

Three Rivers Community Action, Inc. and Subsidiaries

**Consolidated Financial Statements
and Supplementary Information**

December 31, 2018 and 2017

bergankDV

Three Rivers Community Action, Inc. and Subsidiaries
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Independent Auditor's Report

Board of Directors
Three Rivers Community Action, Inc. and Subsidiaries
Zumbrota, Minnesota

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Three Rivers Community Action, Inc. and Subsidiaries (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2018 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We did not audit the financial statements of Bridge Run Townhomes Limited Liability Company, Eagle Ridge Apartments Limited Partnership, Harvest Ridge Townhomes Limited Partnership, North and South Oak Apartments Limited Partnership, Prairiewood Townhomes Limited Partnership, Spring Creek Townhomes Limited Partnership, Trailside Apartments of Albert Lea Limited Partnership, and Wazuweeta Woods Limited Partnership, which statements reflect total aggregated assets of \$30,622,569 as of December 31, 2018 and total revenues of \$2,861,445 for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Bridge Run Townhomes Limited Liability Company, Eagle Ridge Apartments Limited Partnership, Harvest Ridge Townhomes Limited Partnership, North and South Oak Apartments Limited Partnership, Prairiewood Townhomes Limited Partnership, Spring Creek Townhomes Limited Partnership, Trailside Apartments of Albert Lea Limited Partnership, and Wazuweeta Woods Limited Partnership, are based solely on the reports of the other auditors.

Auditor's Responsibility (Continued)

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 consolidated financial statements are free from material misstatement. The financial statements of Bridge Run Townhomes Limited Liability Company, Eagle Ridge Apartments Limited Partnership, Fox Pointe Townhomes, Harvest Ridge Townhomes Limited Partnership, North and South Oak Apartments Limited Partnership, Prairiewood Townhomes Limited Partnership, Spring Creek Townhomes Limited Partnership, Trailside Apartments of Albert Lea Limited Partnership, Waseca Leased Housing Associates Limited Partnership, and Wazuweeta Woods Limited Partnership were not audited in accordance with *Government Auditing Standards* as these entities did not receive federal funding.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Three Rivers Community Action, Inc. and Subsidiaries as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Consolidated Financial Statements

The consolidated financial statements of the Organization for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those consolidated statements on June 26, 2018.

Emphasis of Matter

As discussed in Note 1 to consolidated financial statements, in 2018, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is also presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such consolidating information and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2019, on our consideration of Three Rivers Community Action, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on effectiveness of Three Rivers Community Action, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Three Rivers Community Action, Inc.'s internal control over financial reporting and compliance.

BergankDV, Ltd.

St. Cloud, Minnesota
May 15, 2019

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CONSOLIDATED FINANCIAL STATEMENTS

Three Rivers Community Action, Inc. and Subsidiaries
Consolidated Statements of Financial Position
As of December 31, 2018 and 2017

	2018	2017 (restated)
Assets		
Current assets		
Cash and cash equivalents	\$ 3,228,761	\$ 3,891,120
Restricted cash	3,065,204	2,504,226
Investments, at fair value	66,737	68,908
Grants receivable	1,249,473	817,914
Accounts receivable	545,523	326,944
Current portion of contracts receivable	380,224	90,060
Prepaid expenses	192,667	152,330
Total current assets	8,728,589	7,851,502
Noncurrent assets		
Contracts receivable	873,471	1,315,647
Other assets	670,135	692,837
Affordable housing projects	37,332,265	35,408,797
Property and equipment	1,837,656	1,442,069
Total noncurrent assets	40,713,527	38,859,350
Total assets	\$ 49,442,116	\$ 46,710,852
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	\$ 2,106,531	\$ 1,249,468
Accounts payable and accrued expenses	2,733,939	1,743,165
Grant advances and other deferred revenue	240,514	114,246
Total current liabilities	5,080,984	3,106,879
Long-term liabilities		
Accrued interest	564,892	538,658
Section 1602 deferred grant	805,361	840,377
Long-term debt and affordable housing projects	16,779,771	16,869,271
Total long-term liabilities	18,150,024	18,248,306
Total liabilities	23,231,008	21,355,185
Net assets		
Without donor restrictions	10,469,647	9,426,740
With donor restrictions	-	23,000
Noncontrolling interest in consolidated subsidiaries	15,741,461	15,905,927
Total net assets	26,211,108	25,355,667
Total liabilities and net assets	\$ 49,442,116	\$ 46,710,852

See notes to consolidated financial statements.

Three Rivers Community Action, Inc. and Subsidiaries
Consolidated Statements of Activities
Years Ended December 2018 and 2017

	<u>2018</u>	<u>2017</u>
Without Donor Restrictions Revenue		(restated)
Federal grant revenue	\$ 5,267,697	\$ 4,694,702
State grant revenue	3,958,780	3,277,073
Other grant revenue	109,325	96,799
Contributions	371,095	833,441
Other program revenue	1,968,109	1,737,509
Rental income	3,349,310	3,569,035
Investment income	<u>117,068</u>	<u>82,891</u>
	15,141,384	14,291,450
Net assets with donor restrictions released	<u>23,000</u>	<u>-</u>
Total without donor restrictions revenue	<u>15,164,384</u>	<u>14,291,450</u>
Expenses		
Program services		
Housing	4,549,151	4,714,972
Transportation	4,350,752	4,055,287
Early childhood	2,451,235	2,316,876
Community development	2,820,990	2,472,132
Senior services	289,663	323,482
Management and general	<u>585,086</u>	<u>259,720</u>
Total expenses	<u>15,046,877</u>	<u>14,142,469</u>
Total change in net assets before noncontrolling interest	117,507	148,981
Change in noncontrolling interest in affordable housing projects	<u>925,400</u>	<u>761,010</u>
Total change in net assets	<u>1,042,907</u>	<u>909,991</u>
Without donor restrictions net assets - beginning of year, as previously stated	9,426,740	8,337,248
Prior period adjustment	<u>-</u>	<u>179,501</u>
Without donor restrictions net assets - beginning of year, as restated	<u>9,426,740</u>	<u>8,516,749</u>
Without donor restrictions net assets - end of year	<u><u>\$ 10,469,647</u></u>	<u><u>\$ 9,426,740</u></u>
With Donor Restrictions Revenue		
Other program revenue	\$ -	\$ 23,000
Net assets with donor restrictions released	<u>(23,000)</u>	<u>-</u>
Total change in net assets	(23,000)	23,000
With donor restrictions net assets - beginning of year	<u>23,000</u>	<u>-</u>
With donor restrictions net assets - end of year	<u><u>\$ -</u></u>	<u><u>\$ 23,000</u></u>

See notes to consolidated financial statements.

Three Rivers Community Action, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services					Total	Supporting Services	Total
	Housing	Transportation	Early Childhood	Community Development	Senior Services		Management and General	
Direct services	\$ 764	\$ 92,351	\$ 178,381	\$ 1,245,745	\$ 127,611	\$ 1,644,852	\$ -	\$ 1,644,852
Salaries and wages	97,284	2,036,781	1,195,924	853,624	86,452	4,270,065	354,196	4,624,261
Fringe benefits	51,461	731,262	575,861	363,719	48,747	1,771,050	89,781	1,860,831
Training and travel	21,776	41,675	91,828	60,996	5,007	221,282	15,297	236,579
Telephone and technology	20,090	91,843	108,212	65,542	4,765	290,452	19,347	309,799
Office supplies	10,585	29,853	33,217	58,438	5,337	137,430	3,807	141,237
Space costs and utilities	89,851	42,964	213,837	54,338	6,093	407,083	1,641	408,724
Equipment and maintenance	123,022	192,241	-	608	-	315,871	-	315,871
Vehicle repairs and maintenance	-	587,201	3,205	-	-	590,406	-	590,406
Other costs	221,325	181,358	50,770	117,980	5,651	577,084	101,017	678,101
Housing partnerships	1,953,078	-	-	-	-	1,953,078	-	1,953,078
Depreciation and amortization	1,553,552	323,223	-	-	-	1,876,775	-	1,876,775
Interest	406,363	-	-	-	-	406,363	-	406,363
Total	\$ 4,549,151	\$ 4,350,752	\$ 2,451,235	\$ 2,820,990	\$ 289,663	\$ 14,461,791	\$ 585,086	\$ 15,046,877

Three Rivers Community Action, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
Year Ended December 31, 2017 (Restated)

