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May 16, 2018

Board of Directors
Prisoner & Community Together, Inc. d/b/a PACT, Inc.
2056 S. State Road 2
Valparaiso, IN 46385

We have reviewed the report prepared by Prisoner & Community Together, Inc. d/b/a PACT, Inc. and opined upon by Applegate & Company, PC, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. Per the *Report of Independent Auditors* the financial statements included in the report present fairly the financial condition of Prisoner & Community Together, Inc. d/b/a PACT, Inc. as of June 30, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Applegate & Company, PC prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The 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, 2016

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APPLEGATE & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT OF INDEPENDENT AUDITORS

Paul E. Applegate, CPA
John E. Applegate, PA
(1920-1993)
Blake E. Applegate, CPA
Megan M. Applegate, CPA
Ronald J. Delco, CPA
Charles C. Fox, CPA
Jason M. Nichols, CPA
Brenda K. Novak, CPA

Board of Directors
PACT, Inc.
Valparaiso, Indiana

We have audited the accompanying financial statements of PACT, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, cash flows and functional expenses 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 PACT, Inc. as of June 30, 2016 and 2015, 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
February 15, 2017

PACT, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>SUPPORT AND REVENUE</u>		
Contributions	\$ 520,483	\$ 519,851
Grants and contracts	3,816,308	3,145,492
Client fees	838,801	864,906
In-kind revenue	38,100	38,100
Miscellaneous	7,976	3,910
	<u>5,221,668</u>	<u>4,572,259</u>
 <u>EXPENSES</u>		
Program services	4,719,181	4,639,116
General services	128,607	120,105
	<u>4,847,788</u>	<u>4,759,221</u>
 CHANGE IN UNRESTRICTED NET ASSETS	373,880	(186,962)
 UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	<u>2,113,105</u>	<u>2,300,067</u>
 UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$2,486,985</u>	<u>\$2,113,105</u>

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

PACT, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 837,508	\$ 527,257
Grants and contracts receivable	579,799	538,889
Prepaid expenses	18,530	34,708
Total current assets	<u>1,435,837</u>	<u>1,100,854</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land and buildings	1,910,011	1,910,011
Equipment	583,125	557,287
Subtotal	<u>2,493,136</u>	<u>2,467,298</u>
Accumulated depreciation	947,303	873,658
Net property and equipment	<u>1,545,833</u>	<u>1,593,640</u>
<u>OTHER ASSETS</u>		
Endowment Fund	<u>72,764</u>	<u>10,255</u>
Total assets	<u>\$3,054,434</u>	<u>\$2,704,749</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>		
Current portion of long-term debt (Note 2)	\$ 64,465	\$ 79,139
Accounts payable	77,532	67,263
Accrued expenses	173,670	147,207
Total current liabilities	<u>315,667</u>	<u>293,609</u>
<u>LONG TERM DEBT (Note 2)</u>	<u>251,782</u>	<u>298,035</u>
<u>UNRESTRICTED NET ASSETS</u>	<u>2,486,985</u>	<u>2,113,105</u>
Total liabilities and net assets	<u>\$3,054,434</u>	<u>\$2,704,749</u>

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

PACT, INC.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 373,880	\$ (186,962)
Adjustments to reconcile change in net assets to net cash provided by/ (used by) operating activities:		
Depreciation	104,580	105,517
(Increase)/decrease in assets		
Accounts receivable	(40,910)	(59,756)
Prepaid expenses	16,178	4,134
Increase/(decrease) in liabilities		
Accounts payable	10,269	(11,086)
Accrued expenses	26,463	11,869
	<u>490,460</u>	<u>(136,284)</u>
Net cash provided by/ (used by) operating activities		
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Retirement of property and equipment	4,541	753
Purchases of property and equipment	(61,314)	(31,619)
Endowment Fund investment	(62,509)	(10,255)
	<u>(119,282)</u>	<u>(41,121)</u>
Net cash used by investing activities		
<u>CASH FLOW FROM FINANCING ACTIVITIES</u>		
Loan proceeds	19,394	
Repayment of long-term debt	(80,321)	(74,924)
Net cash used by financing activities	(60,927)	(74,924)
NET CHANGE IN CASH	310,251	(252,329)
UNRESTRICTED CASH AT BEGINNING OF YEAR	<u>527,257</u>	<u>779,586</u>
UNRESTRICTED CASH AT END OF YEAR	<u>\$ 837,508</u>	<u>\$ 527,257</u>
* * * * *		
Cash paid during the year for interest	<u>\$ 18,669</u>	<u>\$ 22,574</u>

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

PACT, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended June 30, 2016 and 2015

