

**Three Rivers Community Action, Inc. and Subsidiaries**

**Consolidated Financial Statements  
and Supplementary Information**

**December 31, 2019 and 2018**



**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 statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 audits. We did not audit the financial statements of Bridge Run Townhomes Limited Liability Company, Eagle Ridge Apartments Limited Partnership, Fox Pointe 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 \$37,947,274 as of December 31, 2019, and total revenues of \$3,100,024 for the year then ended. 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, Fox Pointe 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 audits 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 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 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Emphasis of Matter – Adoption of New Accounting Standards***

As discussed in Note 1 to consolidated financial statements, Three Rivers Community Action, Inc. and Subsidiaries adopted new accounting guidance Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), ASU No. 2016-08, *Restricted Cash*, and ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

## ***Other Matters (Continued)***

### ***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 and related notes to 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 20, 2020, 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 20, 2020

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## **CONSOLIDATED FINANCIAL STATEMENTS**

**Three Rivers Community Action, Inc. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**As of December 31, 2019 and 2018**

	2019	2018
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 3,685,049	\$ 3,228,761
Restricted cash	2,789,903	3,065,204
Investments, at fair value	76,848	66,737
Grants receivable	1,452,038	1,249,473
Accounts receivable	954,396	545,523
Current portion of contracts receivable	253,008	380,224
Prepaid expenses	194,630	192,667
Total current assets	9,405,872	8,728,589
Noncurrent assets		
Contracts receivable	894,393	873,471
Other assets	788,099	670,135
Affordable housing projects	39,211,143	37,332,265
Property and equipment	2,836,939	1,837,656
Total noncurrent assets	43,730,574	40,713,527
Total assets	\$ 53,136,446	\$ 49,442,116
<b>Liabilities and Net Assets</b>		
Current liabilities		
Current portion of long-term debt	\$ 1,020,704	\$ 2,106,531
Accounts payable and accrued expenses	2,397,967	2,733,939
Grant advances and other deferred revenue	294,883	240,514
Total current liabilities	3,713,554	5,080,984
Long-term liabilities		
Accrued interest	603,369	564,892
Section 1602 deferred grant	490,221	805,361
Long-term debt and affordable housing projects	16,325,626	16,779,771
Total long-term liabilities	17,419,216	18,150,024
Total liabilities	21,132,770	23,231,008
Net assets		
Without donor restrictions	13,438,450	10,469,647
Noncontrolling interest in consolidated subsidiaries	18,565,226	15,741,461
Total net assets	32,003,676	26,211,108
Total liabilities and net assets	\$ 53,136,446	\$ 49,442,116

See notes to consolidated financial statements.



**Three Rivers Community Action, Inc. and Subsidiaries**  
**Consolidated Statements of Activities**  
**Years Ended December 2019 and 2018**

	2019	2018
<b>Without Donor Restrictions Revenue</b>		
Federal grant revenue	\$ 5,563,571	\$ 5,267,697
State grant revenue	4,725,171	3,958,780
Other grant revenue	92,048	109,325
Contributions	210,288	371,095
Other program revenue	2,525,636	1,968,109
Rental income	3,579,462	3,349,310
Investment income	116,674	117,068
	<u>16,812,850</u>	<u>15,141,384</u>
Net assets with donor restrictions released	-	23,000
Total without donor restrictions revenue	<u>16,812,850</u>	<u>15,164,384</u>
<b>Expenses</b>		
Program services		
Housing	5,018,272	4,549,151
Transportation	4,881,119	4,350,752
Early childhood	2,772,830	2,451,235
Community development	2,876,445	2,820,990
Senior services	307,003	289,663
Management and general	543,034	585,086
Total expenses	<u>16,398,703</u>	<u>15,046,877</u>
Total change in net assets before noncontrolling interest	414,147	117,507
Change in noncontrolling interest in affordable housing projects	<u>1,168,654</u>	<u>925,400</u>
Total change in net assets	1,582,801	1,042,907
Without donor restrictions net assets - beginning of year	10,469,647	9,426,740
Transfer of non-controlling interest in Eagle Ridge Apartments	<u>1,386,002</u>	<u>-</u>
Without donor restrictions net assets - end of year	<u>\$ 13,438,450</u>	<u>\$ 10,469,647</u>
<b>With Donor Restrictions Revenue</b>		
Other program revenue	\$ -	\$ -
Net assets with donor restrictions released	<u>-</u>	<u>(23,000)</u>
Total change in net assets	-	(23,000)
With donor restrictions net assets - beginning of year	<u>-</u>	<u>23,000</u>
With donor restrictions net assets - end of year	<u>\$ -</u>	<u>\$ -</u>

See notes to consolidated financial statements.