	Program Services					Total	Supporting Services	Total
	Housing	Transportation	Early Childhood	Community Development	Senior Services		Management and General	
Direct services	\$ 116,865	\$ 62,462	\$ 202,591	\$ 889,022	\$ 130,439	\$ 1,401,379	\$ -	\$ 1,401,379
Salaries and wages	227,907	1,947,389	1,135,338	922,713	102,776	4,336,123	111,064	4,447,187
Fringe benefits	80,532	757,574	511,445	363,509	59,140	1,772,200	49,696	1,821,896
Training and travel	20,334	54,377	62,939	51,456	7,477	196,583	22,870	219,453
Telephone and technology	20,561	84,738	93,214	70,356	6,291	275,160	16,315	291,475
Office supplies	7,881	26,853	49,450	34,601	7,456	126,241	9,590	135,831
Space costs and utilities	100,228	51,396	194,426	59,763	4,331	410,144	-	410,144
Equipment and maintenance	191,076	7,369	-	2,185	-	200,630	-	200,630
Vehicle repairs and maintenance	-	527,387	11,620	-	-	539,007	184	539,191
Other costs	223,282	186,447	55,853	78,527	5,572	549,681	10,986	560,667
Housing partnerships	1,653,767	-	-	-	-	1,653,767	-	1,653,767
Depreciation and amortization	1,499,060	349,295	-	-	-	1,848,355	39,015	1,887,370
Interest	573,479	-	-	-	-	573,479	-	573,479
Total	<u>\$ 4,714,972</u>	<u>\$ 4,055,287</u>	<u>\$ 2,316,876</u>	<u>\$ 2,472,132</u>	<u>\$ 323,482</u>	<u>\$ 13,882,749</u>	<u>\$ 259,720</u>	<u>\$ 14,142,469</u>

Three Rivers Community Action, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017 (restated)
Cash Flows - Operating Activities		
Change in net assets	\$ 1,019,907	\$ 980,403
Adjustments to reconcile change in net assets to net cash flows - operating activities		
Noncontrolling interest in change in net assets	(925,400)	(761,010)
Depreciation	365,783	386,608
Amortization - other assets	16,006	16,036
Amortization - debt issuance costs	29,936	-
Depreciation - affordable housing projects	1,494,986	1,484,725
(Gain) loss on sale of property and equipment	(515)	(246,759)
(Gain) loss on affordable housing projects	(58,599)	-
Unrealized (gain) loss on investments	2,171	(1,979)
Section 1602 grant revenue	(35,016)	(35,016)
Income in equity of affordable housing projects	(37,443)	-
Noncash contribution of land for affordable housing projects	(274,285)	-
Change in operating assets and liabilities		
Restricted cash	(560,978)	117,729
Grants receivable	(431,559)	(91,493)
Accounts receivable	(218,579)	50,406
Contracts receivable	152,012	(320,715)
Prepaid expenses	(40,337)	(5,886)
Other assets	6,696	(269,679)
Accounts payable and accrued expenses	990,774	(592,421)
Grant advances and other deferred revenue	126,268	52,240
Accrued interest	26,234	46,567
Net cash flows - operating activities	1,648,062	809,756
Cash Flows - Investing Activities		
Purchase of property and equipment	(761,370)	(329,298)
Proceeds from sale of property and equipment	515	-
Payments toward affordable housing projects	(4,892,603)	(1,881,345)
Proceeds from sale of affordable housing projects	1,844,476	320,739
Purchase of investments	-	(3,826)
Net cash flows - investing activities	(3,808,982)	(1,893,730)
Cash Flows - Financing Activities		
Proceeds from long-term debt	1,988,062	505,888
Partner contributions	1,642,201	1,556,218
Principal payments on long-term debt	(1,250,435)	(460,708)
Partner distributions and syndication fees	(881,267)	(84,672)
Net cash flows - financing activities	1,498,561	1,516,726
Net change in cash and cash equivalents	(662,359)	432,752
Cash and Cash Equivalents		
Beginning of year	3,891,120	3,458,368
End of year	\$ 3,228,761	\$ 3,891,120
Supplemental Cash Flow Information		
Cash paid during the year for interest	\$ 380,129	\$ 526,912
Noncash contribution of land for affordable housing projects	274,285	-

See notes to consolidated financial statements.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Three Rivers Community Action, Inc. and Subsidiaries (the "Organization") is a nonprofit corporation implementing the policies and procedures of the Office of Economic Opportunity by providing financial assistance to individuals and communities for the development, conduct and administration of community action programs under Section 204 and 205 of Title II-A of the Economic Opportunity Act of 1964, as amended. The Organization's major programs consist of Housing Development, Community Development, Early Childhood, Transportation, and Senior Services. Community Development expenses were included with Housing Development and Other Programs on the 2017 consolidated statement of functional expenses.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) applicable to nonprofit organizations.

Principles of Consolidation and Affordable Housing Projects and Other Assets

The Organization has consolidated all limited partnerships and limited liability companies in which Three Rivers Community Action, Inc. ("Three Rivers") controls as the general partner or managing member.

These financial statements consolidate the statements of Bridge Run Townhomes Limited Liability Company, Eagle Ridge Apartments Limited Partnership, Fox Pointe Townhomes Limited Partnership, Harvest Ridge Townhomes Limited Partnership, North and South Oak Apartments Limited Partnership, Prairiewood Townhomes Limited Partnership, Spring Creek Townhomes Limited Partnership, Trailside Apartments of Albert Lea Limited Partnership, Waseca Leased Housing Associates Limited Partnership, and Wazuweeta Woods Limited Partnership (collectively, the Organization). Inter-organization balances and transactions have been eliminated in the consolidation.

Bridge Run Townhomes Limited Liability Company

Three Rivers organized a limited liability company (Bridge Run Townhomes, LLC) to acquire, rehabilitate, own, maintain, and operate an 18-unit rental housing project located in Cannon Falls, Minnesota. Three Rivers is the single member of the LLC. Initial rentals occurred in November 2010.

Eagle Ridge Apartments Limited Partnership

Three Rivers has entered into a limited partnership agreement with NDC Corporate Equity Fund VI, LP (Eagle Ridge Apartments, LP) to construct, develop, acquire, hold for investment, lease and sell a 48 unit residential apartment development located in Red Wing, Minnesota. Three Rivers serves as general partner with .01 percent ownership. This partnership is reported as a consolidated subsidiary of Three Rivers due to the control Three Rivers has over the partnership as the partnership's general partner.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation and Affordable Housing Projects and Other Assets (Continued)

Fox Pointe Townhomes

Three Rivers organized a limited liability company (LLC) Fox Pointe Townhomes GP LLC and entered into a limited partnership agreement with Wells Fargo Affordable Housing Community Development Corporation to acquire, finance, own, construct, rehabilitate, maintain, improve, operate, lease and, if appropriate or desirable, sell or otherwise dispose of a 38 unit residential rental housing development located in Austin, Minnesota. Fox Pointe Townhomes GP LLC serves as general partner with .01 percent ownership. This partnership is reported as a consolidated subsidiary of Three Rivers due to the control Three Rivers has over the partnership as the partnership's general partner.

Harvest Ridge Townhomes Limited Partnership

Three Rivers has entered into a limited partnership agreement with NDC Corporate Equity Fund VI, LP (Harvest Ridge Townhomes, LP) to construct, develop, acquire, hold for investment, lease and sell a 20 unit residential townhomes development located in Plainview, Minnesota. Three Rivers serves as general partner with .01 percent ownership. This partnership is reported as a consolidated subsidiary of Three Rivers due to the control Three Rivers has over the partnership as the partnership's general partner.

North and South Oak Apartments Limited Partnership

Three Rivers organized a limited liability company (LLC) North & South Oak GP LLC and entered into a limited partnership agreement with Cinnaire fund for housing Limited Partnership 31 (North & South Oak Apartments) to acquire, rehabilitate, own, maintain & operate a 43 unit residential rental housing development located in Northfield, Minnesota. North & South Oak GP LLC serves as general partner with .01 percent ownership. This partnership is reported as a consolidated subsidiary of Three Rivers due to the control Three Rivers has over the partnership as the partnership's general partner.

Prairiewood Townhomes Limited Partnership

Three Rivers organized a limited liability company (LLC) Prairiewood Townhomes GP LLC and entered into a limited partnership agreement with MEF Multi-State LIHTC Fund 1 LLLP (Prairiewood Townhomes) to construct, develop, acquire, hold for investment, lease and sell a 30 unit residential rental housing development located in Faribault, Minnesota. Prairiewood Townhomes GP LLC serves as general partner with .01 percent ownership. This partnership is reported as a consolidated subsidiary of Three Rivers due to the control Three Rivers has over the partnership as the partnership's general partner.

Spring Creek Townhomes Limited Partnership

Three Rivers has entered into a limited partnership agreement with NDC Corporate Equity Fund X, LP (Spring Creek Townhomes) to construct, develop, acquire, hold for investment, lease and sell a 28 unit residential rental housing development located in Northfield, Minnesota. Three Rivers serves as general partner with .01 percent ownership. This partnership is reported as a consolidated subsidiary of Three Rivers due to the control Three Rivers has over the partnership as the partnership's general partner.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation and Affordable Housing Projects and Other Assets (Continued)

Trailside Apartments of Albert Lea Limited Partnership

Three Rivers has entered into a limited partnership agreement with NDC Corporate Equity Fund VII, LP (Trailside of Albert Lea, LP) to construct, develop, acquire, hold for investment, lease and sell a 110 unit residential rental housing development located in Albert Lea, Minnesota. Three Rivers serves as general partner with .01 percent ownership. This partnership is reported as a consolidated subsidiary of Three Rivers due to the control Three Rivers has over the partnership as the partnership's general partner.