	<u>Program</u> <u>Services</u>	<u>2016</u> <u>Supporting</u> <u>Services</u>	<u>Total</u>	<u>Program</u> <u>Services</u>	<u>2015</u> <u>Supporting</u> <u>Services</u>	<u>Total</u>
EXPENSES						
Salaries	\$2,754,684	\$ 94,484	\$2,849,168	\$2,705,562	\$ 93,908	\$2,799,470
Fringes	796,051	25,276	821,327	745,092	16,465	761,557
Contractual services	62,522		62,522	120,087	1,080	121,167
Equipment rental	86,539		86,539	102,379		102,379
Interest	18,669		18,669	22,574		22,574
Utilities	69,768		69,768	77,273		77,273
Maintenance	58,053		58,053	44,039		44,039
Rent	56,010		56,010	56,396		56,396
Insurance	62,358	5,284	67,642	87,349	4,838	92,187
Telephone	53,901		53,901	71,696		71,696
Postage	8,132	710	8,842	6,546	700	7,246
Printing	6,171		6,171	7,439		7,439
Office supplies	114,315	2,620	116,935	98,672	2,821	101,493
Program supplies	146,545		146,545	120,770		120,770
Dues and subscriptions	6,614		6,614	5,503		5,503
Office and equipment maintenance	2,226		2,226	2,439		2,439
Training & travel	134,035		134,035	102,026		102,026
Food	178,241		178,241	158,050		158,050
Subtotal	4,614,834	128,374	4,743,208	4,533,892	119,812	4,653,704
Depreciation	104,347	233	104,580	105,224	293	105,517
Total expenses	<u>\$4,719,181</u>	<u>\$ 128,607</u>	<u>\$4,847,788</u>	<u>\$4,639,116</u>	<u>\$ 120,105</u>	<u>\$4,759,221</u>

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

PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016 and 2015

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

- Continued -

PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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, 2016, 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 2012-2016.

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, 2016 and 2015

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, 2016 and 2015, the Organization expended less than \$750,000 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, 2016 and 2015.

- Continued -

PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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, 2016 and 2015, depreciation totaled \$104,580 and \$105,517, 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 2016 and 2015 was \$1,406,388 and \$1,330,378, respectively.

- Continued -

PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

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, 2016, the Organization's uninsured cash balances total \$516,459.

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.

- Continued -

PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016 and 2015

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, 2016

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$837,508	\$837,508
Financial liabilities:		
Notes payable	\$316,247	\$316,247

Fair Value Measurements at June 30, 2015

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$527,257	\$527,257
Financial liabilities:		
Notes payable	\$377,174	\$377,174

- Continued -

PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE 2 - LONG TERM DEBT

A schedule of the Organization's long-term debt at June 30, 2016 and 2015 follows:

<u>Due To/(Security)</u>	<u>Interest Rate</u>	<u>Terms</u>	<u>2016 Amount</u>	<u>2015 Amount</u>
Horizon Bank/ (Real estate Mortgage and USDA guarantee)	4.79%	\$4,886 per month, including interest	\$197,304	\$245,052
Horizon Bank/ (Real estate mortgage)	4.50%	\$1,960 per month, including interest		21,281
Horizon Bank/ (Real estate mortgage)	4.50%	\$362.13 per month, including interest	17,940	
Horizon Bank/ (Real estate mortgage)	4.77%	\$1,250 per month, including interest	<u>101,003</u>	<u>110,841</u>
Total			316,247	377,174
Less current portion			<u>64,465</u>	<u>79,139</u>
Net long-term debt			<u>\$251,782</u>	<u>\$298,035</u>

Maturities of long-term debt are due as follows:

Year ending June 30, 2017	\$ 64,465
2018	67,542
2019	70,767
2020	54,489
2021 and Thereafter	<u>58,984</u>
Total	<u>\$316,247</u>

Interest expense for the years ended June 30, 2016 and 2015 totaled \$18,669 and \$22,574, respectively.

- Continued -

PACT, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016 and 2015

NOTE 3 - DONATED RENT AND SERVICES

During the years ended June 30, 2016 and 2015, 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 \$38,100, 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 - 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, 2016 and 2015 was \$17,910 and \$17,850, respectively.

NOTE 5 - SUBSEQUENT EVENT

No subsequent events were noted as of February 15, 2017, which is the date the financial statements were available to be issued.

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Independent Auditors' Report
On Supplementary Information

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, 2016 and 2015, and have issued our reports thereon dated February 15, 2017, 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.


APPLEGATE & COMPANY
Certified Public Accountants

Michigan City, Indiana
February 15, 2017

PACT, INC.

DETAILED SCHEDULES OF SUPPORT AND REVENUE
For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CONTRIBUTIONS		
Religious organizations	\$ 723	\$ 3,822
Individuals	83,898	26,716
United Way organizations	40,459	30,736
County and city governments	197,173	252,543
John Anderson Foundation	30,000	30,000
Ronald McDonald House	4,580	
AT&T		15,000
Community Foundations	42,100	60,134
Valparaiso University	4,500	
Orange Co Development	112,500	75,000
Local Task Forces and Councils	4,550	25,900
	<u>520,483</u>	<u>519,851</u>
GRANTS AND CONTRACTS		
Federal Bureau of Prisons	1,406,388	1,330,378
Indiana Department of Corrections	1,415,310	1,072,283
Indiana Criminal Justice Institute	483,242	323,899
Indiana Tobacco Prevention and Cessation Agency	37,153	31,965
Indiana Family and Social Services Administration	305,533	284,507
Indiana Department of Child Services	23,318	30,049
Indiana Housing & Community Development	34,198	32,641
Indiana Judicial Center	46,414	840
Youth Service Bureau	39,752	38,930
Indiana Supreme Court	25,000	
Total grants and contracts	<u>3,816,308</u>	<u>3,145,492</u>
CONSULTING AND CLIENT FEES		
Program fees	<u>838,801</u>	<u>864,906</u>
IN-KIND REVENUE		
Donated revenue	<u>38,100</u>	<u>38,100</u>
MISCELLANEOUS		
Training Income	3,600	
Interest	4,376	3,910
Total miscellaneous	<u>7,976</u>	<u>3,910</u>
	<u>\$5,221,668</u>	<u>\$4,572,259</u>