | |
| Change in deferred other postemployment benefit outflows | 419 | |
| Change in deferred pension outflows | (99,972) | |
| Change in deferred pension inflows | 118,768 | |
| | 29,037 | |
| Change in Net Position of Governmental Activities | \$ | <u>32,829</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, 2019**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental | \$ 1,471,309 | \$ 1,471,309 | \$ 1,322,422 | \$ (148,887) |
| Investment earnings | 33,200 | 33,200 | 104,926 | 71,726 |
| Gifts and contributions | 245,828 | 245,828 | 217,957 | (27,871) |
| Charges for services | 545,890 | 545,890 | 606,925 | 61,035 |
| Total Revenues | \$ 2,296,227 | \$ 2,296,227 | \$ 2,252,230 | \$ (43,997) |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| General | \$ 362,148 | \$ 362,148 | \$ 268,000 | \$ 94,148 |
| Local Collaborative Time Study | 1,156,123 | 1,156,123 | 1,084,769 | 71,354 |
| Twenty-First Century Community Learning Centers | 523,013 | 523,013 | 331,257 | 191,756 |
| Guia | 165,000 | 165,000 | 144,210 | 20,790 |
| Drug-Free Communities | 98,733 | 98,733 | 92,918 | 5,815 |
| Reentry Ready | 122,590 | 122,590 | 91,701 | 30,889 |
| Brain Conference | 12,000 | 12,000 | 1,592 | 10,408 |
| Parent Advisory Committee | - | - | 49 | (49) |
| System Of Care – Wraparound | 55,989 | 55,989 | 52,759 | 3,230 |
| Family Group Decision Making | 30,449 | 30,449 | 17,873 | 12,576 |
| Connecting Families Program | - | - | 12,599 | (12,599) |
| Total Expenditures | \$ 2,526,045 | \$ 2,526,045 | \$ 2,097,727 | \$ 428,318 |
| Net Change in Fund Balance | \$ (229,818) | \$ (229,818) | \$ 154,503 | \$ 384,321 |
| Fund Balance – January 1 | 2,551,305 | 2,551,305 | 2,551,305 | - |
| Fund Balance – December 31 | \$ 2,321,487 | \$ 2,321,487 | \$ 2,705,808 | \$ 384,321 |

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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, 2019**

1. Summary of Significant Accounting Policies

Putting All Communities Together for Families Collaborative's (PACT) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2019. 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.

McLeod County Family Services has acted as the fiscal agent for PACT since January 1, 2016.

**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 as 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 full 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 is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The investment in the pool is measured at the net asset value per share provided by the pool. PACT also invests with Frandsen Investment Services with Securities and Advisory services offered through LPL Financial, a Registered Investment Advisor, Member FINRA, SIPC. These investments are reported at their fair value at December 31, 2019, based on market prices. Investment earnings for 2019 were \$104,926.

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 three years. Such assets are recorded at historical cost. Donated capital assets are recorded at acquisition value.

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. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates, and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports 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. PACT reports deferred outflows of resources only under the full accrual basis of accounting associated with pension plans and other postemployment benefits (OPEB) and, accordingly, are reported only in the statement of net position.

**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)

In addition to liabilities, the statement of financial position reports 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 will not be recognized as an inflow of resources (revenue) until that time. PACT has two types of deferred inflows. The governmental fund reports unavailable revenue for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental fund balance sheet. Unavailable revenue is deferred and recognized as an inflow of resources in the period that the amounts become available. PACT also reports deferred inflows of resources associated with pension benefits. These inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

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.

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 through constitutional provisions or enabling legislation.

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

**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)

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.

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 imposed by 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.

**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)

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, 2019, the General Fund had \$88,653 in fund balance assigned to grants awarded. The remaining fund balance is classified as unassigned.

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, 2019, 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.

**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

10. Budgetary Information (Continued)

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. The legal level of control (the level at which expenditures may not legally exceed appropriations) is the activity level.