Waseca Leased Housing Associates Limited Partnership

Three Rivers has entered into a limited partnership agreement with Waseca Woods, LLC, American Tax Credit Corporate Fund XIV Limited Partnership and Protech Development Corporation to own, develop, lease and operate five (5) buildings totaling a 33 unit affordable housing apartment rental complex also known as Charter Oaks Apartments (Waseca Leased Housing Assoc., LP) located in Waseca, Minnesota. Three Rivers serves as co-managing general partner with .005 percent ownership. This partnership is reported as a consolidated subsidiary of Three Rivers due to the control Three Rivers has over the partnership as the partnership's co-managing general partner. Charter Oaks Apartments (Waseca Leased) was sold to an unrelated party on January 31, 2018.

Wazuweeta Woods Limited Partnership

Three Rivers has entered into a limited partnership agreement with Douglas A. Amundson and Ron Carlsen (Wazuweeta Woods Apartments) to construct, develop, acquire, hold for investment, lease and sell a 24 unit residential apartment development located in Pine Island, Minnesota. Three Rivers serves as the general partner with 1 percent ownership. This partnership is reported as a consolidated subsidiary of Three Rivers due to the control Three Rivers has over the partnership as the partnership's general partner.

Projects at Cost

Affordable housing projects owned solely by Three Rivers are valued at cost; Northern Oaks Townhomes, Clover Patch Apartments, Southside Apartments, Deerwood Lane Townhomes and Northbridge Apartments of Albert Lea. Operations are accounted for under Three Rivers.

Northern Oaks Townhomes

Three Rivers has completed construction on a larger family affordable rental housing project in Northfield, Minnesota (Northern Oaks). Northern Oaks resulted in the development of eight units (two triplexes and one duplex) of large family affordable housing. The units were completed for occupancy May 1998. Northern Oaks is owned solely by Three Rivers and is valued at cost.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation and Affordable Housing Projects and Other Assets (Continued)

Clover Path Apartments

Three Rivers has completed acquisition and rehabilitation of a multi-family affordable rental housing project financed by Rural Development in St. Charles, Minnesota (Clover Patch). Clover Patch resulted in the development of 32 affordable units. Clover Patch is owned solely by Three Rivers and is valued at cost.

Southside Apartments

Three Rivers has completed acquisition and rehabilitation of a multi-family affordable housing project financed by Rural Development in Lonsdale, Minnesota (Southside). Southside resulted in the development of 12 affordable units. Southside is owned solely by Three Rivers and is valued at cost.

Deerwood Lane Townhomes

Three Rivers has completed acquisition of a multi-family market rate housing project in Faribault, Minnesota (Deerwood). Deerwood resulted in the development of 4 market rate units. Deerwood is owned solely by Three Rivers and is valued at cost.

Northbridge Apartments of Albert Lea

Three Rivers organized a limited liability company (Northbridge) to acquire, rehabilitate, own, maintain, and operate a 48-unit rental housing project located in Albert Lea, Minnesota. Three Rivers is the single member of the LLC. Northbridge apartments of Albert Lea is owned solely by Three Rivers and is valued at cost.

Projects at Equity Method

Partnership interests in affordable housing projects where all partners have substantive participating rights are accounted for using the equity method of accounting; Hayfield Greens Partnership and Opportunity Homes Limited Liability Company. These are recorded based on amounts reported on calendar year ended Schedule K-1 (Form 1065) partnership tax returns.

Hayfield Greens Partnership

Three Rivers has entered into a general partnership agreement with James J. and Kristin K. Fiebiger (Hayfield Greens) to construct, develop, acquire, hold for investment, lease, and sell a 24 unit residential apartment development located in Hayfield, Minnesota. Three Rivers owns 50% of Hayfield Greens and it continues to be accounted for using the equity method of accounting due to the substantial participating rights of all partners.

Opportunity Homes, LLC

Three Rivers has entered into a limited partnership agreement with Ron Carlsen (Opportunity Homes) to construct, develop, acquire, hold for investment, lease and sell five (5) residential homes located in Kasson, Rochester and Faribault, Minnesota. Three Rivers owns 50% of Opportunity Homes and it continues to be accounted for using the equity method of accounting due to the substantial participating rights of all partners.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Investments

Investments are carried at fair value and realized and unrealized gains and losses are reflected within investment income in the statements of activities. Donated investments are recorded at fair value on the date of donation and thereafter carried in accordance with the above provisions.

Grants Receivable

Grants receivable are due primarily from the federal and state government and other nonprofit organizations and arise primarily from the Organization's grants and contracts with those agencies to administer various programs. As of December 31, 2018 and 2017, there were no uncollectible amounts. All accounts are reviewed annually for collectability.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances determined from contractual agreements. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables from grants, contracts, and others. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable. Based upon prior experience and continual assessments of future collections, the Organization estimates there was no allowance for doubtful accounts necessary at both December 31, 2018 and 2017.

Contracts Receivable

Contracts receivable arise from the sale of rehabilitated homes to low-income persons on a contract for deed basis. Contracts that are part of the low-income housing rehabilitation program bear no interest and payment terms are based on the purchaser's income. Contracts that are part of the MHFA Bridge Pilot Program bear market rate interest. Due to program restrictions, contracts for deed receivables are reported at outstanding principal. No allowance for estimated defaults is provided as each loan is secured by the property on a contract for deed allowing for immediate property repossession. Repossession only occurs if a contract falls into contractual default and a repayment plan cannot be agreed upon. Houses held for resale are repossessed homes from the low-income purchaser housing rehabilitation program. Houses held for resale are recorded at carrying cost.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Assets

Other assets are investments, valued at cost, in future affordable housing projects and various reserves for affordable housing projects as required by certain loan covenants and restricted by funding source agreements.

Property and Equipment

Furniture, equipment, buildings, and improvements with an initial cost of \$5,000 or more are reported on the consolidated statements of financial position and are stated at cost. Purchases of furniture and equipment of less than \$5,000 are expensed immediately. Donated property and equipment are valued at fair value based on estimated value on date of donation. Depreciation is determined using the straight-line method over 5 to 7 years for furniture and equipment and generally 27.5 years for the buildings and improvements.

Upon retirement or other disposition, the cost and related accumulated depreciation of disposed assets are removed from the accounts and the resulting gain or loss is recognized in income. Repairs and maintenance are charged to expense as incurred. Renewals and improvements that extend the useful lives of assets are capitalized and depreciated over future periods.

Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the assets and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold, and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. The Organization has determined that no impairment existed as December 31, 2018 and 2017.

Compensated Absences Payable

Employees of the Organization are entitled to personal time off, depending on job classification, length of service, and other factors. A liability for compensated absences is included in accounts payable and accrued expenses in the consolidated statements of financial position as of December 31, 2018 and 2017.

Grant Advances

Grant advances consist of payments received in advance that relate to program services to be rendered in a future period. Grant advances do not represent total grant values. All grant advances are classified as current and will be recognized over the next year.

Section 1602 Deferred Grant

Revenue from the Section 1602 grant is deferred and recognized using the straight-line method over the 30-year life of the building.

Affordable Housing Project, Notes, and Mortgages

The Organization does not discount noninterest or low interest loans for affordable housing projects due to legal restrictions prescribed by governmental agencies.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Designated amounts represent reserves that the Board of Directors has set aside for a particular purpose. There are currently no board designated net assets.

Net Assets With Donor Restrictions

Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (the is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or the expenditures are incurred, respectively. Rental revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

In-Kind Contributions

Each program is responsible for keeping records to support the in-kind contribution claimed. To calculate the value of services, space, or material donated, a rate at or below current market rate is used. Volunteers contribute significant amounts of time to program services and administration activities; however the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by U.S. GAAP. Contributed goods and property and equipment are recorded at fair value at the date of donation.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing the Organization's various programs have been summarized on a functional basis in the consolidated statements of activities and consolidated statements of functional expenses. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Amortization

Tax credit fees paid to Minnesota Housing Finance Agency are amortized over a 15-year period using the straight-line method.

Advertising Costs

The Organization's policy is to expense advertising costs as they are incurred. During 2018 and 2017 the Organization incurred advertising costs totaling \$67,727 and \$75,802, respectively.

Income Taxes

Three Rivers has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and accordingly, is not subject to federal or state income taxes. However, unrelated business income may be subject to taxation. The subsidiaries are not taxpaying entities and therefore, no provision for income taxes have been recorded in the consolidated financial statements. The Organization is not currently under examination by any taxing jurisdiction.

Accounting standards require the Organization to evaluate positions taken by the Organization and recognize a tax liability (or asset) if the Organization has been an uncertain position that more likely than not would not be sustained upon examination by applicable tax authorities. Management has analyzed tax positions taken by the Organization, and has concluded that as of December 31, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

Recently Adopted Accounting Pronouncement

Presentation of Financial Statements of Not-For-Profit Entities

The Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities (Topic 958)*, in its 2018 financial statements. This guidance reduces the net asset classification from three to two: net assets with and without donor restrictions; expands disclosures about liquidity; and requires expenses to be reported by their function and natural classification. The ASU has been adopted retrospectively except for liquidity disclosure which can be reported in the current period only. The adoption of this guidance did not have a material impact on the Organization's consolidated financial statements.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new guidance will require all leases to be recorded as assets and liabilities on the statement of financial position. This update would require capitalization of the "right to use" an asset and recognition of an obligation for future lease payments for most leases currently classified as operating leases. Other leases currently classified as capital leases will be referred to as financing leases and will continue to be recorded as assets and liabilities in a similar manner. This update is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on its consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard will affect entities that enter into contracts with customers and provides a five step process for determining when revenue should be recognized to match the transfer of goods or services. In August 2015, the FASB issued ASU No. 2015-14 which defers the effective date one year making it effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on its consolidated financial statements.