**Three Rivers Community Action, Inc. and Subsidiaries**  
**Consolidated Statement of Functional Expenses**  
**Year Ended December 31, 2019**

	Program Services					Total	Supporting Services	Total
	Housing	Transportation	Early Childhood	Community Development	Senior Services		Management and General	
Direct services	\$ 39,572	\$ 101,827	\$ 287,854	\$ 1,144,785	\$ 122,524	\$ 1,696,562	\$ -	\$ 1,696,562
Salaries and wages	215,960	2,207,983	1,311,525	987,389	94,801	4,817,658	331,438	5,149,096
Fringe benefits	89,487	1,013,126	668,499	476,955	66,355	2,314,422	99,431	2,413,853
Training and travel	15,390	51,166	63,174	64,767	5,568	200,065	25,714	225,779
Telephone and technology	22,958	97,627	125,930	72,175	4,824	323,514	2,055	325,569
Office supplies	5,118	53,293	41,342	35,982	4,783	140,518	8,292	148,810
Space costs and utilities	89,551	48,494	216,384	54,131	3,527	412,087	818	412,905
Equipment and maintenance	40,882	238,308	-	107	-	279,297	-	279,297
Vehicle repairs and maintenance	-	541,466	3,978	-	-	545,444	-	545,444
Other costs	278,782	207,500	54,144	40,154	4,621	585,201	75,286	660,487
Housing partnerships	1,955,635	-	-	-	-	1,955,635	-	1,955,635
Depreciation and amortization	1,732,944	320,329	-	-	-	2,053,273	-	2,053,273
Interest	531,993	-	-	-	-	531,993	-	531,993
<b>Total</b>	<b>\$ 5,018,272</b>	<b>\$ 4,881,119</b>	<b>\$ 2,772,830</b>	<b>\$ 2,876,445</b>	<b>\$ 307,003</b>	<b>\$ 15,855,669</b>	<b>\$ 543,034</b>	<b>\$ 16,398,703</b>

**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
<b>Total</b>	<b>\$ 4,549,151</b>	<b>\$ 4,350,752</b>	<b>\$ 2,451,235</b>	<b>\$ 2,820,990</b>	<b>\$ 289,663</b>	<b>\$ 14,461,791</b>	<b>\$ 585,086</b>	<b>\$ 15,046,877</b>

**Three Rivers Community Action, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

	2019	2018
<b>Cash Flows - Operating Activities</b>		
Change in net assets	\$ 2,968,803	\$ 1,019,907
Adjustments to reconcile change in net assets to net cash flows - operating activities		
Noncontrolling interest in change in net assets	(1,168,654)	(925,400)
Depreciation	368,291	365,783
Amortization - other assets	20,646	16,006
Amortization - debt issuance costs	37,714	29,936
Depreciation - affordable housing projects	1,664,120	1,494,986
(Gain) loss on sale of property and equipment	(7,512)	(515)
(Gain) loss on affordable housing projects	(7,938)	(58,599)
Unrealized (gain) loss on investments	(10,111)	2,171
Section 1602 grant revenue	(315,140)	(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		
Grants receivable	(202,565)	(431,559)
Accounts receivable	(408,873)	(218,579)
Contracts receivable	106,294	152,012
Prepaid expenses	(1,963)	(40,337)
Other assets	(138,825)	6,696
Accounts payable and accrued expenses	(335,972)	990,774
Grant advances and other deferred revenue	54,369	126,268
Accrued interest	38,477	26,234
Net cash flows - operating activities	2,661,161	2,209,040
<b>Cash Flows - Investing Activities</b>		
Purchase of property and equipment	(1,367,574)	(761,370)
Proceeds from sale of property and equipment	7,512	515
Payments toward affordable housing projects	(3,549,550)	(4,892,603)
Proceeds from sale of affordable housing projects	14,490	1,844,476
Net cash flows - investing activities	(4,895,122)	(3,808,982)
<b>Cash Flows - Financing Activities</b>		
Cash paid for financing costs	(63,807)	-
Proceeds from long-term debt	-	1,988,062
Partner contributions	5,477,085	1,642,201
Principal payments on long-term debt	(1,513,664)	(1,250,435)
Transfer of non-controlling interest in Eagle Ridge Apartments	(1,386,002)	-
Partner distributions and syndication fees	(98,664)	(881,267)
Net cash flows - financing activities	2,414,948	1,498,561
Net change in cash, cash equivalents and restricted cash	180,987	(101,381)
<b>Cash, Cash Equivalents and Restricted Cash</b>		
Beginning of year	6,293,965	6,395,346
End of year	\$ 6,474,952	\$ 6,293,965
<b>Reconciliation to the Consolidated Statements of Financial Position</b>		
Cash and cash equivalents	\$ 3,685,049	\$ 3,228,761
Restricted cash	2,789,903	3,065,204
Total end of year cash and cash equivalents and restricted cash	\$ 6,474,952	\$ 6,293,965
<b>Supplemental Cash Flow Information</b>		
Cash paid during the year for interest	\$ 493,516	\$ 380,129
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.