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.

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, deferred outflows of resources, liabilities, and deferred inflows of resources; 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.

F. Change in Accounting Principles

During the year ended December 31, 2019, PACT adopted new accounting guidance by implementing the provisions of GASB Statement 75. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, changes standards for recognizing and measuring other postemployment benefit (OPEB) liabilities and related deferred outflows of resources, deferred inflows of resources, and OPEB expense. This statement also requires additional note disclosures and a schedule in the required supplementary information. Beginning net position has been restated to reflect this change.

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

1. Summary of Significant Accounting Policies

F. Change in Accounting Principles (Continued)

| | Governmental Activities |
|---|----------------------------|
| Net Position, January 1, 2019, as previously reported | \$ 1,755,282 |
| Change in accounting principles | (24,457) |
| Net Position, January 1, 2019, as restated | \$ 1,730,825 |

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year-end.

The appropriated budget is prepared by activity. Transfers of appropriations between activities require approval of the Executive Board. The legal level of budgetary control (that is, the level at which expenditures may not legally exceed appropriations) is the activity level. During the year, the Executive Board did not make any budgetary amendments in the General Fund.

B. Excess of Expenditures Over Budget

The following is a summary of activities in the General Fund that had expenditures in excess of budget for the year ended December 31, 2019.

| | Expenditures | Final Budget | Excess |
|-----------------------------|--------------|-----------------|--------|
| Parent Advisory Committee | \$ 49 | \$ - | \$ 49 |
| Connecting Families Program | 12,599 | - | 12,599 |

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

3. Detailed Notes

A. Assets

1. Deposits and Investments

Reconciliation of PACT’s total deposits and investments to the basic financial statements is as follows:

| | |
|-----------------------------------|---------------------|
| Deposits | \$ 549,000 |
| Investments | <u>1,968,341</u> |
| Total Cash and Pooled Investments | <u>\$ 2,517,341</u> |

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. It is PACT’s policy to minimize custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit, and obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2019, PACT had no exposure to custodial credit risk.

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

3. 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 118A.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**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

PACT does have an Investment Policy Statement for investment risks, described below, 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. It is PACT's policy to minimize interest rate risk by (1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and (2) investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with PACT's cash requirements. At December 31, 2019, PACT held no investments subject to interest rate risk.

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's policy is to minimize credit risk by authorizing only investments allowed under state statute.

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. It is PACT's policy to minimize custodial credit risk by permitting brokers to hold investments only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available,

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

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

and securities purchased that exceed available SIPC coverage will be transferred to PACT's custodian. As of December 31, 2019, 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. It is PACT's policy to minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

The following table presents PACT's deposit and investment balances at December 31, 2019, and information relating to potential investment risk:

| Investment – Issuer | Credit Risk | | Concentration Risk (%) | Interest Rate Risk | Fair Value |
|--|---------------|---------------|------------------------|--------------------|--------------|
| | Credit Rating | Rating Agency | | Maturity Date | |
| Negotiable certificates of deposit | | | | | |
| American Express Bank US | N/A | N/A | 12.62 | 08/31/2020 | \$ 248,340 |
| Capital One US | N/A | N/A | 12.65 | 08/16/2021 | 248,966 |
| Discover Bank US | N/A | N/A | 12.65 | 09/01/2021 | 249,018 |
| Goldman Sachs Bank US | N/A | N/A | 12.70 | 05/31/2022 | 249,944 |
| CIT Bank US | N/A | N/A | 12.56 | 03/27/2023 | 247,211 |
| Comenity Capital Bank US | N/A | N/A | 13.17 | 06/29/2023 | 259,318 |
| Total negotiable certificates of deposit | | | | | \$ 1,502,797 |
| Investment pools | | | | | |
| MAGIC Portfolio | N/R | N/A | 23.43 | | 461,196 |
| Money market account with broker | N/R | N/A | 00.22 | | 4,348 |
| Total investments | | | | | \$ 1,968,341 |
| Deposits | | | | | 549,000 |
| Total Cash and Investments | | | | | \$ 2,517,341 |