Clarifying Guidance for Contributions Received and Contributions Made

In June 2018, the FASB issued ASU No. 2018-08, Not-For-Profit Entities (Topic 958) Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. This update aims to standardize how grants and other contracts are classified as either an exchange transaction or a contribution. Classifying grants as either a contribution or exchange transaction is the first step in implementing revenue recognition. For most recipients, this update is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on its consolidated financial statements.

Statement of Cash Flows: Restricted Cash

In November 2016, the FASB issued ASU No. 2016-08, Statement of Cash Flows (Topic 230) Restricted Cash. This accounting standard requires the statement of cash flows to explain the change in total cash, cash equivalents, and amounts generally described as restricted cash and cash equivalents. Transfers between cash and restricted cash will not be considered operating, investing, or financing activities. A disclosure will be required to reconcile the components of total cash, cash equivalents, and restricted cash as reported on the statement of cash flows with the corresponding line items on the statement of financial position. The ASU does not define "restricted cash". For most entities, this update is effective for fiscal periods beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on its consolidated financial statements

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 2 – LIQUIDITY AND AVAILABILITY

The following reflects the Organization's financial assets as of the consolidated statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date.

	2018
Financial assets, at year end	
Cash	\$ 3,228,761
Investments, at fair value	66,737
	3,295,498
Less grant advances and other deferred revenue	(240,514)
	\$ 3,054,984

None of the financial assets listed above are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position. Restricted cash totaling \$3,065,204 are excluded from the total above as those dollars are being held for specific purposes. The Organization does not have a formal policy but generally it structures its financial assets to be available as its general expenditures, liabilities and other obligations come due.

NOTE 3 – RESTRICTED CASH

	2018	2017
Operating reserve	\$ 1,550,493	\$ 998,421
Unemployment trust account	45,256	137,927
Replacement cost reserve	1,110,286	839,113
Cash reserved for loan to affordable housing project	-	23,000
Tenant security deposits	239,062	258,276
Residual receipts reserve	66,210	114,713
Development cost escrow	8,727	71,330
Real estate tax and insurance escrow	45,170	61,446
Total	\$ 3,065,204	\$ 2,504,226

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 4 – FAIR VALUE OF INVESTMENTS

Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

The fair value hierarchy consists of three levels of inputs that may be used to measure fair value, as follows:

Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated data.

Level 3 - Inputs that are unobservable inputs for the assets or liability, which are typically based on an entity's own assumption, as there is little, if any, related market activity.

The assets or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Donated land (included in affordable housing projects) is valued based on management's estimate of the fair value of similar assets at the time of donation.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 4 – FAIR VALUE OF INVESTMENTS (CONTINUED)

Fair values of assets measured on a recurring basis are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2018				
Mututal funds	<u>\$ 66,737</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,737</u>
December 31, 2017				
Mututal funds	<u>\$ 68,908</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,908</u>

Fair values of assets measured on a non-recurring basis are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2018				
Donated land	<u>\$ -</u>	<u>\$ 274,285</u>	<u>\$ -</u>	<u>\$ 274,285</u>

NOTE 5 – CONTRACTS RECEIVABLE

Three Rivers purchased dilapidated houses, rehabilitated, and later sold the houses to eligible families on contracts for deed at 0% interest. Three Rivers has a pilot program where they are purchasing single-family homes in Rochester, Minnesota, rehabbing them, and selling them on a three-year contract for deed at a 7.25% interest.

	<u>2018</u>	<u>2017</u>
Contracts receivable	\$ 1,253,695	\$ 1,405,707
Less: current portion	<u>(380,224)</u>	<u>(90,060)</u>
Total noncurrent portion	<u>\$ 873,471</u>	<u>\$ 1,315,647</u>

Estimated future collections are as follows for the years ending December 31:

2019	\$ 380,224
2020	93,530
2021	91,320
2022	91,320
2023	81,320
2024 and thereafter	<u>515,981</u>
Total	<u>\$ 1,253,695</u>

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 6 – OTHER ASSETS

Other assets consist of investments in future affordable housing projects and various reserves for affordable housing projects as required by certain loan covenants and restricted by funding source agreements as follows:

	<u>2018</u>	<u>2017</u>
Bridge Run Townhomes, LLC	\$ 2,850	\$ 3,267
Eagle Ridge Apartments, LLC	2,510	4,266
Fox Pointe Townhomes	-	108,018
Harvest Ridge Townhomes, LP	1,309	2,338
North & South Oak Apartments	15,513	17,452
Prairiewood Townhomes	30,248	33,274
Spring Creek Townhomes	24,709	29,911
Trailside of Albert Lea, LP	7,141	9,550
Northbridge	1,751	1,979
Faribault - MURL Home	101,322	-
Rochester Multi-Family Project	356,782	356,782
Scattered Single Family Housing Developments	<u>126,000</u>	<u>126,000</u>
 Total	 <u>\$ 670,135</u>	 <u>\$ 692,837</u>

Amortization on other assets in the affordable housing projects was \$16,006 and \$16,036 for 2018 and 2017, respectively.

NOTE 7 – AFFORDABLE HOUSING PROJECTS

Affordable housing projects were comprised of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 4,301,706	\$ 4,562,790
Building and improvements	43,953,501	41,627,963
Furniture and equipment	<u>2,464,966</u>	<u>2,705,844</u>
	50,720,173	48,896,597
Accumulated depreciation	<u>(13,387,908)</u>	<u>(13,487,800)</u>
 Total	 <u>\$ 37,332,265</u>	 <u>\$ 35,408,797</u>

Depreciation on affordable housing projects was \$1,494,986 and \$1,484,725 for 2018 and 2017, respectively

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 8 – PROPERTY AND EQUIPMENT

	2018	2017
Furniture and equipment	\$ 2,930,076	\$ 2,578,947
Building and improvements	1,702,615	1,364,121
Land	41,032	41,032
	4,673,723	3,984,100
Accumulated depreciation	(2,836,067)	(2,542,031)
Total	\$ 1,837,656	\$ 1,442,069

Property, equipment, and furniture acquired are owned by the Organization while used in the program for which it was purchased or in other future authorized programs. However, the funding sources have a reversionary interest in equipment purchased with grant funds and its disposition, as well as the ownership of any proceeds thereof, is subject to funding source regulations. Depreciation on Three Rivers property and equipment was \$365,783 and \$386,608 for 2018 and 2017, respectively.

NOTE 9 – SECTION 1602 DEFERRED GRANT

Bridge Run Townhomes, LLC was awarded a government grant under the Section 1602 Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credits for 2009 Program in the amount of \$1,050,473. This grant program was created under the American Recovery and Reinvestment Act of 2009 to provide funds for low-income housing projects and is administered by MN Housing.

The grant requires that the Property be used as low-income housing for a 15-year compliance period plus the extended use period. The grant will not be required to be repaid unless there is a recapture event during the 15-year compliance period ending December 31, 2027. A recapture event takes place any time occupancy by low-income tenants falls below the required percentage as defined in the mortgage agreement (75%). If a recapture event takes place, the full amount of the grant is repayable, less 6.67% (1/15th) for each full year the Property has complied with the prescribed occupancy requirements. The grant is secured by a mortgage on the Property.

