STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

PUTTING ALL COMMUNITIES TOGETHER
4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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PUTTING ALL COMMUNITIES TOGETHER
4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

Year Ended December 31, 2006

Audit Practice Division
Office of the State Auditor
State of Minnesota

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PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

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Introductory Section

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PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

ORGANIZATION
DECEMBER 31, 2006

	Position	Agency	Term Expires
Executive Board			
Rebecca Romosz	Chair	Parent Representative	2009
Arliss Stenger	Vice Chair	Parent Representative	2007
Carmen Clementson	Member	Member at Large	2008
Gerald Brustuen	Member	Social Services	2009
Deb West	Member	Corrections	2008
Mary Potter	Member	Member at Large	2006
Jill Bruns	Member	Public Health	2008
Loren Hacker	Member	Public Schools	2007
Eugene Bonynge	Member	Mental Health Center	2007

Fiscal Supervisor
Valerie Mersch

Director
Deborah Sheehan

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Executive Board
Putting All Communities Together 4 Families Collaborative

We have audited the accompanying financial statements of the governmental activities and the General Fund of Putting All Communities Together 4 Families Collaborative (PACT 4) as of and for the year ended December 31, 2006, which collectively comprise PACT 4's basic financial statements as listed in the table of contents. These financial statements are the responsibility of PACT 4's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of PACT 4 as of December 31, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2007, on our consideration of PACT 4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBCCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 28, 2007

MANAGEMENT’S DISCUSSION AND ANALYSIS

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PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(Unaudited)

This section of the annual financial report presents our Management's Discussion and Analysis (MD&A) of Putting All Communities Together 4 Families Collaborative's (PACT 4) financial performance during the fiscal year that ended December 31, 2006. 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 2006 fiscal year include the following:

- Total net assets are $9,170,607, of which $41,474 is invested in capital assets.
- The net assets decreased by $1,839,591 for the year ended December 31, 2006.
- PACT 4 received two federally funded grants totaling $857,312 to support activities.
- PACT 4 received four state funded grants: (1) Restorative Justice for $10,507 from the Minnesota Department of Corrections; (2) Early Risers from the Minnesota Department of Human Services Chemical Health Division for $91,294; (3) Renville County Chemical Health from the Minnesota Department of Human Services Chemical Health Division for $55,108; and (4) Yellow Medicine County Chemical Health from the Minnesota Department of Human Services Chemical Health Division for $66,970. Three of the four projects will continue in 2007. Early Risers end date was June 30, 2006.
- Government-wide net assets decreased 16.71 percent from the prior year.
- Overall government-wide revenues totaled $3,097,999 and were $1,839,591 less than expenses.
- The General Fund's fund balance decreased $1,094,561, or 10.73 percent from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

FINANCIAL ANALYSIS OF PACT 4 AS A WHOLE

Net Assets - the net assets were $9,170,607 on December 31, 2006.

Table 1
Net Assets

	2006	2005	Percent Change (%)
Assets			
Cash and investments	$ 8,674,859	$ 9,999,055	(13.24)
Accrued interest receivable	100,167	-	100.00
Accounts receivable	114,261	58,129	96.56
Due from other governments	488,279	1,274,362	(61.68)
Capital assets	41,474	50,804	(18.36)
Total Assets	$ 9,419,040	$ 11,382,350	(17.25)
Liabilities			
Accounts payable	$ 90,567	$ 77,592	16.72
Salaries payable	36,371	43,941	(17.23)
Accrued payroll taxes	3,791	4,741	(20.04)
Due to other governments	1,515	57,472	(97.36)
Deferred revenue - unearned	20,109	-	100.00
Long-term liabilities			
Due within one year	24,020	47,102	(49.00)
Due after one year	72,060	141,304	(49.00)
Total Liabilities	$ 248,433	$ 372,152	(33.24)
Net Assets			
Invested in capital assets	$ 41,474	$ 50,804	(18.36)
Unrestricted	9,129,133	10,959,394	(16.70)
Total Net Assets	$ 9,170,607	$ 11,010,198	(16.71)

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

	2006	2005	Percent Change (%)
Revenues			
Program revenues			
Intergovernmental	$ 1,914,080	$ 5,711,123	(66.49)
Charges for services	577,020	442,775	30.32
General revenues			
Gifts and contributions	129,913	129,371	0.42
Interest on investments	476,986	259,216	84.01
Total Revenues	$ 3,097,999	$ 6,542,485	(52.65)