**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, 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. On December 31, 2019, NDC Corporate Equity Fund VI, LP transferred the non-controlling interest in Eagle Ridge Apartments, LP to Three Rivers Development, LLC. Three Rivers Community Action, Inc. is the sole member of Three Rivers Development, LLC.

**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 Limited Partnership***

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.

***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.

***Clover Patch 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.

**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)**

***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.

**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.



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

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2019 and 2018, the Organization estimates 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, 2019 and 2018.

**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.

**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 that extend the life of an asset 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.

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

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment (Continued)**

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, 2019 and 2018.

**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, 2019 and 2018.

**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 15-year recapture period.

**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.

**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.

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

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Assets (Continued)**

*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 and Revenue Recognition**

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.

Grant awards without substantial conditions are recognized in the period in which they are approved by the governing bodies. Grants with substantial conditions are not recognized until the conditions on which they depend are met. The federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, at December 31, 2019 and 2018, conditional contributions approximately \$15,474,487 and \$8,766,808, for which no amounts have been received in advance, have not been recognized in the accompanying consolidated financial statements.

Program service fees revenue is recognized as performance obligations are satisfied. Performance obligations are satisfied at a point in time and revenue is recognized when goods or services are provided to customers, and it is not required to provide additional goods or services. The Organization determines the transaction price based on standard charges for goods and services provided.

**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. 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.

The Organization charges costs to various programs using various bases, such as number of users, according to its internal policy. Costs, which are common to more than one program, have been identified and have been charged to the programs based on metrics that benefit the programs.

**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 2019 and 2018 the Organization incurred advertising costs totaling \$23,872 and \$67,727, 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, 2019 and 2018, 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.

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

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Recently Adopted Accounting Pronouncements**

*Statement of Cash Flows: Restricted Cash*

The Organization adopted FASB ASU No. 2016-08, Statement of Cash Flows (Topic 230) *Restricted Cash*, in its 2019 consolidated financial statements. 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". The Organization adopted ASU 2018-08 under the fully retrospective approach and has restated prior year financial statements to reflect the effects of adoption. The change increased 2018 beginning of year cash, cash equivalents, and restricted cash reported on the consolidated statements of cash flows by \$2,504,226.

*Revenue Recognition*

On January 1, 2019, the Organization adopted FASB ASU No. 2014-09 (Topic 606) - *Revenue from Contracts with Customers* ("ASU No. 2014-09" or "Topic 606"), which provides guidance for revenue recognition that superseded the revenue recognition requirements in Accounting Standards Codification "ASC" Topic 605, Revenue Recognition ("Topic 605") and most industry specific guidance. Under ASU 2014-09, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The Organization adopted ASU 2014-09 under the modified retrospective approach, applying the amendments to prospective reporting periods. Results for reporting periods beginning after January 1, 2019, are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under Topic 605. Generally, the Organization's revenues are recognized at a point in time, as such the impact of the adoption of the new standard was insignificant to the consolidated financial statements.

*Clarifying Guidance for Contributions Received and Contributions Made*

On January 1, 2019, FASB ASU No. 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* became effective. This update clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The Organization adopted ASU 2018-08 under the modified retrospective approach, applying the amendments to prospective reporting periods. Management has classified the 1602 grant as a conditional contribution under ASU 2018-08 and has determined that the conditions are met evenly and amortized over the 15-year recapture period for the grant. The grant was previously amortized over a 30-year compliance period. The modified prospective approach resulted in implementation revenue of \$245,108 in 2019. Annual amortization is now \$70,032. Under previous guidance it was \$35,016.

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

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Recently Issued Accounting Pronouncement**

*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. In November 2019, the FASB issued ASU No. 2019-10 which defers the effective date one year making it effective for annual reporting periods beginning after December 15, 2020, with early adoption permitted. The provisions of this ASU are to be applied using either the retrospective approach or modified retrospective approach. The Organization is currently evaluating the impact this standard will have on its 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 statements of financial position date.

	2019	2018
Cash	\$ 3,685,049	\$ 3,228,761
Investments, at fair value	76,848	66,737
	3,761,897	3,295,498
Less grant advances and other deferred revenue	(294,883)	(240,514)
Total financial assets available for general expenditures	\$ 3,467,014	\$ 3,054,984

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. Restricted cash totaling \$2,789,903 and \$3,065,204 at December 31, 2019 and 2018, respectively are excluded from the total above as those dollars are being held for specific purposes.