In connection with the grant, Bridge Run Townhomes, LLC is required to pay an annual asset management fee of \$3,000 payable from available cash flow which will accrued without interest.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 10 – LONG-TERM DEBT AND AFFORDABLE HOUSING PROJECTS (CONTINUED)

Long-term debt and affordable housing projects consist of the following at December 31:

	2018	2017
Three Rivers Community Action, Inc.		
Marco Technologies, capital copier lease	\$ 24,315	\$ 34,041
SWMHP, EMHI downpayment assistance of \$2,500 per client, payable at sale of property including 0% interest.	7,500	10,000
First Homes, mortgage payable, secured by seven single family lots in Plainview, MN, payable payable upon sale of lots, including interest at 0%.	108,000	108,000
GMHF note payable, secured by 1412 15th Avenue NE, Rochester, MN, interest accrues on the principal balance at 3% per annum through July 11, 2019, when the principal balance and accrued interest are due.	43,884	45,815
GMHF note payable, secured by 1709 18th Avenue NE, Rochester, MN, interest accrues on the principal balance at 3% per annum through April 22, 2020, when the principal balance and accrued interest are due.	51,255	53,439
First Alliance Credit Union, mortgage payable, secured 1412 15th Ave NE, Rochester, MN, payable in monthly installments of \$495, including interest at 5%, final payment due November 15, 2020.	69,041	71,466
First Alliance Credit Union, mortgage payable, secured 1709 18th Avenue NW, Rochester, MN, payable in monthly installments of \$495, including interest at 5%, final payment due April 15, 2021.	69,714	72,099
Northern Oaks Townhomes		
MHFA, Home Targeted Program, deferred loan, proceeds used for Northern Oaks purchase. This loan is to be forgiven if all conditions are met December 31, 2026.	320,000	320,000

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 10 – LONG-TERM DEBT AND AFFORDABLE HOUSING PROJECTS (CONTINUED)

	2018	2017
Northern Oaks Townhomes (Continued)		
Northfield Community National Bank, mortgage payable, secured by Northern Oaks, payable in monthly installments of \$1,065, including interest at 6.75%, final payment due December 3, 2022.	\$ 13,099	\$ 25,183
GMHF mortgage payable, secured by Northern Oaks, payable on December 4, 2022, including 0% interest.	60,000	60,000
Clover Patch Apartments		
USDA Rural Development, mortgage payable, secured by Clover Patch Apartments purchase, payable in monthly installments of \$5,114, including interest at 6%, final payment due February 25, 2035.	864,394	873,594
MHFA Preservation Affordable Rental Investment Fund Program, mortgage payable, secured by Clover Patch Apartments, payable in full on February 25, 2035, including 0% interest.	350,000	350,000
Greater Minnesota Housing Fund, mortgage payable, secured by Clover Patch Apartments, payable in full on June 30, 2035, including 0% interest.	120,000	120,000
First Homes Properties, mortgage payable, secured by Clover Patch Apartments, payable in full on June 30, 2035, including 0% interest.	50,000	50,000
Southside Apartments		
USDA Rural Development, mortgage payable, secured by Southside Apartments purchase, payable in monthly installments of \$821, including interest at 4%, final payment due March 1, 2049.	142,155	144,527
MHFA, Preservation Affordable Rental Investment Fund Program Loan, secured by Southside Apartments, payable in full on December 9, 2048, including interest at 1%.	175,000	175,000
GMHF mortgage payable, secured by Southside Apartments, payable on December 9, 2048, including 0% interest.	175,000	175,000

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 10 – LONG-TERM DEBT AND AFFORDABLE HOUSING PROJECTS (CONTINUED)

	2018	2017
Southside Apartments (Continued)		
SWMHP mortgage payable, secured by Southside Apartments, payable on December 9, 2048, including 0% interest.	\$ 16,000	\$ 16,000
Northbridge Apartments of Albert Lea		
USDA Rural Development, mortgage payable, secured by Northbridge Apartments, payable in monthly installments of \$4,392, including interest at 3.125%, final payment due May 31, 2043.	1,264,968	1,277,926
MHFA PARIF mortgage payable, secured by Northbridge Apartments, payable on May 31, 2043, including 0% interest.	480,250	480,250
MHFA HOME mortgage payable, secured by Northbridge Apartments, payable on May 31, 2043, including 0% interest.	1,000,000	1,000,000
GMHF, deferred loan, secured by Northbridge Apartments, payable on May 31, 2043, including 0% interest.	200,000	200,000
GMHF mortgage payable, secured by Northbridge Apartments, payable in monthly installments of \$759, including interest at 2%, final payment due May 31, 2033.	117,821	124,499
Bridge Run Townhomes, LLC		
MHFA mortgage payable, secured by Bridge Run Townhomes, LLC, payable on November 4, 2040, including 0% interest.	360,000	360,000
MHFA mortgage payable, secured by Bridge Run Townhomes, LLC, payable on November 4, 2040, including 0% interest.	252,000	252,000
MHFA mortgage payable, secured by Bridge Run Townhomes, LLC, payable in monthly installments of \$2,784, including interest at 5.5%, final payment due October 1, 2041.	433,845	443,108
GMHF mortgage payable, secured by Bridge Run Townhomes, LLC, payable on November 4, 2040, including 0% interest.	60,000	60,000
SWMHP mortgage payable, secured by Bridge Run Townhomes, LLC, payable on November 4, 2040, including 0% interest.	18,000	18,000

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 10 – LONG-TERM DEBT AND AFFORDABLE HOUSING PROJECTS (CONTINUED)

	2018	2017
Eagle Ridge Apartments, LP		
MHFA mortgage payable, secured by Eagle Ridge, payable in monthly installments of \$5,165, including interest at 5.75%, final final payment due November 1, 2035.	\$ 671,369	\$ 694,030
MHFA mortgage payable, secured by Edge Ridge, payable on November 1, 2035, including interest at 1%.	456,670	456,670
GMHF mortgage payable, secured by Edge Ridge, payable on September 16, 2034, including interest at 1%.	665,000	665,000
Fox Pointe Townhomes		
MHFA, Economic Development Housing Challenge (EDHC) Program loan, payable on March 1, 2019, including 0% interest.	121,600	-
Wells Fargo, construction loan payable, secured by rents and future financing of Fox Pointe Townhomes, payable in full on August 31, 2019, extendable until August 31, 2020, including interest at 2.3% plus the one-month LIBO rate.	1,866,462	-
Harvest Ridge Townhomes		
GMHF mortgage payable, secured by Harvest Ridge, payable on June 8, 2035, including interest at 1%.	400,000	400,000
First Homes mortgage payable, secured by Harvest Ridge, payable on June 8, 2035, including interest at 1%.	300,000	300,000
MHFA mortgage payable, secured by Harvest Ridge, payable on March 1, 2036, including interest at 1%.	262,031	262,031
MHFA mortgage payable, secured by Harvest Ridge, payable in monthly installments of \$1,128, including interest at 6.05%, final payment due March 1, 2036.	146,378	150,914
North & South Oak Apartments		
USDA Rural Development, mortgage payable, secured by North & South Oak Apartments, payable in monthly installments of \$2,867, including interest at 2.875%, final payment due October 3, 2046.	893,790	902,368

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 10 – LONG-TERM DEBT AND AFFORDABLE HOUSING PROJECTS (CONTINUED)

	2018	2017
North & South Oak Apartments (Continued)		
MHFA PARIF mortgage payable, secured by North & South Apartments, payable on October 4, 2046, including 0% interest.	\$ 505,888	\$ 505,888
Prairiewood Townhomes		
GMHF mortgage payable, secured by Prairiewood Townhomes payable in monthly installments of \$1,679, including interest at 6%, final payment due May 20, 2031.	264,630	268,763
Spring Creek Townhomes		
Mortgage note, First National Bank of Northfield, payable in monthly installments of \$2,892, including interest at 4.5%, collateralized by all property and equipment, balance due January 10, 2029.	469,112	482,148
Trailside of Albert Lea, LP		
Minnwest Bank mortgage payable, secured by Trailside Apartments, payable in monthly installments of \$12,850, including interest at 7.48%, final payment due December 10, 2024.	1,557,914	1,592,555
MHFA HOME, mortgage payable, secured by Trailside Apartments payable on December 31, 2036, including interest at 1%.	1,184,921	1,184,921
GMHF mortgage payable, secured by Trailside Apartments, payable on December 19, 2036, including interest at 1%.	400,000	400,000
SWMHP mortgage payable, secured by Trailside Apartments, payable on December 19, 2025, including interest at 1%.	50,000	50,000
Waseca Leased Housing Assoc., LP		
Glaser Financial Group, Inc., mortgage payable, secured by Charter Oaks, paid in full.	-	781,123
GMHF mortgage payable, secured by Charter Oaks paid in full.	-	280,000

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 10 – LONG-TERM DEBT AND AFFORDABLE HOUSING PROJECTS (CONTINUED)

	2018	2017
Wazuweeta Woods Apartments		
MHFA mortgage payable, secured by Wazuweeta Woods, personally guaranteed by two limited partners and the assignment of the Contract for Private Development and Tax Increment Revenue Note with Pine Island Economic Development Authority, payable in monthly installments of \$5,480, including interest at 5.75%, final payment due April 1, 2033.	\$ 641,087	\$ 669,108
MHFA Challenge Program, secured by Wazuweeta Woods, payable on July 1, 2032, including 0% interest.	567,701	567,701
GMHF mortgage payable, secured by Wazuweeta Woods, payable on July 1, 2032, including 0% interest.	360,000	360,000
First Homes Properties, payable July 1, 2032, including 0% interest.	388,000	388,000
Total long-term debt	19,018,794	18,281,167
Less: unamortized debt issuance costs	(132,492)	(162,428)
Less: current maturities	(2,106,531)	(1,249,468)
Long-term debt	\$ 16,779,771	\$ 16,869,271

Estimated future long-term debt maturities are as follows the years ending December 31:

2019	\$ 2,106,531
2020	305,168
2021	255,918
2022	257,164
2023	208,504
2024 and thereafter	15,885,509
Total	\$ 19,018,794

In connection with the some of Three Rivers' debt agreements, Three Rivers' has agreed to certain restrictive covenants. For 2018, Three Rivers' violated some of these covenants; however, those violations have been waived by the lender.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 10 – LONG-TERM DEBT AND AFFORDABLE HOUSING PROJECTS (CONTINUED)