	2006	2005	Percent Change (%)
Expenses			
Program expenses			
General government	4,937,590	4,757,255	3.79
Increase (Decrease) in Net Assets	$ (1,839,591)	$ 1,785,230	203.05
Beginning Net Assets	11,010,198	9,224,968	19.35
Ending Net Assets	$ 9,170,607	$ 11,010,198	(16.71)

CAPITAL ASSETS

As of December 31, 2006, PACT 4 had $41,474 invested in capital assets. (See Table 3 below.) This amount represents a net decrease (including additions and deductions) of $9,330, or 18.36 percent, from last year.

Table 3
Capital Assets at Year-End

	2006	2005
Equipment	$ 152,117	$ 148,594
Less: accumulated depreciation	(110,643)	(97,790)
Net Capital Assets	$ 41,474	$ 50,804

FINANCIAL ANALYSIS OF PACT 4 AT THE FUND LEVEL

The financial performance of PACT 4 as a whole is reflected in its governmental fund as well. The General Fund, which is the only governmental fund of PACT 4, includes the primary operations of providing services that enhance the life circumstances of children and their families. As PACT 4 completed the year, its governmental fund (as presented in the first column of the statements) reported a fund balance of $9,102,284, which is below last year's fund balance of $10,196,845, a decrease of 10.73 percent. PACT 4 has an annual adopted budget. This budget may be amended or modified as additional grants are received. A comparison of budgeted revenues and expenditures to actual is presented in the financial statements (Exhibit 3).

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

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

- 2006 LCTS (Local Collaborative Time Study) activity demonstrated significant decreases in revenue, over 70 percent from the prior year. Although the decreases have stabilized, this decreased level of revenue is expected to continue into 2007 and 2008, significantly impacting the funding of vital community level projects for at risk youth and their families.

- July 19, 2006, PACT 4 Families began a dramatic shift in management personnel. In addition, a number of important procedural and policy changes have taken place. PACT 4's Executive Board, current management, and accounting staff continue working to tighten controls surrounding general accounting practices and policy enforcement.

CONTACTING PACT 4'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2006

	General Fund	Adjustments	Governmental Activities
Assets			
Cash and investments	$ 8,674,859	$ -	$ 8,674,859
Accrued interest receivable	100,167	-	100,167
Accounts receivable	114,261	-	114,261
Due from other governments	488,279	-	488,279
Depreciable capital assets, net	-	41,474	41,474
Total Assets	**$ 9,377,566**	**$ 41,474**	**$ 9,419,040**
Liabilities and Fund Balance/Net Assets			
Liabilities			
Accounts payable	$ 90,567	$ -	$ 90,567
Salaries payable	36,371	-	36,371
Accrued payroll taxes	3,791	-	3,791
Due to other governments	1,515	-	1,515
Deferred revenue - unavailable	122,929	(122,929)	-
Deferred revenue - unearned	20,109	-	20,109
Long-term liabilities			
Due within one year	-	24,020	24,020
Due in more than one year	-	72,060	72,060
Total Liabilities	**$ 275,282**	**$ (26,849)**	**$ 248,433**
Fund Balance/Net Assets			
Fund Balance			
Reserved for encumbrances	$ 1,989,921	$ (1,989,921)	
Unreserved			
Undesignated	7,112,363	(7,112,363)	
Total Fund Balance	**$ 9,102,284**	**$ (9,102,284)**	
Net Assets			
Invested in capital assets		$ 41,474	$ 41,474
Unrestricted		9,129,133	9,129,133
Total Net Assets		**$ 9,170,607**	**$ 9,170,607**
Total Liabilities and Fund Balance/Net Assets	**$ 9,377,566**	**$ 41,474**	**$ 9,419,040**

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

PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2006

Reconciliation of the Governmental Fund Balance to Net Assets		
Fund Balance - General Fund	**$**	**9,102,284**
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.		41,474
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund.		122,929
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental fund.		(96,080)
Net Assets - Governmental Activities	**$**	**9,170,607**