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

**NOTE 3 – RESTRICTED CASH**

	<u>2019</u>	<u>2018</u>
Operating reserve	\$ 1,264,105	\$ 1,550,493
Unemployment trust account	7,097	45,256
Replacement cost reserve	1,121,613	1,110,286
Tenant security deposits	275,563	239,062
Residual receipts reserve	69,320	66,210
Development cost escrow	-	8,727
Real estate tax and insurance escrow	<u>52,205</u>	<u>45,170</u>
 Total	 <u><u>\$ 2,789,903</u></u>	 <u><u>\$ 3,065,204</u></u>

**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.

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

**NOTE 4 – FAIR VALUE OF INVESTMENTS (CONTINUED)**

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, 2019 and 2018.

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.

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, 2019				
Mututal funds	<u>\$ 76,848</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,848</u>
December 31, 2018				
Mututal funds	<u>\$ 66,737</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,737</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>

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at lease reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the investment balances.



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

**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.

	2019	2018
Contracts receivable	\$ 1,147,401	\$ 1,253,695
Less: current portion	(253,008)	(380,224)
Total noncurrent portion	\$ 894,393	\$ 873,471

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

2020	\$ 253,008
2021	105,840
2022	105,840
2023	98,685
2024	86,276
2025 and thereafter	497,752
Total	\$ 1,147,401

**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>2019</u>	<u>2018</u>
Bridge Run Townhomes, LLC	\$ 2,433	\$ 2,850
Eagle Ridge Apartments, LLC	747	2,510
Fox Pointe Townhomes	64,145	-
Harvest Ridge Townhomes, LP	-	1,309
North & South Oak Apartments	13,574	15,513
Prairiewood Townhomes	27,223	30,248
Spring Creek Townhomes	19,507	24,709
Trailside of Albert Lea, LP	4,732	7,141
Northbridge	1,537	1,751
Faribault - MURL Home	-	101,322
Rochester Multi-Family Project	528,201	356,782
Scattered Single Family Housing Developments	<u>126,000</u>	<u>126,000</u>
 Total	 <u>\$ 788,099</u>	 <u>\$ 670,135</u>

Amortization on other assets in the affordable housing projects was \$20,646 and \$16,006 for 2019 and 2018, respectively.

**NOTE 7 – AFFORDABLE HOUSING PROJECTS**

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

	<u>2019</u>	<u>2018</u>
Land	\$ 5,051,586	\$ 4,301,706
Building and improvements	46,561,824	43,953,501
Furniture and equipment	<u>2,638,907</u>	<u>2,464,966</u>
	54,252,317	50,720,173
Accumulated depreciation	<u>(15,041,174)</u>	<u>(13,387,908)</u>
 Total	 <u>\$ 39,211,143</u>	 <u>\$ 37,332,265</u>

Depreciation on affordable housing projects was \$1,664,120 and \$1,494,986 for 2019 and 2018, respectively

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

**NOTE 8 – PROPERTY AND EQUIPMENT**

	2019	2018
Furniture and equipment	\$ 2,855,391	\$ 2,930,075
Building and improvements	2,667,548	1,360,669
Construction in progress	149,177	338,494
Land	110,925	41,032
	5,783,041	4,670,270
Accumulated depreciation	(2,946,102)	(2,832,614)
Total	\$ 2,836,939	\$ 1,837,656

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 \$368,291 and \$365,783 for 2019 and 2018, 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% (1/15<sup>th</sup>) 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**

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

	2019	2018
<b>Three Rivers Community Action, Inc.</b>		
Marco Technologies, capital copier lease.	\$ 14,589	\$ 24,315
SWMHP, EMHI downpayment assistance of \$2,500 per client, payable at sale of property including 0% interest.	7,500	7,500
First Homes, mortgage payable, secured by seven single family lots in Plainview, MN, 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%, paid in full.	-	43,884
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.	49,060	51,255
First Alliance Credit Union, mortgage payable, secured 1412 15th Ave NE, Rochester, MN, payable in monthly installments of \$495, including interest at 5%, paid in full.	-	69,041
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.	67,207	69,714
<b>Clover Patch Apartments</b>		
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.	854,626	864,394
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

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

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

	2019	2018
<b>Clover Patch Apartments (Continued)</b>		
First Homes Properties, mortgage payable, secured by Clover Patch Apartments, payable in full on June 30, 2035, including 0% interest.	\$ 50,000	\$ 50,000
<b>Northbridge Apartments of Albert Lea</b>		
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.	1,251,599	1,264,968
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.	111,010	117,821
<b>Northern Oaks Townhomes</b>		
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
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.	576	13,099
GMHF mortgage payable, secured by Northern Oaks, payable on December 4, 2022, including 0% interest.	60,000	60,000
<b>Southside Apartments</b>		
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.	139,687	142,155
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