Interest expense paid for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Three Rivers	\$ 54,032	\$ 64,588
Bridge Run Townhomes, LLC	26,714	27,076
Eagle Ridge Apartments, LP	54,952	107,045
Harvest Ridge Townhomes	20,741	44,833
North & South Oak Apartments	28,588	39,475
Prairiewood Townhomes	16,845	16,846
Spring Creek Townhomes	23,063	23,361
Trailside of Albert Lea, LP	137,575	141,149
Waseca Leased Housing Assoc., LP	5,444	66,281
Wazuweeta Woods Apartments	<u>38,409</u>	<u>42,825</u>
Total	<u>\$ 406,363</u>	<u>\$ 573,479</u>

Three Rivers has entered into a long-term lease for a copy machine. The lease is due in monthly payments through June 2021. The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of December 31:

2019	\$ 11,640
2020	11,640
2021	<u>5,820</u>
Total minimum lease payments	29,100
Less: amounts representing interest	<u>(4,785)</u>
Present value of net minimum lease payments	<u>\$ 24,315</u>

The copy machine had a cost of \$48,630 and accumulated depreciation of \$24,315 and \$14,589 at December 31, 2018 and 2017 respectively.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 11 – DONOR RESTRICTED NET ASSETS

	2018	2017
Restricted for purpose	\$ -	\$ 23,000
Amounts released from donor restrictions		
	2018	2017
Restricted for purpose restrictions released	\$ 23,000	\$ -

NOTE 12 – OPERATING LEASES

Three Rivers is subject to operating leases covering primarily premises and office equipment with lease periods expiring between 2019 and 2023. Lease expense was \$431,024 and \$398,037 for 2018 and 2017, respectively. Minimum future lease obligations are as follows:

2019	\$ 198,352
2020	153,406
2021	72,840
2022	32,303
2023	16,151
Total	\$ 473,052

NOTE 13 – RETIREMENT PLANS

Three Rivers maintains a defined contribution retirement plan covering substantially all employees. Three Rivers' contributions to the Plan are based on employee contributions and length of service. This Plan is intended to qualify under Internal Revenue Code Section 403(b). Three Rivers contributed \$173,077 and \$168,217 to the Plan for 2018 and 2017, respectively.

NOTE 14 – CONTINGENCIES

Three Rivers provides a self-insured short-term disability program to certain qualifying employees, which may provide 67% of an employee's weekly earnings up to a maximum of 12 weeks. Under this program the historical average annual payout has been \$9,386. Three Rivers paid amounts \$14,267 and \$24,301 out in benefits under this program for 2018 and 2017, respectively.

Three Rivers has elected out of Minnesota state unemployment insurance and participates in a grantor trust to cover unemployment insurance claims. Restricted cash represents Three Rivers' estimated cash balance for eligible unemployment claims. If claims exceed payments into the trust Three Rivers could become liable for those claims.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 14 – CONTINGENCIES (CONTINUED)

Fox Pointe Townhomes LP had a letter of credit in the aggregate amount of \$583,702 as of December 31, 2018. Subsequent to year end the letter of credit was updated to \$200,000 and will expire in February 2020.

NOTE 15 – COMMITMENTS

Three Rivers was awarded housing tax credits in 2016 to develop the Fox Pointe Townhomes in Austin, Minnesota. The total development cost is approximately \$9 million. Primary funding sources include \$7.8 million in tax credit equity, a \$576,000 amortizing first mortgage, and a \$405,000 deferred loan. The project closed in January of 2018 and construction is still in process. At December 31, 2018 \$4,289,833 has been expended.

NOTE 16 – CONCENTRATIONS

Concentration of Credit Risk

Financial instruments that potentially subject Three Rivers to concentrations of credit risk consist principally of temporary cash investments. Three Rivers places its temporary cash investments with financial institutions and limits the credit exposure to any one financial institution by requiring specific collateral pledges of investment quality securities, (U.S. government or municipalities) for balances in excess of FDIC insurance limits. As of December 31, 2018 and 2017, Three Rivers had obtained collateral pledges of these securities in excess of bank balance, and thereby limited credit exposure.

NOTE 17 – RECLASSIFICATIONS

The prior year consolidated financial statements were reclassified to conform to the presentation used for the current year consolidated financial statements.

NOTE 18 – PRIOR PERIOD ADJUSTMENTS

Net assets without donor restrictions at the beginning of 2017 have been adjusted for unemployment trust restricted cash not recorded in error in prior years. The correction increased beginning net assets for 2017 by \$179,501. The 2017 financial statements were restated to reflect the change in unemployment trust restricted cash. The restatement increased fringe benefits in aggregate by \$41,658 and other income by \$84 and decreased unemployment trust restricted cash by \$41,574. An accrual for unemployment insurance claims incurred but not yet paid totaling \$5,838 was also recorded at December 31, 2017.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 19 – SUBSEQUENT EVENTS

Three Rivers was awarded loan funds from Minnesota Housing in 2018 to purchase and rehabilitate Rivers Edge and Woodknoll Apartments in Cannon Falls. The two adjacent properties will be combined into a single project to be called Riverwood Apartments. This occupied, 39 unit project would serve households earning 60% of area median income or below. The total development cost is approximately \$3.8 million. Primary sources include a new \$800,000 amortizing mortgage, \$570,000 of assumed mortgages (one for each property) subordinated to the new first mortgage, a \$2.3 million deferred loan, and \$77,000 of grants and rebates. Acquisition and close of financing are expected in the 3rd Quarter of 2019 with construction starting immediately.

Three Rivers is constructing a 3,284 square foot dispatch & training facility in Plainview, MN. Construction began in the fall of 2018 and is expected to be complete in August 2019. The building will house 9 dispatchers and 6-8 other transportation staff, and have space to train up to 50 drivers. The estimated \$1.3 million building is funded primarily by a federal grant from the Minnesota Department of Transportation, with matching funds provided by private donations and transportation program reserves.

Three Rivers entered into an agreement to purchase the property at 1412 North Star Drive, Zumbrota MN. This property is adjacent to the agency's existing administrative offices. The purchase was completed on January 31, 2019 with a purchase price of \$180,000. The Organization plans to remove the existing structure and complete an addition on its existing offices to house 10 new staff positions and a board room, as well as expanded parking space. At the time of the issue of these statements, planning is in the design phase and no cost estimates are available.

Three Rivers is negotiating a contract for managed IT services with Marco Inc. The existing contract expired on January 15, 2019. The Organization continues in a month to month arrangement with Marco until a new contract is in place. The contract being negotiated has a total cost of \$455,400 over the 36 month life of the contract.

The Organization has evaluated subsequent events through May 15, 2019, which is the date that the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Three Rivers Community Action, Inc. and Subsidiaries
Consolidating Statement of Financial Position
As of December 31, 2018

	Three Rivers	Bridge Run Townhomes, LLC	Eagle Ridge Apartments LP	Fox Point Townhomes	Harvest Ridge Townhomes
Current Assets					
Cash and cash equivalents	\$ 2,188,265	\$ 38,902	\$ 113,507	\$ 755	\$ 19,292
Cash restricted	1,175,800	180,635	232,215	8,727	89,252
Investments, at fair value	66,737	-	-	-	-
Grants receivable	1,249,473	-	-	-	-
Accounts receivable	514,690	2,940	2,228	15	115
Contracts receivable	380,224	-	-	-	-
Prepaid expenses	85,687	10,017	17,773	-	7,408
Total current assets	<u>5,660,876</u>	<u>232,494</u>	<u>365,723</u>	<u>9,497</u>	<u>116,067</u>
Noncurrent Assets					
Contracts receivable	1,935,781	-	-	-	-
Other assets	585,855	2,850	2,510	-	1,309
Affordable housing projects	7,335,471	1,662,150	3,130,461	4,959,345	1,519,883
Property and equipment	1,837,656	-	-	-	-
Total noncurrent assets	<u>11,694,763</u>	<u>1,665,000</u>	<u>3,132,971</u>	<u>4,959,345</u>	<u>1,521,192</u>
Total assets	<u>\$ 17,355,639</u>	<u>\$ 1,897,494</u>	<u>\$ 3,498,694</u>	<u>\$ 4,968,842</u>	<u>\$ 1,637,259</u>
Liabilities and Net Assets					
Current Liabilities					
Current portion of long-term debt	\$ 105,542	\$ 9,786	\$ 24,004	\$ 1,866,462	\$ 4,867
Accounts payable and accrued expenses	943,094	34,201	81,883	914,364	49,570
Grant advances and other deferred revenue	218,819	68	10,691	-	1,070
Total current liabilities	<u>1,267,455</u>	<u>44,055</u>	<u>116,578</u>	<u>2,780,826</u>	<u>55,507</u>
Long-Term Liabilities					
Accrued interest	1,684	77,614	158,105	5,137	129,289
Section 1602 deferred grant	-	805,361	-	-	-
Long-term debt and affordable housing projects	5,616,853	1,080,329	1,727,749	364,087	1,075,944
Total long-term liabilities	<u>5,618,537</u>	<u>1,963,304</u>	<u>1,885,854</u>	<u>369,224</u>	<u>1,205,233</u>
Total liabilities	<u>6,885,992</u>	<u>2,007,359</u>	<u>2,002,432</u>	<u>3,150,050</u>	<u>1,260,740</u>
Net Assets					
Without donor restrictions	10,469,647	(109,865)	25,883	274,284	(111)
Noncontrolling interest in consolidated subsidiaries	-	-	1,470,379	1,544,508	376,630
Total net assets	<u>10,469,647</u>	<u>(109,865)</u>	<u>1,496,262</u>	<u>1,818,792</u>	<u>376,519</u>
Total liabilities and net assets	<u>\$ 17,355,639</u>	<u>\$ 1,897,494</u>	<u>\$ 3,498,694</u>	<u>\$ 4,968,842</u>	<u>\$ 1,637,259</u>

