



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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February 12, 2015

Board of Directors
PACT, Inc.
2056 S. State Road 2
Valparaiso, IN 46385

We have reviewed the audit report prepared by Applegate & Company, for the period July 1, 2012 to June 30, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of PACT, Inc., as of June 30, 2013, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

PACT, INC
Valparaiso, Indiana

ANNUAL REPORT
June 30, 2013

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APPLEGATE & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
FACT, Inc.
Valparaiso, Indiana

REPORT OF INDEPENDENT AUDITORS

Paul E. Applegate, CPA
John E. Applegate, PA
1930-1993
Charles C. Fox, CPA
Jason M. Nichols, CPA
Kylee J. Norman, CPA
Brenda K. Novak, CPA

We have audited the accompanying financial statements of FACT, Inc. (a nonprofit organization) as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements

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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 the entity'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 the entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FACT, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


APPLEGATE & COMPANY
Certified Public Accountants

Michigan City, Indiana
January 6, 2014

PACT, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>SUPPORT AND REVENUE</u>		
Contributions	\$ 970,155	\$ 411,633
Grants and contracts	3,016,208	3,043,939
Client fees	870,497	731,649
In-kind revenue	38,100	39,000
Interest	2,204	1,019
	<u>4,897,164</u>	<u>4,227,240</u>
<u>EXPENSES</u>		
Program services	4,084,026	4,071,936
General services	112,424	111,147
	<u>4,196,450</u>	<u>4,183,083</u>
CHANGE IN UNRESTRICTED NET ASSETS	700,714	44,157
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	<u>1,429,996</u>	<u>1,385,839</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$2,130,710</u>	<u>\$1,429,996</u>

The accompanying notes are an integral part of these financial statements.

PACT, INC.

STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 508,028	\$ 405,895
Receivables		
Grants and contracts	529,075	475,190
Prepaid expenses	38,423	38,569
Total current assets	<u>1,075,526</u>	<u>919,654</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land and buildings	2,035,429	1,502,695
Equipment	471,278	377,195
Subtotal	<u>2,506,707</u>	<u>1,879,890</u>
Accumulated depreciation	695,045	658,884
Net property and equipment	<u>1,811,662</u>	<u>1,221,006</u>
Total assets	<u>\$2,887,188</u>	<u>\$2,140,660</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Current portion of long-term debt (Note 2)	\$ 76,268	\$ 69,554
Accounts payable	52,281	57,700
Accrued expenses	124,864	3,880
Total current liabilities	<u>253,413</u>	<u>131,134</u>
<u>LONG TERM DEBT (Note 2)</u>	<u>503,065</u>	<u>579,530</u>
<u>UNRESTRICTED NET ASSETS</u>	<u>2,130,710</u>	<u>1,429,996</u>
Total liabilities and net assets	<u>\$2,887,188</u>	<u>\$2,140,660</u>

The accompanying notes are an integral part of these financial statements.

PACT, INC.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$700,714	\$ 44,157
Adjustments to reconcile change in net assets to net cash provided by/ (used by) operating activities:		
Depreciation	74,668	70,453
(Increase)/decrease in assets		
Accounts receivable	(53,885)	(112,901)
Prepaid expenses	146	(79)
Increase/(decrease) in liabilities		
Accounts payable	(5,419)	(16,755)
Accrued expenses	<u>120,984</u>	<u>424</u>
Net cash provided/ (used) by operating activities	<u>837,208</u>	<u>(14,701)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Retirement of property and equipment	4,283	184
Purchases of property and equipment	<u>(669,607)</u>	<u>(142,266)</u>
Net cash used in investing activities	<u>(665,324)</u>	<u>(142,082)</u>
<u>CASH FLOW FROM FINANCING ACTIVITIES</u>		
Repayment of long-term debt	<u>(69,751)</u>	<u>(64,702)</u>
Net cash used by financing activities	<u>(69,751)</u>	<u>(64,702)</u>
NET CHANGE IN CASH	102,133	(221,485)
UNRESTRICTED CASH AT BEGINNING OF YEAR	<u>405,895</u>	<u>627,380</u>
UNRESTRICTED CASH AT END OF YEAR	<u>\$508,028</u>	<u>\$405,895</u>
* * * * *		
Cash paid during the year for interest	<u>\$ 37,480</u>	<u>\$ 43,477</u>

The accompanying notes are an integral part of these financial statements.