N/A – Not Applicable; N/R – Not Rated

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

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

PACT measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

At December 31, 2019, PACT had the following recurring fair value measurements.

| | December 31, 2019 | Fair Value Measurements Using | | |
|---|----------------------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments by fair value level | | | | |
| Negotiable certificates of deposit | <u>\$ 1,502,797</u> | <u>\$ -</u> | <u>\$ 1,502,797</u> | <u>\$ -</u> |
| Investments measured at the net asset value (NAV) | | | | |
| MAGIC Portfolio | \$ 461,196 | | | |
| Money Market Mutual Fund | <u>4,348</u> | | | |
| Total investments measured at the NAV | <u>\$ 465,544</u> | | | |

All Level 2 debt securities are valued using a matrix pricing technique based on the securities' relationship to benchmark quoted prices.

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

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). PACT invests in this pool for the purpose of the joint investment of PACT's money with those of counties to enhance the investment earnings accruing to each member. The MAGIC fund currently consists of the MAGIC Portfolio and the MAGIC CD Program.

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as PACT has a sufficient number of shares to meet their redemption request. The Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its NAV not reasonably practical.

PACT also invests in money market funds for the benefit of liquid investments that can be readily re-invested. Money market funds held by PACT seek a constant NAV of \$1.00 per share.

2. Accrued Interest

Interest accrued related to the non-negotiable certificates of deposit purchased through the MAGIC Fund investment account is \$3,736, and negotiable certificates of deposit purchased with Frandsen Investment Services through LPL Financial is \$7,160, for a total of \$10,896 as of December 31, 2019.

3. Receivables

PACT did not have any receivables scheduled to be collected beyond one year as of December 31, 2019. No allowance has been made for uncollectible receivables because such amounts are not expected to be material.

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

3. Detailed Notes

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended December 31, 2019, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|-------------------------------------|----------------------|-------------|-------------|-------------------|
| Capital assets depreciated | | | | |
| Machinery, furniture, and equipment | \$ 161,970 | \$ - | \$ (7,722) | \$ 154,248 |
| Less: accumulated depreciation for | | | | |
| Machinery, furniture, and equipment | (161,970) | - | 7,722 | (154,248) |
| Total Capital Assets, Net | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

All assets were fully depreciated for the year ending December 31, 2019.

B. Liabilities

1. Operating Leases

PACT is committed under an operating lease for its current office space through June 30, 2021. Lease expenditures for the facilities in 2019 were \$35,550. Future minimum payments for the year ending December 31, 2020, is \$35,550 and an additional \$17,775 for the six months ending on June 30, 2021.

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**

3. 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 \$38,127 at December 31, 2019, 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, 2019, are:

| | Payable January 1 | Additions | Deductions | Payable December 31 |
|------------|----------------------|-----------|------------|------------------------|
| Vested PTO | \$ 76,607 | \$ 2,285 | \$ 6,605 | \$ 72,287 |

Compensated absences estimated to be paid within one year are \$18,072.

C. Other Postemployment Benefits (OPEB)

1. Plan Description

PACT administers an Other Postemployment Benefits plan, a single-employer defined benefit health care plan, to eligible retirees and their dependents. PACT provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy.

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

3. Detailed Notes

C. Other Postemployment Benefits (OPEB)

1. Plan Description (Continued)

No assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB 75. The OPEB plan does not issue a stand-alone financial report.

As of the December 31, 2019, actuarial valuation, the following employees were covered by the benefit terms:

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefit payments | - |
| Active plan participants | <u>19</u> |
| Total | <u>19</u> |

2. Total OPEB Liability

PACT's total OPEB liability of \$27,458 was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date.