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

PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2006

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental revenue	$ 2,742,106	$ (828,026)	$ 1,914,080
Interest on investments	476,986	-	476,986
Gifts and contributions	129,913	-	129,913
Charges for services	577,020	-	577,020
Total Revenues	**$ 3,926,025**	**$ (828,026)**	**$ 3,097,999**
Expenditures/Expenses			
Current			
General government			
General	$ 96,450	$ (92,326)	$ 4,124
Local collaborative time study	3,714,295	(4,500)	3,709,795
Restorative justice	10,507	-	10,507
Mental health grant for children	297,101	(7,903)	289,198
Mental health grant for young adults	560,211	(5,000)	555,211
Early Risers	91,294	(500)	90,794
SHARE Safe Schools Healthy Students	114,735	-	114,735
Renville County Chemical Health	55,108	-	55,108
Yellow Medicine County Health Grant	66,970	-	66,970
Pohlad Foundation	9,605	-	9,605
Brain Conference	4,310	-	4,310
Depreciation	-	27,233	27,233
Total Expenditures/Expenses	**$ 5,020,586**	**$ (82,996)**	**$ 4,937,590**
Net Change in Fund Balance/Net Assets	**$ (1,094,561)**	**$ (745,030)**	**$ (1,839,591)**
Fund Balance/Net Assets - January 1	**10,196,845**	**813,353**	**11,010,198**
Fund Balance/Net Assets - December 31	**$ 9,102,284**	**$ 68,323**	**$ 9,170,607**

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

PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

EXHIBIT 2
(Continued)

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2006

Reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities		
Net Change in Fund Balance		$ (1,094,561)
Under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues is the increase (decrease) in revenues deferred as unavailable. PACT 4 had $950,955 of deferred revenues in 2005.		(828,026)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays reported as expenditures	$ 17,903	
Current year depreciation	(27,233)	(9,330)
Decreases in compensated absences payable decrease expenses but do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund operating statement.		92,326
Change in Net Assets of Governmental Activities		**$ (1,839,591)**

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

PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

EXHIBIT 3

BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts				Actual		Variance with	
	Original		Final		Amounts		Final Budget	
Revenues								
Intergovernmental	$	3,485,644	$	3,485,644	$	2,742,106	$	(743,538)
Interest on investments		150,000		150,000		476,986		326,986
Gifts and contributions		125,000		125,000		129,913		4,913
Charges for services		464,599		464,599		577,020		112,421
Total Revenues	**$**	**4,225,243**	**$**	**4,225,243**	**$**	**3,926,025**	**$**	**(299,218)**
Expenditures								
Current								
General government								
General					$	96,450		
Local collaborative time study						3,714,295		
Restorative justice						10,507		
Mental health grant for children						297,101		
Mental health grant for young adults						560,211		
Early Risers						91,294		
SHARE Safe Schools Healthy Students						114,735		
Renville County chemical health grant						55,108		
Yellow Medicine County health grant						66,970		
Pohlad Foundation						9,605		
Brain conference						4,310		
Total Expenditures	**$**	**7,647,094**	**$**	**7,647,094**	**$**	**5,020,586**	**$**	**2,626,508**
Net Change in Fund Balance	**$**	**(3,421,851)**	**$**	**(3,421,851)**	**$**	**(1,094,561)**	**$**	**2,327,290**
Fund Balance - January 1		**10,196,845**		**10,196,845**		**10,196,845**		**-**
Fund Balance - December 31	**$**	**6,774,994**	**$**	**6,774,994**	**$**	**9,102,284**	**$**	**2,327,290**

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

1. Summary of Significant Accounting Policies

Putting All Communities Together 4 Families Collaborative (PACT 4) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by PACT 4 are discussed below.

A. Financial Reporting Entity

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

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

Renville County Human Services began acting as fiscal agent for PACT 4 on January 1, 2006. PACT 4 is now responsible for performing its depositing and investing activities, as well as handling its receipts and processing its disbursements. Previously, Kandiyohi County handled or assisted in these processes. PACT 4 has also assumed the responsibility of independently carrying the health and dental insurance for its employees. PACT 4 employees were previously enrolled through Kandiyohi County.