North & South Oak Apartments	Prairiewood Townhomes	Spring Creek Townhomes	Trailside of Albert Lea LP	Waseca Leased Housing Assoc LP	Wazuweeta Woods Apartments	Eliminations	Consolidated Total
\$ 55,537	\$ 49,087	\$ 157,073	\$ 597,382	\$ -	\$ 8,961	\$ -	\$ 3,228,761
501,982	182,602	221,235	368,836	-	103,920	-	3,065,204
-	-	-	-	-	-	-	66,737
-	-	-	-	-	-	-	1,249,473
4,010	3,416	14,185	3,706	-	218	-	545,523
-	-	-	-	-	-	-	380,224
11,717	6,753	9,495	28,031	-	15,786	-	192,667
573,246	241,858	401,988	997,955	-	128,885	-	8,728,589
-	-	-	-	-	-	(1,062,310)	873,471
15,513	30,248	24,709	7,141	-	-	-	670,135
4,166,613	5,126,238	4,772,891	5,819,454	-	1,282,383	(2,442,624)	37,332,265
-	-	-	-	-	-	-	1,837,656
4,182,126	5,156,486	4,797,600	5,826,595	-	1,282,383	(3,504,934)	40,713,527
<u>\$ 4,755,372</u>	<u>\$ 5,398,344</u>	<u>\$ 5,199,588</u>	<u>\$ 6,824,550</u>	<u>\$ -</u>	<u>\$ 1,411,268</u>	<u>\$ (3,504,934)</u>	<u>\$ 49,442,116</u>
\$ 8,828	\$ 4,455	\$ 13,926	\$ 38,987	\$ -	\$ 29,674	\$ -	\$ 2,106,531
100,723	304,464	86,333	169,657	-	49,650	-	2,733,939
933	738	3,315	2,361	-	2,519	-	240,514
110,484	309,657	103,574	211,005	-	81,843	-	5,080,984
30,916	1,103	-	191,960	-	-	(30,916)	564,892
-	-	-	-	-	-	-	805,361
2,079,757	353,072	448,521	3,143,010	-	1,921,843	(1,031,394)	16,779,771
2,110,673	354,175	448,521	3,334,970	-	1,921,843	(1,062,310)	18,150,024
2,221,157	663,832	552,095	3,545,975	-	2,003,686	(1,062,310)	23,231,008
(29)	113,880	(103)	2,111,671	-	27,014	(2,442,624)	10,469,647
2,534,244	4,620,632	4,647,596	1,166,904	-	(619,432)	-	15,741,461
2,534,215	4,734,512	4,647,493	3,278,575	-	(592,418)	(2,442,624)	26,211,108
<u>\$ 4,755,372</u>	<u>\$ 5,398,344</u>	<u>\$ 5,199,588</u>	<u>\$ 6,824,550</u>	<u>\$ -</u>	<u>\$ 1,411,268</u>	<u>\$ (3,504,934)</u>	<u>\$ 49,442,116</u>

Three Rivers Community Action, Inc. and Subsidiaries
Consolidating Statement of Activities
For the Year Ended December 31, 2018

	Three Rivers	Bridge Run Townhomes, LLC	Eagle Ridge Apartments LP	Fox Point Townhomes	Harvest Ridge Townhomes	North & South Oak Apartments
Without Donor Restrictions Revenue						
Federal grant revenue	\$ 5,267,697	\$ -	\$ -	\$ -	\$ -	\$ -
State grant revenue	3,958,780	-	-	-	-	-
Other grant revenue	109,325	-	-	-	-	-
Contributions	371,095	-	-	-	-	-
Other program revenue	2,204,724	37,910	15,983	885	2,749	9,931
Rental income	717,906	176,600	400,176	-	159,005	303,238
Investment income	75,455	4,107	3,437	-	1,391	1,773
	<u>12,704,982</u>	<u>218,617</u>	<u>419,596</u>	<u>885</u>	<u>163,145</u>	<u>314,942</u>
Net assets with donor restrictions released	23,000	-	-	-	-	-
Total without donor restrictions revenue	<u>12,727,982</u>	<u>218,617</u>	<u>419,596</u>	<u>885</u>	<u>163,145</u>	<u>314,942</u>
Expenses						
Direct services	1,644,852	-	-	-	-	-
Salaries and wages	4,819,261	-	-	-	-	-
Fringe benefits	1,925,831	-	-	-	-	-
Training and travel	236,579	-	-	-	-	-
Telephone and technology	309,799	-	-	-	-	-
Office supplies	141,237	-	-	-	-	-
Space costs and utilities	408,724	-	-	-	-	-
Equipment and maintenance	315,871	-	-	-	-	-
Vehicle repairs and maintenance	590,406	-	-	-	-	-
Other costs	678,101	-	-	-	-	-
Housing partnerships	-	109,650	276,942	12,654	135,004	249,045
Depreciation and amortization	560,382	70,375	124,469	-	61,371	169,805
Interest	54,032	26,714	54,952	-	20,741	28,588
Total expenses	<u>11,685,075</u>	<u>206,739</u>	<u>456,363</u>	<u>12,654</u>	<u>217,116</u>	<u>447,438</u>
Total change in net assets before noncontrolling interest	1,042,907	11,878	(36,767)	(11,769)	(53,971)	(132,496)
Change in noncontrolling interest in affordable housing projects	-	-	36,764	11,768	53,966	132,483
Total Change in Without Donor Restrictions Net Assets	1,042,907	11,878	(3)	(1)	(5)	(13)
Without Donor Restrictions Net Assets - Beginning of Year	9,426,740	(91,220)	25,890	-	(106)	(16)
Contributions	-	-	-	274,285	-	-
Distributions	-	(30,523)	(4)	-	-	-
Without Donor Restrictions Net Assets - End of Year	\$ 10,469,647	\$ (109,865)	\$ 25,883	\$ 274,284	\$ (111)	\$ (29)
With Donor Restrictions Revenue						
Net assets with donor restrictions released	\$ (23,000)	\$ -	\$ -	\$ -	\$ -	\$ -
Total change in with donor restrictions net assets	(23,000)	-	-	-	-	-
With Donor Restrictions Net Assets - Beginning of Year	23,000	-	-	-	-	-
With donor restrictions net assets - beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Prairiewood Townhomes	Spring Creek Townhomes	Trailside of Albert Lea LP	Waseca Leased Housing Assoc LP	Wazuweeta Woods Apartments	Eliminations	Consolidated Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,267,697
-	-	-	-	-	-	3,958,780
-	-	-	-	-	-	109,325
-	-	-	-	-	-	371,095
5,686	32,301	16,181	3,843	23,819	(385,903)	1,968,109
283,260	256,567	859,406	24,737	208,440	(40,025)	3,349,310
2,217	951	4,184	21,579	1,974	-	117,068
291,163	289,819	879,771	50,159	234,233	(425,928)	15,141,384
-	-	-	-	-	-	23,000
291,163	289,819	879,771	50,159	234,233	(425,928)	15,164,384
-	-	-	-	-	-	1,644,852
-	-	-	-	-	(195,000)	4,624,261
-	-	-	-	-	(65,000)	1,860,831
-	-	-	-	-	-	236,579
-	-	-	-	-	-	309,799
-	-	-	-	-	-	141,237
-	-	-	-	-	-	408,724
-	-	-	-	-	-	315,871
-	-	-	-	-	-	590,406
-	-	-	-	-	-	678,101
231,633	243,168	685,603	(7,515)	171,374	(154,480)	1,953,078
245,055	252,995	335,235	-	57,088	-	1,876,775
16,845	23,063	137,575	5,444	38,409	-	406,363
493,533	519,226	1,158,413	(2,071)	266,871	(414,480)	15,046,877
(202,370)	(229,407)	(278,642)	52,230	(32,638)	(11,448)	117,507
202,350	229,384	278,614	(52,236)	32,312	(5)	925,400
(20)	(23)	(28)	(6)	(326)	(11,453)	1,042,907
113,900	(80)	2,111,699	6	27,340	(2,187,413)	9,426,740
-	-	-	-	-	-	274,285
-	-	-	-	-	(243,758)	(274,285)
\$ 113,880	\$ (103)	\$ 2,111,671	\$ -	\$ 27,014	\$ (2,442,624)	\$ 10,469,647
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (23,000)
-	-	-	-	-	-	(23,000)
-	-	-	-	-	-	23,000
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Three Rivers Community Action, Inc and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Fund #	Federal Grantor	Pass-Through Grantor	Program Title	Federal CFDA	Agency or Pass-Through Number	Passed Through to Subrecipients	Federal Expenditures
600	USDA	RD	Clover Patch Rural Rental Housing Loan	10.415	002-001		\$ 477,494
600			Clover Patch Rural Rental Housing Loan	10.415	020-003		396,100
601			Southside Rural Rental Housing Loan	10.415	039-003		144,527
603			Northbridge Rural Rental Housing Loan	10.415	012-001		1,277,926
			Total CFDA 10.415				
116 & 117		MDE	CACFP	10.558	8-260-501		<u>105,110</u>
			<i>SNAP Cluster:</i>				
856		MN DHS	Food Support	10.561	133144		27,900
857		MN DHS	Food Support	10.561	133144		<u>6,555</u>
			Total SNAP Cluster and Total CFDA 10.561				<u>34,455</u>
			Total U.S. Department of Agriculture				<u>2,435,612</u>
698	HUD	MN DHS	ESG-RH	14.231	126828		82,334
			Total CFDA 14.231				
607	MHFA	MHFA	Home Investment Partnerships Program	14.239	Northbridge Apartments		1,000,000
603			Home Investment Partnerships Program	14.239	Northern Oaks		<u>320,000</u>
			Total CFDA 14.239				<u>1,320,000</u>
636		HUD	Permanent Supportive Housing Prairiewood	14.267	MN0306L5K021602		45,865
637		HUD	Permanent Supportive Housing Prairiewood	14.267	MN0306L5K021703		32,319
647		HUD	Continuum Care Planning Grant	14.267	MN0380L5K021600		59,187
656		HUD	Continuum of Care Coordinated Entry	14.267	MN0366L5K021601		49,560
657		HUD	Continuum of Care Coordinated Entry	14.267	MN0366L5K021702	\$ 9,332	39,763
676		HUD	SHP-RHASP	14.267	MN0065L5K021609	38,086	65,344
677		HUD	SHP-RHASP	14.267	MN0065L5K021710	66,729	111,487
			Total CFDA 14.267			<u>114,147</u>	<u>403,525</u>
			Total U.S. Housing and Urban Development			<u>114,147</u>	<u>1,805,859</u>
737	DOT	MN DOT	TRANSIT	20.509	1029482		893,200
			<i>Federal Transit Cluster:</i>				
767		MN DOT	Transit	20.526	1002154		<u>264,895</u>
			Total Federal Transit Cluster and Total CFDA 20.526				<u>264,895</u>
			Total U.S. Department of Transportation				<u>1,158,095</u>
516	DOE	MN DOC	DOE/WX	81.042	A2500		107,004
517			DOE/WX	81.042	A2500		<u>73,982</u>
			Total U.S. Department of Energy and Total CFDA 81.042				<u>180,986</u>
			<i>Aging Cluster:</i>				
727	HHS	SEMAAA	Assisted Transportation	93.044	310-16-003B-063		27,093
717			HDM	93.045	310-16-03C2-002		69,109
717			HDM	93.053	310-16-03C2-002		<u>16,918</u>
			Total Aging Cluster				<u>113,120</u>
707		SEMAAA	Caregiver	93.052	310-16-003 E-005		<u>50,600</u>
528	MN DOC		EAP/WX Carryover	93.568	A2108		63,567
547			EAP/WX Carryover	93.568	A2108		213,129
548			EAP/WX Carryover	93.568	A2109		18,911
558			Energy Assistance Program	93.568	1563		564,255
559			Energy Assistance Program	93.568	1563		248,033
			Direct Client Benefits	93.568			<u>2,878,080</u>
			Total CFDA 93.568				<u>3,985,975</u>
037			CSBG	93.569	127536		<u>300,208</u>
116			Head Start	93.600	05CH8380/04		732,533
117			Head Start	93.600	05CH8380/05		<u>989,311</u>
			Total CFDA 93.600				<u>1,721,844</u>
			Total U.S. Department of Health and Human Services				<u>6,171,747</u>
837	DHS	United Way	EFSP	97.024	4859-02-001 - Phase 34		1,864
838			EFSP	97.024	4859-02-001 - Phase 35		<u>7,661</u>
			Total U.S. Department of Homeland Security and Total CFDA 97.024				<u>9,525</u>
			Total Federal Expenditures			\$ 114,147	\$ 11,761,824