PACT, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended June 30, 2013 and 2012

	<u>2013</u>		<u>2012</u>	
	<u>Program Services</u>	<u>Supporting Services</u>	<u>Program Services</u>	<u>Supporting Services</u>
			<u>Total</u>	<u>Total</u>
EXPENSES				
Salaries	\$2,322,123	\$ 78,065	\$2,400,188	\$2,327,846
Fringes	649,237	13,700	662,937	638,068
Contractual services	162,358	13,829	176,187	166,253
Travel	62,866	220	63,086	85,783
Interest	37,480		37,480	43,477
Utilities	70,766		70,766	64,740
Maintenance	47,593		47,593	53,140
Rent	59,076		59,076	56,900
Insurance	103,215	4,487	107,702	79,753
Telephone	79,645		79,645	81,088
Postage	14,370	808	15,178	6,796
Printing	309		309	6,765
Office Supplies	86,128	985	87,113	69,281
Program supplies	95,060		95,060	105,544
Dues and subscriptions	5,825	35	5,860	3,729
Office and equipment maintenance	3,406		3,406	3,520
Training	42,037		42,037	31,910
Food	168,159		168,159	177,010
Subtotal	<u>4,009,653</u>	<u>112,129</u>	<u>4,121,782</u>	<u>4,001,603</u>
Depreciation	74,373	295	74,668	70,333
Total expenses	<u>\$4,084,026</u>	<u>\$112,424</u>	<u>\$4,196,450</u>	<u>\$4,071,936</u>
				<u>\$111,147</u>
				<u>\$4,183,083</u>

PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITY - PACT, Inc. (Prisoner and Community Together, Inc.) is a not-for-profit corporation organized in 1972. The mission of PACT, Inc. is to promote and operate effective community-based correctional programs for offenders, ex-offenders, and victims which strengthen community safety and are based upon the principles of justice and reconciliation. The Organization received a substantial amount of its support from services provided for departments of the Federal, State and local government. The program activities are administered in various Indiana locations.

ACCOUNTING METHODS - The financial statements of PACT, Inc. are prepared on the accrual basis of accounting.

INCOME TAXES - PACT, Inc. is exempt from the payment of federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and from state income taxes under Indiana law. Therefore, these statements do not include any provision for income taxes.

The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification "Accounting for Uncertainty in Income Taxes", that clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Organization's income tax returns. The Organization has adopted the Standard. The Organization

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PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

evaluates all significant tax positions as required by generally accepted accounting principles in the United States. As of June 30, 2013, the Organization does not believe that it has taken any tax positions that would require the recording of any tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. The Organization's income tax returns are subject to examination by the appropriate taxing jurisdictions and the open tax years are 2009-2012.

CASH EQUIVALENTS - All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents and are reflected as cash in the statement of cash flows.

FINANCIAL STATEMENT PRESENTATION - The Organization uses Accounting Standards Codification, "Financial Statements of Not-for-Profit Organizations". The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Also, the Organization uses Accounting Standards Codification, "Accounting for Contributions Received and Contributions Made". Contributions and other support received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on

- Continued -

PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the existence or nature of any donor restrictions. Such contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the purpose restriction. Restricted support is reported as unrestricted if the restrictions are met in the same reporting period when received.

During the years ended June 30, 2013 and 2012, the Organization expended less than \$500,000 of federal awards and thus is not subject to the audit and reporting requirements of OMB Circular A-133.

ACCOUNTS RECEIVABLE - Accounts receivable are recorded at net realizable value. Management determines the value based on known troubled accounts, historical experience and other available existing information. PACT, Inc. makes direct write-offs when specific accounts are determined to be uncollectible. It is the opinion of management that a further provision for doubtful accounts is not necessary at June 30, 2013 and 2012.

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PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

LAND, BUILDING AND EQUIPMENT - Land, building and equipment are stated at cost or the fair market value on the date of donation. Depreciation of building and equipment is calculated using the straight-line method over the estimated useful lives. For the years ended June 30, 2013 and 2012, depreciation totaled \$74,668 and \$70,453, respectively.

FEE-FOR-SERVICE GRANT - Funding received from the Federal Bureau of Prisons is recorded as a fee-for-service grant and is not subject to the audit and reporting requirements of OMB Circular A-133. The grant pays a specified dollar amount for each day a court appointed individual resides at the Bradley Center. The funding for 2013 and 2012 was \$1,359,196 and \$1,477,945, respectively.

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PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CONCENTRATION OF CREDIT RISK - The Organization maintains cash balances at various financial institutions located in Indiana. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2013, the Organization's uninsured cash balances total \$-0-.

FAIR VALUE OF FINANCIAL INSTRUMENTS - *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

1. Cash and cash equivalents, prepaid expenses, and accrued liabilities and other payables - The carrying amounts reported in the balance sheets for these items are a reasonable estimate of fair value.

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PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Loan payable and long-term debt - The fair value of loan payable and long-term debt is estimated based on the present value of cash flows required under the loan and debt, using a discounting rate based on interest rates for similar debt instruments. The carrying amounts approximate fair value.