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

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

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

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

C. Measurement Focus and Basis of Accounting

The governmental activities columns are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

D. Reconciliation of Government-Wide and Fund Financial Statements

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

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

2. Due From/To Other Governments

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

3. Capital Assets

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

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

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

Assets	Years
Machinery, furniture, and equipment	3 to 5

1. Summary of Significant Accounting Policies

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

4. Compensated Absences

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

5. Deferred Revenue

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

6. Fund Equity

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

7. Budgetary Information

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

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

1. Summary of Significant Accounting Policies

   E. Assets, Liabilities, and Net Assets or Equity

      7. Budgetary Information (Continued)

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

2. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         a. Deposits

            Minn. Stat. §§ 118A.02 and 118A.04 authorize PACT 4 to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest 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, 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 that is not owned or controlled by the financial institution furnishing the collateral.

2. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         a. Deposits (Continued)

            Custodial Credit Risk

            Custodial credit risk is the risk that in the event of a financial institution failure, PACT 4's deposits may not be returned to it. PACT 4 does not have a deposit policy for custodial credit risk. As of December 31, 2006, the entire bank balance of $119,660 was exposed to custodial credit risk. Of the $119,660, $19,660 was uninsured and uncollateralized.

         b. Investments

            Minn. Stat. §§ 118A.04 and 118.05 generally authorize the following types of investments as available to PACT 4:

            (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 rated agencies and matures in 270 days or less; and

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. All investments at December 31, 2006, consisted of negotiable certificates of deposit with maturity dates of 365 days or less at the time of their purchase.

Credit Risk

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

Custodial Credit Risk

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

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by PACT 4's investment in a single issuer. PACT 4 did not have an investment in any one issuer that represented 5 percent or more of PACT 4's investments.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The carrying value of PACT 4's cash and investments of $8,674,859 at December 31, 2006, consists of $3,790,000 in negotiable certificates of deposit, $4,896,671 invested in a MAGIC Fund account, and a deficit of $11,812 in a checking account.

2. Accrued Interest

Interest accrued related to the negotiable certificates of deposit purchased through the MAGIC Fund investment account as of December 31, 2006, is $100,167.

3. Receivables

PACT 4 did not have any receivables scheduled to be collected beyond one year as of December 31, 2006.

4. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated Machinery, furniture, and equipment	$ 148,594	$ 17,903	$ (14,380)	$ 152,117
Less: accumulated depreciation for Machinery, furniture, and equipment	(97,790)	(27,233)	14,380	(110,643)
Total Capital Assets, Net	$ 50,804	$ (9,330)	$ -	$ 41,474

Depreciation expense of $27,233 was charged to PACT 4's general government function.

2. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Deferred Revenue

Deferred revenue of $122,929 in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period is reported in the General Fund. Deferred revenue of $20,109 relates to funds for resources received, but not yet earned.

2. Operating Leases

PACT 4 is committed under an operating lease for the rental of facilities through May 1, 2008. From that point forward, PACT 4 will maintain the space on a month-to-month basis based on amounts from the previous agreement. PACT 4 entered into vehicle leases with the State of Minnesota Department of Administration - Travel Management Division for two vehicles in 2001 and an additional two vehicles in 2002. The terms of the vehicle leases are eight years, or 75,000 miles, whichever comes first. PACT 4 pays per mile in addition to a base monthly fee. The mileage rate and base fee are subject to periodic increases as Travel Management deems necessary. One vehicle was returned in February 2004, and two more vehicles were returned in January 2005. The remaining leased vehicle was returned by PACT 4 on February 8, 2006.

Lease expenditures for 2006 were:

Facilities	$	48,900
Vehicles		975
Total	$	49,875

The future minimum lease payment under the facility lease is $58,680 for 2007 and $19,560 for 2008.

3. Vacation and Sick Leave

Employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 28 days per year. Sick leave accrual is 12 to 18 days per year. PACT 4 pays unused accumulated vacation and

2. Detailed Notes on All Funds

B. Liabilities

3. Vacation and Sick Leave (Continued)

vested sick leave to employees upon termination. Sick leave is available to employees in case of illness-related absences. Unvested sick leave is not paid to employees at termination. Unused accumulated vacation, vested sick leave, and sick leave expected to vest are accrued as compensated absences. Unvested sick leave not expected to vest, valued at $120,724 at December 31, 2006, is not reported in the financial statements.