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Three Rivers Community Action, Inc. under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Three Rivers Community Action, Inc. it is not intended to and does not present the financial position, changes in net assets, or cash flows of Three Rivers Community Action, Inc.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting, which conform to accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 – INDIRECT COST RATE

Three Rivers Community Action, Inc. has elected not to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance.

NOTE 4 – FEDERAL LOAN PROGRAMS

The federal loan programs balances and transactions relating to these programs are included in Organization's consolidated financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at December 31, 2018, consists of:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Clover Patch Rural Rental Housing Loan	10.415	\$ 472,465
Clover Patch Rural Rental Housing Loan	10.415	391,929
Southside Rural Rental Housing Loan	10.415	142,155
Northbridge Rural Rental Housing Loan	10.415	1,264,968
Home Investment Partnerships Program	14.239	1,320,000

The Organization is obligated on three Rental Assistance and Interest Credit loans. The Organization is also obligated on a Home Targeted deferred loan. These loans require significant continuing compliance, primarily eligibility, and allowability.

Three Rivers Community Action, Inc. and Subsidiaries
Notes to Schedule of Expenditures of Federal Awards

NOTE 5 – ENERGY ASSISTANCE PAYMENTS

Included in CFDA 93.568 are client benefits paid by the State of Minnesota of \$2,878,080. These expenditures are not included in the consolidated statements of activities.

NOTE 6 – RECONCILIATION TO THE CONSOLIDATED STATEMENT OF ACTIVITIES

Total expenditures of federal awards	\$ 11,761,824
Less direct client benefits	(2,878,080)
Less beginning balance Clover Patch rural rental housing loans	(873,594)
Less beginning balance Southside rural rental housing loan	(144,527)
Less beginning balance Northbridge rural rental housing loan	(1,277,926)
Less beginning balance HOME investment partnerships program	<u>(1,320,000)</u>
 Total federal grant revenue per consolidated statement of activities	 <u><u>\$ 5,267,697</u></u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

To the Board of Directors
Three Rivers Community Action, Inc.
Zumbrota, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Three Rivers Community Action, Inc. and Subsidiaries, as of and for the year ended December 31, 2018, and the related notes to consolidated financial statements, which collectively comprise the Organization's consolidated financial statements, and have issued our report thereon dated May 15, 2019. The financial statements of Bridge Run Townhomes Limited Liability Company, Eagle Ridge Apartments Limited Partnership, Fox Pointe Townhomes, Harvest Ridge Townhomes Limited Partnership, North and South Oak Apartments Limited Partnership, Prairiewood Townhomes Limited Partnership, Spring Creek Townhomes Limited Partnership, Trailside Apartments of Albert Lea Limited Partnership, Waseca Leased Housing Associates Limited Partnership, and Wazuweeta Woods Limited Partnership were not audited in accordance with *Government Auditing Standards* as these entities did not receive federal funding and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these entities.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Three Rivers Community Action, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Three Rivers Community Action, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Three Rivers Community Action, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Internal Control over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Three Rivers Community Action, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Three Rivers Community Action, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BergankDV, Ltd.

St. Cloud, Minnesota
May 15, 2019

**Report on Compliance for Each Major Federal
Program and on Internal Control Over
Compliance Required by Uniform Guidance**

Independent Auditor's Report

To the Board of Directors
Three Rivers Community Action, Inc.
Zumbrota, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Three Rivers Community Action, Inc.'s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Three Rivers Community Action, Inc.'s major federal programs for the year ended December 31, 2018. Three Rivers Community Action, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management of Three Rivers Community Action, Inc. is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Three Rivers Community Action, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Three Rivers Community Action, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Three Rivers Community Action, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Three Rivers Community Action, Inc. complied, in all material respects, with the types of compliance requirements referred to in the first paragraph that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control Over Compliance

Management of Three Rivers Community Action, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to in the first paragraph. In planning and performing our audit of compliance, we considered Three Rivers Community Action, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Three Rivers Community Action, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of Report

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

BergankDV, Ltd.

St. Cloud, Minnesota
May 15, 2019

Three Rivers Community Action, Inc. and Subsidiaries
Schedule of Findings and Questioned Costs

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Consolidated Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported

Noncompliance material to consolidated financial statements noted? No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of Major Federal Programs

CFDA No.: 20.509
 Name of Federal Program or Cluster Transit

CFDA No.: 20.526
 Name of Federal Program or Cluster Transit Facility

CFDA No.: 93.568
 Name of Federal Program or Cluster Low-Income Home Energy Assistance

CFDA No.: 93.600
 Name of Federal Program or Cluster Head Start

Dollar threshold used to distinguish between type A and type B programs? \$750,000

Auditee qualified as low risk auditee? No

**Three Rivers Community Action, Inc. and Subsidiaries
Schedule of Findings and Questioned Costs**

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.