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

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

	2019	2018
<b>Southside Apartments (Continued)</b>		
GMHF mortgage payable, secured by Southside Apartments, payable on December 9, 2048, including 0% interest.	\$ 175,000	\$ 175,000
SWMHP mortgage payable, secured by Southside Apartments, payable on December 9, 2048, including 0% interest.	16,000	16,000
<b>Bridge Run Townhomes, LLC</b>		
MHFA mortgage payable, secured by Bridge Run Townhomes, LLC, payable on November 4, 2040, including 0% interest.	360,000	360,000
Less: unamortized debt issuance costs	(2,158)	(2,325)
MHFA mortgage payable, secured by Bridge Run Townhomes, LLC, payable on November 4, 2040, including 0% interest.	252,000	252,000
Less: unamortized debt issuance costs	(14,021)	(15,106)
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.	424,059	433,845
Less: unamortized debt issuance costs	(14,980)	(16,139)
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
Less: unamortized debt issuance costs	(149)	(161)
<b>Eagle Ridge Apartments, LP</b>		
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.	647,369	671,369
MHFA mortgage payable, secured by Edge Ridge, payable on November 1, 2035, including interest at 1%.	456,670	456,670
Less: unamortized debt issuance costs	(37,183)	(41,286)
GMHF mortgage payable, secured by Edge Ridge, payable on September 16, 2034, including interest at 1%.	665,000	665,000

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

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

	2019	2018
<b>Fox Pointe Townhomes, LP</b>		
MHFA, Economic Development Housing Challenge (EDHC) Program loan, payable on March 1, 2059, including 0% interest.	\$ 121,600	\$ 121,600
Less: unamortized debt issuance costs	(29,686)	-
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.	657,778	1,866,462
Less: unamortized debt issuance costs	(7,926)	-
Less: unamortized debt issuance costs on TRCA sponsor loan	(828)	-
<b>Harvest Ridge Townhomes</b>		
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.	141,559	146,378
Less: unamortized debt issuance costs	(25,615)	(27,598)
<b>North &amp; South Oak Apartments</b>		
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.	884,962	893,790
MHFA PARIF mortgage payable, secured by North & South Apartments, payable on October 4, 2046, including 0% interest.	505,888	505,888

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

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

	2019	2018
<b>Prairiewood Townhomes</b>		
GMHF mortgage payable, secured by Prairiewood Townhomes payable in monthly installments of \$1,679, including interest at 6%, final payment due May 20, 2031.	\$ 260,010	\$ 264,630
Less: unamortized debt issuance costs	(6,452)	(7,102)
<b>Spring Creek Townhomes</b>		
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.	455,531	469,112
Less: unamortized debt issuance costs	(5,883)	(6,665)
<b>Trailside of Albert Lea, LP</b>		
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.	1,520,533	1,557,914
Less: unamortized debt issuance costs	(6,430)	(7,822)
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
Less: unamortized debt issuance costs	(2,848)	(3,016)
<b>Wazuweeta Woods Apartments</b>		
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.	611,414	641,087
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



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

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

	2019	2018
<b>Wazuweeta Woods Apartments (Continued)</b>		
First Homes Properties, payable July 1, 2032, including 0% interest.	\$ 388,000	\$ 388,000
Less: unamortized debt issuance costs	(4,641)	(5,272)
Total long-term debt	17,346,330	18,886,302
Less: current maturities	(1,020,704)	(2,106,531)
Long-term debt	\$ 16,325,626	\$ 16,779,771

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

	Total
2020	\$ 1,020,704
2021	551,280
2022	197,094
2023	208,431
2024	1,495,841
2025 and thereafter	14,031,780
Less unamortized debt issuance costs	(158,800)
Total	\$ 17,346,330

In connection with some of Three Rivers' debt agreements, Three Rivers' has agreed to certain restrictive covenants. For 2019 and 2018, Three Rivers' violated some of these covenants; however, those violations have been waived by the lender.

	2019	2018
Three Rivers	\$ 49,246	\$ 54,032
Bridge Run Townhomes, LLC	26,136	26,714
Eagle Ridge Apartments, LP	53,474	54,952
Fox Pointe	146,520	-
Harvest Ridge Townhomes	20,429	20,741
North & South Oak Apartments	25,967	28,588
Prairiewood Townhomes	16,571	16,845
Spring Creek Townhomes	22,072	23,063
Trailside of Albert Lea, LP	134,870	137,575
Waseca Leased Housing Assoc., LP	-	5,444
Wazuweeta Woods Apartments	36,708	38,409
Total interest expense	\$ 531,993	\$ 406,363

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

**NOTE 11 – CAPITAL LEASE**

Three Rivers 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:

2020	\$ 11,640
2021	5,820
Total minimum lease payments	17,460
Less: amounts representing interest	(2,871)
Present value of net minimum lease payments	\$ 14,589

The copy machine had a cost of \$48,630 and accumulated depreciation of \$34,041 and \$24,315 at December 31, 2019 and 2018, respectively. The outstanding debt is reflected under Note 10.