The total OPEB liability in the fiscal year-end December 31, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|------------------------|--|
| Inflation | 2.50 percent |
| Salary increases | 3.00 percent, average wage inflation plus merit/productivity increases |
| Health care cost trend | 6.50 percent, decreasing to 5.00 percent over six years |

The current year discount rate is 3.80 percent based on the published rate information yield of 20-year high quality, tax-exempt general obligation municipal bonds as of the measurement date.

Mortality rates are based on RP-2014 White Collar Mortality Tables with MP-2018 Generational Improvement Scale.

The actuarial assumptions are currently based on historical information.

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

3. Detailed Notes

C. Other Postemployment Benefits (OPEB) (Continued)

3. Changes in the Total OPEB Liability

| | Total OPEB Liability |
|------------------------------|-------------------------|
| Balance at December 31, 2018 | \$ 24,457 |
| Changes for the year | |
| Service cost | \$ 2,375 |
| Interest | 1,012 |
| Benefit payments | (386) |
| Net change | \$ 3,001 |
| Balance at December 31, 2019 | \$ 27,458 |

4. OPEB Liability Sensitivity

The following presents the total OPEB liability of PACT, calculated using the discount rate previously disclosed, as well as what PACT's total OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

| | Discount Rate | Total OPEB Liability |
|-------------|---------------|-------------------------|
| 1% Decrease | 2.80% | \$ 29,900 |
| Current | 3.80 | 27,458 |
| 1% Increase | 4.80 | 25,157 |

The following presents the total OPEB liability of PACT, calculated using the health care cost trend previously disclosed, as well as what PACT's total OPEB liability would be if it were calculated using health care cost trend rates that are 1.00 percentage point lower or 1.00 percentage point higher than the current health care cost trend rate:

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WILLMAR, MINNESOTA**

3. Detailed Notes

C. Other Postemployment Benefits (OPEB)

4. OPEB Liability Sensitivity (Continued)

| | Health Care Trend Rate | Total OPEB Liability |
|-------------|---------------------------|----------------------|
| 1% Decrease | 5.50% Decreasing to 4.00% | \$ 24,135 |
| Current | 6.50% Decreasing to 5.00% | 27,458 |
| 1% Increase | 7.50% Decreasing to 6.00% | 31,331 |

5. OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended December 31, 2019, PACT recognized OPEB expense of \$2,582. PACT reported deferred outflows of resources related to OPEB from the following source:

| | Deferred Outflows of Resources |
|---|--------------------------------|
| Contributions made subsequent to the measurement date | \$ 419 |

The \$419 reported as deferred outflows of resources related to OPEB resulting from the contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended December 31, 2020.

6. Changes in Actuarial Assumptions

No changes in actuarial assumptions occurred in 2019.

D. Defined Benefit Pension Plan

1. Plan Description

All full-time and certain part-time employees of PACT are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (the General Employees Plan), which is a cost-sharing, multiple-employer

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

3. Detailed Notes

D. Defined Benefit Pension Plan

1. Plan Description (Continued)

retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security, and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No PACT employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January.

Beginning January 1, 2019, General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase.

For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

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

3. Detailed Notes

D. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

The benefit provisions stated in the following paragraph 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 their public service.

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive 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 Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

For General Employees Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

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. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2019.

In 2019, PACT was required to contribute 7.50 percent of annual covered salary. The employee and employer contribution rates did not change from the previous year.

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

3. Detailed Notes

D. Defined Benefit Pension Plan

3. Contributions (Continued)

PACT's contribution for the General Employees Plan for the year ended December 31, 2019, were \$83,934. The contributions are equal to the statutorily required contributions as set by state statute.

4. Pension Costs

At December 31, 2019, PACT reported a liability of \$868,016 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. PACT's proportion of the net pension liability was based on PACT's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, PACT's proportion was 0.0157 percent. It was 0.0158 percent measured as of June 30, 2018. PACT recognized pension expense of (\$27,299) for its proportionate share of the General Employees Plan's pension expense.