The estimated fair values of the Organization's financial instruments are as follows:

Fair Value Measurements at June 30, 2013

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$508,028	\$508,028
Financial liabilities:		
Notes payable	\$579,333	\$579,333

Fair Value Measurements at June 30, 2012

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$405,895	\$405,895
Financial liabilities:		
Notes payable	\$649,084	\$649,084

- Continued -

PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013 and 2012

NOTE 2 - LONG TERM DEBT

A schedule of the Organization's long-term debt June 30, 2013 and 2012 follows:

<u>Due To/(Security)</u>	<u>Interest Rate</u>	<u>Terms</u>	<u>2013 Amount</u>	<u>2012 Amount</u>
Horizon Bank/ (Real estate Mortgage and USDA guarantee)	4.79%	\$4,886 per month, including interest	\$333,930	\$373,453
Horizon Bank/ (Real estate mortgage)	3.95%	\$1,960 per month, including interest	64,776	84,573
Horizon Bank/ (Real estate mortgage)	6.75%	\$1,932 per month, including interest	<u>180,627</u>	<u>191,058</u>
Total			579,333	649,084
Less current portion			76,268	69,554
Net long-term debt			<u>\$503,065</u>	<u>\$579,530</u>

Maturities of long-term debt are due as follows:

Year ending June 30, 2014	\$ 76,268
2015	80,050
2016	82,153
2017	64,180
2018 and Thereafter	<u>276,682</u>
Total	<u>\$579,333</u>

Interest expense for the years ended June 30, 2013 and 2012 totaled \$37,480 and \$43,477 respectively.

- Continued -

PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2013 and 2012

NOTE 3 - DONATED RENT AND SERVICES

During the years ended June 30, 2013 and 2012, the Organization occupied office space owned by the counties of Washington, Harrison, Scott, Crawford and Orange without being required to pay rent. In-kind revenue and expense related to the use of the space has been recorded for the years then ended in the amounts of \$ 38,100 and \$39,000, respectively.

No amounts have been reflected in the statements for donated services. Nevertheless, a number of volunteers have donated their time in the Organization's program services.

NOTE 4 - RELATED PARTY TRANSACTIONS

The Organization had contracted on an annual basis with Mortensen CPA Group to provide the corporate office space and outsourced accounting for \$2,000 per month. The Executive Director of PACT is a principal with Mortensen CPA Group. Total fees paid for these services for the years ended June 30, 2013 and 2012 amounted to \$10,000 and \$24,000, respectively.

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FACT, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

NOTE 5 - LEASE COMMITMENTS

The Organization pays various rents on a month-to-month basis on behalf of clients directly to the clients' landlords. There is no obligation to continue paying these rents. The total rent expense for the years ended June 30, 2013 and 2012 was \$20,976 and \$17,900, respectively.

NOTE 6 - SUBSEQUENT EVENT

No subsequent events were noted as of January 6, 2014, which is the date the financial statements were available to be issued.

APPLEGATE & COMPANY

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CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report On Supplementary Information

Paul E. Applegate, CPA
John E. Applegate, PA
(1931-1993)
Charles C. Fox, CPA
Jason M. Nichols, CPA
Kylee J. Norman, CPA
Brenda K. Novak, CPA

Board of Directors
PACT, Inc.
Valparaiso, Indiana

We have audited the financial statements of PACT, Inc. as of and for the years ended June 30, 2013 and 2012, and have issued our reports thereon dated January 6, 2014, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of support and revenues are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


APPELEGATE & COMPANY
Certified Public Accountants

Michigan City, Indiana
January 6, 2014

PACT, INC.

DETAILED SCHEDULES OF SUPPORT AND REVENUE
For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CONTRIBUTIONS		
Religious organizations	\$ 3,545	\$ 1,388
Individuals	28,326	20,967
United Way organizations	27,827	27,410
County and city governments	818,638	287,593
John Anderson Foundation	30,000	30,000
Community Foundations	48,229	17,631
Local Task Forces and Councils	13,590	26,644
Total contributions	<u>970,155</u>	<u>411,633</u>
GRANTS AND CONTRACTS		
Federal Bureau of Prisons	1,359,196	1,477,945
Indiana Department of Corrections	983,510	950,105
Indiana Criminal Justice Institute	361,336	307,068
Indiana Tobacco Prevention and Cessation Agency	35,310	33,382
Indiana Family and Social Services Administration	189,090	171,903
Indiana Coalition Against Sexual Assault	22,255	32,126
Indiana Department of Child Services	12,608	23,907
U.S. Probation	12,172	5,511
Youth Service Bureau	35,006	36,303
Indiana Commission for Women	0	2,116
Federal Emergency Management Agency	5,725	3,573
Total grants and contracts	<u>3,016,208</u>	<u>3,043,939</u>
CONSULTING AND CLIENT FEES		
Program fees	<u>870,497</u>	<u>731,649</u>
IN-KIND REVENUE		
Donated revenue	<u>38,100</u>	<u>39,000</u>
MISCELLANEOUS		
Interest	<u>2,204</u>	<u>1,019</u>
	<u>\$4,897,164</u>	<u>\$4,227,240</u>