**NOTE 12 – DONOR RESTRICTED NET ASSETS**

	2019	2018
Restricted for purpose restrictions released	\$ -	\$ 23,000

**NOTE 13 – OPERATING LEASES**

Three Rivers is subject to operating leases covering primarily premises and office equipment with lease periods expiring between 2020 and 2024. Lease expense was \$447,864 and \$431,024 for 2019 and 2018, respectively. Minimum future lease obligations are as follows:

2020	\$ 330,634
2021	229,440
2022	95,553
2023	16,151
2024	1,151
Total	\$ 672,929

**NOTE 14 – RETIREMENT PLAN**

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 \$190,273 and \$173,077 to the Plan for 2019 and 2018, respectively.

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

**NOTE 15 – 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 \$9,507. Three Rivers paid amounts \$21,906 and \$14,267 out in benefits under this program for 2019 and 2018, 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.

Fox Pointe Townhomes LP had a letter of credit in the aggregate amount of \$200,000 as of December 31, 2019. See also Note 18.

**NOTE 16 – CONCENTRATION**

**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, 2019 and 2018, 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 – SUBSEQUENT EVENTS**

Subsequent to year end the letter of credit (See Note 15) was reduced to \$23,100 and will expire January 30, 2021.

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 will 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 2<sup>nd</sup> Quarter of 2020 with construction starting immediately.

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

**NOTE 18 – SUBSEQUENT EVENTS (CONTINUED)**

In January, 2019 Three Rivers purchased the property at 1412 North Star Drive, Zumbrota MN. This property is adjacent to the agency's existing administrative offices. The Organization removed the existing structure and in March 2020, entered into a contract to complete an addition on its existing offices to house 10 new staff positions and a board room, as well as expanded parking space. Construction began on May 4, 2020, with a total planned project cost of \$750,000. Primary sources include a grant from the Otto Bremer Trust of \$150,000 and a Bremer Bank Mortgage of \$652,311, with an interest rate of 3.8% for a term of 7 years.

Three Rivers was awarded loan funds and low-income housing tax credits (LIHTC) from Minnesota Housing in 2019 to construct Spring Creek II Townhomes in Northfield, MN, adjacent to our existing Spring Creek project. This project will develop 32 – 2, 3- and 4-bedroom townhomes, housing families at or below 60% of the Area Median Income (AMI). The total development cost is approximately \$11 million. Primary sources include a \$6.7 million federal HOME loan, \$2.8 million syndicator equity, and \$1.5 million in permanent local loans and other rebates. Close of financing and beginning of construction are planned for the 3<sup>rd</sup> Quarter of 2020.

Northern Oaks Townhomes, an 8-unit development of townhomes in Northfield, MN that is wholly owned by Three Rivers, secured a loan of \$61,364 from Community Resource Bank. The loan closed on February 7, 2020. Loan funds were used to pay off existing GMHF and Northfield Community National Bank mortgages.

The City of Winona received and accepted Three River's transportation contract cancellation in January 2020. Services to the city ceased at close of business on April 30<sup>th</sup>, 2020.

On March 13, 2020, a national emergency was declared for the COVID-19 outbreak in the United States of America. This event affects the economy and financial markets. The extent of the impact on the Organization may be both direct and indirect and will vary based on the duration of the outbreak and various other factors. An estimate of the financial effect on the Organization's consolidated financial statements at December 31, 2019, cannot be determined at this time.

Clover Patch Apartments, a 32-unit development of affordable units in St. Charles, MN, was awarded an asset management loan of \$1,167,000 from Minnesota Housing Finance agency in 2020. Funding will be used for significant exterior improvements including site grading to correct water intrusion problems, as well as parking lot repaving, windows & siding. Closing on the loan is planned for May of 2020, with work to begin immediately.

The Organization has evaluated subsequent events through May 20, 2020 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, 2019