PACT also recognized \$2,022 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually.

| | |
|--|-------------------|
| PACT's proportionate share of the net pension liability | \$ 868,016 |
| State of Minnesota's proportionate share of the net pension liability associated with PACT | <u>26,999</u> |
| Total | <u>\$ 895,015</u> |

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

3. Detailed Notes

D. Defined Benefit Pension Plan

4. Pension Costs (Continued)

PACT reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 26,164 | \$ - |
| Changes in actuarial assumptions | - | 74,757 |
| Difference between projected and actual investment earnings | - | 95,499 |
| Changes in proportion | - | 98,761 |
| Contributions paid to PERA subsequent to the measurement date | 41,341 | - |
| Total | \$ 67,505 | \$ 269,017 |

The \$41,341 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|---------------------------|------------------------------|
| 2020 | \$ (99,514) |
| 2021 | (125,853) |
| 2022 | (18,884) |
| 2023 | 1,398 |

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

3. Detailed Notes

D. Defined Benefit Pension Plan (Continued)

5. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

| | |
|------------------------------|-----------------------|
| Inflation | 2.50 percent per year |
| Active member payroll growth | 3.25 percent per year |
| Investment rate of return | 7.50 Percent |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. Inflation and investment assumptions were reviewed in the experience study report for the General Employees Plan dated June 27, 2019.

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Domestic equity | 35.50% | 5.10% |
| International equity | 17.50 | 5.30 |
| Fixed income | 20.00 | 0.75 |
| Private markets | 25.00 | 5.90 |
| Cash equivalents | 2.00 | 0.00 |

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

3. Detailed Notes

D. Defined Benefit Pension Plan (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2019, which remained consistent with 2018. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Changes in Actuarial Assumptions and Plan Provisions

The following change in actuarial assumption occurred in 2019:

- The mortality projection scale was changed from MP-2017 to MP-2018.

8. Pension Liability Sensitivity

The following presents PACT's proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what PACT's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

| | Proportionate Share of the General Employees Plan | |
|-------------|--|--------------------------|
| | Discount Rate | Net Pension Liability |
| 1% Decrease | 6.50% | \$ 1,426,975 |
| Current | 7.50 | 868,016 |
| 1% Increase | 8.50 | 406,488 |

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

3. Detailed Notes

D. Defined Benefit Pension Plan (Continued)

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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.

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 \$500,000 per claim in 2019 and 2020. 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. 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.

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

4. Summary of Significant Contingencies and Other Items (Continued)

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.

REQUIRED SUPPLEMENTARY INFORMATION

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

EXHIBIT A-1

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2019**

| | 2019 |
|--|------------------|
| Total OPEB Liability | |
| Service cost | \$ 2,375 |
| Interest | 1,012 |
| Benefit payments | (386) |
| Net change in total OPEB liability | \$ 3,001 |
| Total OPEB Liability – Beginning, as restated | 24,457 |
| Total OPEB Liability – Ending | \$ 27,458 |
| | |
| Covered-employee payroll | \$ 1,133,938 |
| Total OPEB liability (asset) as a percentage of covered-employee payroll | 2.42% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

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

EXHIBIT A-2

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2019**

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | State's Proportionate Share of the Net Pension Liability Associated with PACT (b) | Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b) | Covered Payroll (c) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-----------------------------|---|--|--|---|------------------------------------|---|---|
| 2019 | 0.0157 % | \$ 868,016 | \$ 26,999 | \$ 895,015 | \$ 1,109,006 | 78.27 % | 80.23 % |
| 2018 | 0.0158 | 876,519 | 28,719 | 905,238 | 1,061,895 | 82.54 | 79.53 |
| 2017 | 0.0187 | 1,193,796 | 15,018 | 1,208,814 | 1,171,997 | 101.86 | 75.90 |
| 2016 | 0.0188 | 1,526,467 | 19,889 | 1,546,356 | 1,163,927 | 131.15 | 68.91 |
| 2015 | 0.0198 | 1,026,139 | N/A | 1,026,139 | 1,161,554 | 88.34 | 78.19 |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A – Not Applicable