4. Long-Term Debt - Compensated Absences

Changes in PACT 4's compensated absences balances for the year ended December 31, 2006, are:

	Payable January 1	Additions	Deductions	Payable December 31
Vacation leave	$ 172,258	$ 98,746	$ 191,072	$ 79,932
Sick leave	16,148	8,074	8,074	16,148
Total	$ 188,406	$ 106,820	$ 199,146	$ 96,080

Compensated absences estimated to be paid within one year are $24,020.

3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of PACT 4 are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

3. Pension Plans

A. Plan Description (Continued)

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

3. Pension Plans (Continued)

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. PACT 4 makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. PACT 4 is required to contribute the following percentages of annual covered payroll:

In 2006	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00
In 2007	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.25

PACT 4's contributions for the years ending December 31, 2006, 2005, and 2004, were $89,758, $79,764, and $69,774, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Summary of Significant Contingencies and Other Items

A. Risk Management

PACT 4 is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. PACT 4 has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to protect against liabilities from workers' compensation and property and casualty. PACT 4 purchases commercial insurance for other risks of loss. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $390,000 per claim in 2006 and $400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess PACT 4 in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and PACT 4 pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess PACT 4 in a method and amount to be determined by MCIT.

B. Claims and Litigation

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

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Management and Compliance Section

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Schedule 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006

I. SUMMARY OF AUDITOR'S RESULTS

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

B. Significant deficiencies in internal control were disclosed by the audit of financial statements of PACT 4 and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*" None were material weaknesses.

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

D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."

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

F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

G. The major program is:

Consolidated Knowledge Development and Application (KD&A) Program	CFDA #93.230

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

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

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

06-1 Preparation of Financial Statements

PACT 4 is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of PACT 4's management. Financial statement preparation in accordance with GAAP requires internal control over both (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate financial statements, including the related notes to the financial statements.

As is the case with many small and medium-sized entities, PACT 4 has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of PACT 4's external financial reporting process. Accordingly, PACT 4's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control.

We recommend PACT 4 staff obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If PACT 4 still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve PACT 4's financial statements, including notes. As an alternative, PACT 4 could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

The management of PACT 4 Families Collaborative was not aware of this requirement in time to provide the necessary financial statements required for the 2006 audit. The Executive Board was made aware of PACT 4 Families responsibility to prepare and provide its financial statement on an ongoing basis and to present these statements to the State Auditor upon request for the preparation of the 2007 and future audits. PACT 4 Families management will provide whatever training and/or assistance required to accomplish this task.

06-2 Audit Adjustment

A control deficiency 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 misstatements of the financial statements on a timely basis. Statement on Auditing Standards (SAS) No. 112 states that one control deficiency that should be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit we identified a material adjustment in the General Fund. Receivables were increased by $100,167 for accrued interest related to negotiable certificates of deposit in the Minnesota Association of Governments Investing for Counties (MAGIC) account.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend PACT 4 establish internal controls for determining accrued interest receivable amounts to ensure that the amount, if any, is reported in accordance with GAAP in PACT 4's annual financial statements.

PREVIOUSLY REPORTED ITEMS RESOLVED

Gift Card Policy (04-1)

Our previous reports recommended that PACT 4 strengthen its policies relative to the use of gift cards/certificates and strictly and consistently enforce these policies. Furthermore, documentation supporting the use of gift cards/certificates needed to be improved. Because our examination for the year ended December 31, 2005, disclosed evidence of malfeasance, misfeasance, or nonfeasance, a detailed report of our findings was provided to the County Attorney, in compliance with Minn. Stat. § 6.48. We recommended the PACT 4 Board review the detailed report of our findings when it became available to the Executive Board, and take appropriate action as necessary. We also specifically recommended that records maintained for gift cards include specific identification of who received the gift card, the reason the gift card was issued, and whether the user was notified the value received was for payment of services rendered and should be considered income by the user. PACT 4 was reminded to comply with Internal Revenue Service regulations where an individual, whether an employee or not, who earns more than $600 is required to receive a Form 1099.

Resolution

PACT 4 commenced strengthening its policies and procedures regarding the custody, use, and issuance of gift cards/certificates during the summer of 2006. The inventory of gift cards/certificates is better controlled and documentation provides a trail for the issuance and receipt of gift cards/certificates in accordance with established policies and procedures. PACT 4's policies relative to youth and family members participating in PACT 4 meetings for which incentives may be provided to participate specifically addresses the issuance of 1099 forms, and 1099s have been issued in accordance with this policy. Also, PACT 4's fiscal agent periodically conducts reviews relative to PACT 4's compliance with its gift cards/certificates policies procedures and reports its findings to the Executive Board.