	Three Rivers	Bridge Run Townhomes, LLC	Eagle Ridge Apartments LP	Fox Point Townhomes	Harvest Ridge Townhomes
<b>Current assets</b>					
Cash and cash equivalents	\$ 2,473,338	42,069	\$ 121,731	\$ 86,262	\$ 17,981
Restricted cash	850,298	192,234	259,319	28,615	89,465
Investments, at fair value	76,848	-	-	-	-
Grants receivable	1,452,038	-	-	-	-
Accounts receivable	876,343	2,732	-	40,663	1,056
Current portion of contracts receivable	253,008	-	-	-	-
Prepaid expenses	91,584	10,679	20,127	738	7,017
Total current assets	<u>6,073,457</u>	<u>247,714</u>	<u>401,177</u>	<u>156,278</u>	<u>115,519</u>
<b>Noncurrent assets</b>					
Contracts receivable	1,750,994	-	-	-	-
Other assets	655,738	2,433	747	64,145	-
Affordable housing projects	8,820,298	1,589,422	3,007,301	8,257,971	1,459,542
Property and equipment	2,836,939	-	-	-	-
Total noncurrent assets	<u>14,063,969</u>	<u>1,591,855</u>	<u>3,008,048</u>	<u>8,322,116</u>	<u>1,459,542</u>
<b>Total assets</b>	<u>\$ 20,137,426</u>	<u>\$ 1,839,569</u>	<u>\$ 3,409,225</u>	<u>\$ 8,478,394</u>	<u>\$ 1,575,061</u>
<b>Liabilities and Net Assets</b>					
<b>Current liabilities</b>					
Current portion of long-term debt	\$ 220,248	\$ 10,338	\$ 25,422	\$ 657,778	\$ 5,170
Accounts payable and accrued expenses	883,627	34,791	83,922	689,225	54,491
Grant advances and other deferred revenue	263,688	915	12,249	2,938	1,173
Total current liabilities	<u>1,367,563</u>	<u>46,044</u>	<u>121,593</u>	<u>1,349,941</u>	<u>60,834</u>
<b>Long-term liabilities</b>					
Accrued interest	1,556	77,614	169,322	6,359	138,909
Section 1602 deferred grant	-	490,221	-	-	-
Long-term debt and affordable housing projects	5,329,857	1,072,413	1,706,434	106,160	1,072,805
Total long-term liabilities	<u>5,331,413</u>	<u>1,640,248</u>	<u>1,875,756</u>	<u>112,519</u>	<u>1,211,714</u>
Total liabilities	<u>6,698,976</u>	<u>1,686,292</u>	<u>1,997,349</u>	<u>1,462,460</u>	<u>1,272,548</u>
<b>Net assets (deficits)</b>					
Without donor restrictions	13,438,450	153,277	1,411,876	274,356	(118)
Noncontrolling interest in consolidated subsidiaries	-	-	-	6,741,578	302,631
Total net assets	<u>13,438,450</u>	<u>153,277</u>	<u>1,411,876</u>	<u>7,015,934</u>	<u>302,513</u>
<b>Total liabilities and net assets</b>	<u>\$ 20,137,426</u>	<u>\$ 1,839,569</u>	<u>\$ 3,409,225</u>	<u>\$ 8,478,394</u>	<u>\$ 1,575,061</u>

North & South Oak Apartments	Prairiewood Townhomes	Spring Creek Townhomes	Trailside of Albert Lea LP	Wazuweeta Woods Apartments	Eliminations	Consolidated Total
\$ 84,930	\$ 76,089	\$ 127,081	\$ 636,342	\$ 19,226	\$ -	\$ 3,685,049
523,685	183,807	233,335	317,507	111,638	-	2,789,903
-	-	-	-	-	-	76,848
-	-	-	-	-	-	1,452,038
13,828	2,996	14,805	1,973	-	-	954,396
-	-	-	-	-	-	253,008
12,628	2,813	2,395	29,254	17,395	-	194,630
<u>635,071</u>	<u>265,705</u>	<u>377,616</u>	<u>985,076</u>	<u>148,259</u>	<u>-</u>	<u>9,405,872</u>
-	-	-	-	-	(856,601)	894,393
13,574	27,223	19,507	4,732	-	-	788,099
3,998,747	4,884,208	4,514,427	5,545,585	1,225,295	(4,091,653)	39,211,143
-	-	-	-	-	-	2,836,939
<u>4,012,321</u>	<u>4,911,431</u>	<u>4,533,934</u>	<u>5,550,317</u>	<u>1,225,295</u>	<u>(4,948,254)</u>	<u>43,730,574</u>
<b>\$ 4,647,392</b>	<b>\$ 5,177,136</b>	<b>\$ 4,911,550</b>	<b>\$ 6,535,393</b>	<b>\$ 1,373,554</b>	<b>\$ (4,948,254)</b>	<b>\$ 53,136,446</b>
\$ 9,085	\$ 4,730	\$ 14,502	\$ 42,005	\$ 31,426	\$ -	\$ 1,020,704
108,699	281,701	87,619	125,250	48,642	-	2,397,967
1,677	1,711	3,122	3,494	3,916	-	294,883
<u>119,461</u>	<u>288,142</u>	<u>105,243</u>	<u>170,749</u>	<u>83,984</u>	<u>-</u>	<u>3,713,554</u>
44,694	1,300	-	208,309	-	(44,694)	603,369
-	-	-	-	-	-	490,221
<u>2,070,672</u>	<u>348,828</u>	<u>435,146</u>	<u>3,104,171</u>	<u>1,891,047</u>	<u>(811,907)</u>	<u>16,325,626</u>
<u>2,115,366</u>	<u>350,128</u>	<u>435,146</u>	<u>3,312,480</u>	<u>1,891,047</u>	<u>(856,601)</u>	<u>17,419,216</u>
<u>2,234,827</u>	<u>638,270</u>	<u>540,389</u>	<u>3,483,229</u>	<u>1,975,031</u>	<u>(856,601)</u>	<u>21,132,770</u>
(41)	113,860	(128)	2,111,648	26,923	(4,091,653)	13,438,450
<u>2,412,606</u>	<u>4,425,006</u>	<u>4,371,289</u>	<u>940,516</u>	<u>(628,400)</u>	<u>-</u>	<u>18,565,226</u>
<u>2,412,565</u>	<u>4,538,866</u>	<u>4,371,161</u>	<u>3,052,164</u>	<u>(601,477)</u>	<u>(4,091,653)</u>	<u>32,003,676</u>
<b>\$ 4,647,392</b>	<b>\$ 5,177,136</b>	<b>\$ 4,911,550</b>	<b>\$ 6,535,393</b>	<b>\$ 1,373,554</b>	<b>\$ (4,948,254)</b>	<b>\$ 53,136,446</b>