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

EXHIBIT A-3

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2019**

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b - a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|------------------------|---|---|---|------------------------------------|--|
| 2019 | \$ 83,934 | \$ 83,934 | \$ - | \$ 1,119,131 | 7.50 % |
| 2018 | 80,305 | 80,323 | 18 | 1,070,971 | 7.50 |
| 2017 | 83,070 | 83,070 | - | 1,107,601 | 7.50 |
| 2016 | 91,659 | 91,659 | - | 1,222,124 | 7.50 |
| 2015 | 87,348 | 87,348 | - | 1,164,631 | 7.50 |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. Putting All Communities Together for Families Collaborative's year-end is December 31.

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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2019**

1. Other Postemployment Benefits Funded Status

In 2019, PACT implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 3.C. in the notes to the financial statements for additional information regarding PACT's other postemployment benefits.

2. Employer Contributions to Other Postemployment Benefits

Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits. No changes in actuarial assumptions occurred in 2019.

3. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

General Employees Retirement Plan

2019

- The mortality projection scale was changed from MP-2017 to MP-2018.

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.

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

3. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2018 (Continued)

- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

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

3. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2017 (Continued)

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21 million in calendar years 2017 and 2018 and returns to \$31 million through calendar year 2031. The state's required contribution is \$16 million in PERA's fiscal years 2018 and 2019 and returns to \$6 million annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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JULIE BLAHA
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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 December 31, 2019, and the related notes to the financial statements, which collectively comprise PACT's basic financial statements, and have issued our report thereon dated November 9, 2020.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as items 2019-001, 2019-002, and 2019-003, that we consider to be significant deficiencies.

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

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 deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

PACT's Response to Findings

PACT's responses to the internal control findings identified in our audit are described in the Corrective Action Plan. PACT's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Other 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/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

November 9, 2020

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019**

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

INTERNAL CONTROL

Finding Number: 2019-001

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Payroll Documentation

Criteria: In accordance with PACT's payroll procedures, at the end of each pay period each supervisor receives an itemized listing of each of their respective employee's time called a master timesheet. The supervisor is required to review and approve, with signature, the hours as presented before payroll is processed.

Condition: Master timesheets originally requested for payroll testing were not provided for the pay periods selected in February or July of 2019 as records for the periods of January through April and June through August 2019 could not be located. In addition, for one item tested in May 2019, the master timesheet could not be located.

Context: PACT was not able to provide documentation to support the authorization of time records for part of the year.

Effect: Without documented approvals, there is less assurance that controls put in place to detect errors or fraud in time reporting have been performed. Additionally, complications could arise should the accuracy of hours worked come into question.

Cause: The Office Coordinator is responsible for preparing the master timesheets each pay period and filing them when approved and payroll is processed. This employee left employment during 2019 and staff could not find the documents.

Recommendation: We recommend that PACT maintain the master timesheets for each pay period to document the payroll approval process.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019**

View of Responsible Official: Concur

Finding Number: 2019-002

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Approval and Review of Journal Entries

Criteria: PACT's procedures related to the processing of journal entries requires each journal entry have supporting documentation and be approved by the appropriate supervisor or Director. In addition, after journal entries are posted to the general ledger, the Director or Fiscal Supervisor should also periodically review the journal entries.

Condition: Of the six journal entries selected for testing, three journal entries did not have the approval from the supervisor or Director documented on the support and five journal entries were not documented as reviewed by the Director or Fiscal Supervisor.

Context: Without proper approval and review, errors or irregularities may not be detected in a timely manner.

Effect: There is an increased risk that errors or irregularities may not be detected in a timely manner.

Cause: Oversight.

Recommendation: We recommend that PACT review its controls in place over journal entries to ensure that approval is documented on the support for each entry. We also recommend that a periodic review of the journal entries posted to the general ledger be performed and documented.