Meal Reimbursement (05-1)

It was recommended that PACT 4 strictly adhere to its policies in place regarding the reimbursement of meal expenditures.

Resolution

Based on our disbursement testing performed during the current audit, we noted that disbursements related to meal reimbursements complied with PACT 4's policies.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATION

<u>MINNESOTA LEGAL COMPLIANCE</u>

<u>ITEM ARISING THIS YEAR</u>

06-3 <u>Uncollateralized Deposits</u>

At December 31, 2006, PACT 4 had a bank balance of $119,660 at US Bank. This account was insured for $100,000 by the Federal Depository Insurance Corporation (FDIC). The excess deposit of $19,660 was not insured or collateralized. Minn. Stat. § 118A.03 requires that to the extent funds on deposit exceed federal deposit insurance, they must be covered by a corporate surety bond or pledged collateral. Furthermore, the market value of any collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or surety bonds. On January 2, 2007, the $119,600 was transferred to PACT 4's account with the Minnesota Association of Governments Investing for Counties (MAGIC) Fund.

We recommend that PACT 4 obtain adequate collateral or a surety bond, in the future, when it becomes necessary, in order to comply with Minn. Stat. § 118A.03.

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

Executive Board
Putting All Communities Together 4 Families Collaborative

We have audited the financial statements of the governmental activities and the General Fund of Putting All Communities Together 4 Families Collaborative (PACT 4) as of and for the year ended December 31, 2006, and have issued our report thereon dated September 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PACT 4's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PACT 4's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PACT 4's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects PACT 4's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of PACT 4's financial statements that is more than inconsequential will not be prevented or detected by PACT 4's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-1 and 06-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by PACT 4's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe neither of the significant deficiencies described above is a material weakness.

<u>Compliance and Other Matters</u>

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

<u>Minnesota Legal Compliance</u>

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government,* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except public indebtedness because PACT 4 does not have debt.

The results of our tests indicate that, for the items tested, PACT 4 complied with the material terms and conditions of applicable legal provisions except as described in the Schedule of Findings and Questioned Costs as item 06-3.

PACT 4's written response to the significant deficiency finding identified in our audit has not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Executive Board, management, others within PACT 4, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 28, 2007

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

Executive Board
Putting All Communities Together 4 Families Collaborative

Compliance

We have audited the compliance of Putting All Communities Together 4 Families Collaborative (PACT 4) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2006. PACT 4's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of PACT 4's management. Our responsibility is to express an opinion on PACT 4's compliance based on our audit.

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

In our opinion, PACT 4 complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

Internal Control Over Compliance

The management of PACT 4 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered PACT 4's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PACT 4's internal control over compliance.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects PACT 4's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by PACT 4's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by PACT 4's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and the General Fund of PACT 4 as of and for the year ended December 31, 2006, and have issued our report thereon dated September 28, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise PACT 4's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Executive Board, management and others within PACT 4, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 28, 2007

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PUTTING ALL COMMUNITIES TOGETHER 4 FAMILIES COLLABORATIVE
WILLMAR, MINNESOTA

Schedule 2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Direct		
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)		
Mental Health Grant for Children	93.104	**$ 297,101**
Consolidated Knowledge Development and Application (KD&A) Program		
Mental Health Grant for Young Adults	93.230	**$ 560,211**
Passed Through Minnesota Department of Human Services		
Block Grants for Prevention and Treatment of Substance Abuse		
Early Risers Grant	93.959	$ 91,294
Renville County Chemical Health Grant	93.959	55,108
Yellow Medicine County Chemical Health Grant	93.959	66,970
Total CFDA #93.959		**$ 213,372**
Total Federal Awards		**$ 1,070,684**

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Putting All Communities Together 4 Families Collaborative (PACT 4). PACT 4's reporting entity is defined in Note 1 to the basic financial statements.

2. The expenditures on this schedule are on the modified accrual basis of accounting.

3. During 2006, PACT 4 did not pass any federal money to subrecipients.

4. Pass-through grant numbers were not assigned by the pass-through agencies.