View of Responsible Official: Concur

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Finding Number: 2019-003

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Approval of Credit Card Purchases

Criteria: PACT's Purchasing & Reimbursement policy requires an Expenditure Authorization Form (EAF) to be completed and approved by a supervisor for any purchase made using the agency credit card. In addition, when making an approved purchase with an agency credit card, the approving supervisor must initial the receipt and attach the receipt to the EAF prior to turning it in to the Office Manager.

Condition: Of the ten credit card disbursements tested, one transaction did not have an EAF with the supervisor-initialed receipt attached and one transaction did not have a signed EAF.

Context: Without proper review and approval of credit card purchases, errors or irregularities may not be detected in a timely manner.

Effect: Failure to document approval of credit card purchases in accordance with PACT's policy increases the possibility of misuse of credit cards and PACT's funds.

Cause: Oversight.

Recommendation: We recommend that PACT follow their purchasing policy and require all credit card purchases to have an approved EAF with the supervisor-initialed receipt attached.

View of Responsible Official: Concur

II. PREVIOUSLY REPORTED ITEM RESOLVED

2017-001 Audit Adjustment

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PACT for Families Collaborative

2200 23rd Street NE, Suite 2030; Willmar, MN 56201
Phone (320) 231-7030; Fax (320) 231-7033; www.pactforfamilies.org

Putting All Communities Together in the Counties of Kandiyohi, Meeker, McLeod, Renville and Yellow Medicine

REPRESENTATION OF PUTTING ALL COMMUNITIES TOGETHER FOR FAMILIES COLLABORATIVE WILLMAR, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2019

Finding Number: 2019-001

Finding Title: Payroll Documentation

Name of Contact Person Responsible for Corrective Action:

Jolene Lambert, Finance and Benefits Coordinator

Corrective Action Planned:

At the end of calendar year 2019 PACT for Families implemented an on-line automated time records system, TimeTrak, which keeps all employee time records electronically and should correct this documentation finding. Management will continue to oversee procedures to ensure that the internal control policies and procedures are being followed.

Anticipated Completion Date:

Immediately and ongoing.

MISSION:

Partners working together to strengthen families and support children in achieving their highest potential.

Finding Number: 2019-002

Finding Title: Approval and Review of Journal Entries

Name of Contact Person Responsible for Corrective Action:

Jolene Lambert, Finance and Benefits Coordinator

Corrective Action Planned:

PACT for Families will review the internal control system within the organization. Based on this review, PACT for Families management will work with the Accounting Department to determine appropriate additional internal controls to assure all journal entries have proper approvals sufficiently in place. Management will continue to oversee procedures to ensure that the internal control policies and procedures are being followed.

Anticipated Completion Date:

Immediately and ongoing.

Finding Number: 2019-003

Finding Title: Approval of Credit Card Purchases

Name of Contact Person Responsible for Corrective Action:

Jolene Lambert, Finance and Benefits Coordinator

Corrective Action Planned:

PACT for Families will review the internal control system within the organization. Based on this review, PACT for Families management will work with the Accounting Department to determine appropriate additional internal controls to assure all purchases have the proper approvals and paperwork sufficiently in place. Management will continue to oversee procedures to ensure that the internal control policies and procedures are being followed and new staff are properly trained in these procedures.

Anticipated Completion Date:

Immediately and ongoing.



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REPRESENTATION OF PUTTING ALL COMMUNITIES TOGETHER FOR FAMILIES COLLABORATIVE WILLMAR, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2019

Finding Number: 2017-001
Finding Title: Audit Adjustment

Summary of Condition: A material audit adjustment was identified that resulted in significant changes to PACT's financial statements.

Summary of Corrective Action Previously Reported: Continued fiscal oversight of receivables and payables was to continue at each meeting of the Executive Board. Updated grants analysis was to be used, including a review by qualified personnel to ensure proper recording of deferred inflows to the financial statements.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X