**Three Rivers Community Action, Inc. and Subsidiaries**  
**Consolidating Statement of Activities**  
**Year Ended December 31, 2019**

	Three Rivers	Bridge Run Townhomes, LLC	Eagle Ridge Apartments LP	Fox Point Townhomes	Harvest Ridge Townhomes	North & South Oak Apartments
<b>Without Donor Restrictions Revenue</b>						
Federal grant revenue	\$ 5,563,571	\$ -	\$ -	\$ -	\$ -	\$ -
State grant revenue	4,725,171	-	-	-	-	-
Other grant revenue	92,048	-	-	-	-	-
Contributions	210,288	-	-	-	-	-
Other program revenue	2,512,726	324,807	11,333	7,231	2,542	8,530
Rental income	741,403	179,273	412,771	163,498	163,071	316,971
Investment income	90,651	4,289	5,404	-	2,031	2,598
Total without donor restrictions revenue	<u>13,935,858</u>	<u>508,369</u>	<u>429,508</u>	<u>170,729</u>	<u>167,644</u>	<u>328,099</u>
<b>Expenses</b>						
Direct services	1,696,562	-	-	-	-	-
Salaries and wages	5,235,687	-	-	-	-	-
Fringe benefits	2,454,601	-	-	-	-	-
Training and travel	225,779	-	-	-	-	-
Telephone and technology	325,569	-	-	-	-	-
Office supplies	148,810	-	-	-	-	-
Space costs and utilities	412,905	-	-	-	-	-
Equipment and maintenance	279,297	-	-	-	-	-
Vehicle repairs and maintenance	545,444	-	-	-	-	-
Other costs	660,487	-	-	-	-	-
Housing partnerships	-	117,885	295,282	149,120	157,967	253,977
Depreciation and amortization	563,779	73,145	124,923	155,135	61,650	169,805
Interest	49,246	26,136	53,474	146,520	20,429	25,967
Total expenses	<u>12,598,166</u>	<u>217,166</u>	<u>473,679</u>	<u>450,775</u>	<u>240,046</u>	<u>449,749</u>
Total change in net assets before noncontrolling interest	1,337,692	291,203	(44,171)	(280,046)	(72,402)	(121,650)
Change in noncontrolling interest in affordable housing projects	1,631,111	-	44,166	280,018	72,395	121,638
Total change in net assets	2,968,803	291,203	(5)	(28)	(7)	(12)
<b>Without donor restrictions net assets</b>						
Beginning of year	10,469,647	(109,865)	25,883	274,284	(111)	(29)
Contributions	-	-	-	100	-	-
Distributions	-	(28,061)	(4)	-	-	-
Transfer of non-controlling interest in Eagle Ridge Apartments	-	-	1,386,002	-	-	-
End of year	<u>\$ 13,438,450</u>	<u>\$ 153,277</u>	<u>\$ 1,411,876</u>	<u>\$ 274,356</u>	<u>\$ (118)</u>	<u>\$ (41)</u>



Prairiewood Townhomes	Spring Creek Townhomes	Trailside of Albert Lea LP	Wazuweeta Woods Apartments	Eliminations	Consolidated Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,563,571
-	-	-	-	-	4,725,171
-	-	-	-	-	92,048
-	-	-	-	-	210,288
5,274	32,276	21,080	23,228	(423,391)	2,525,636
297,185	262,129	874,844	213,066	(44,749)	3,579,462
3,325	1,352	4,652	2,372	-	116,674
<u>305,784</u>	<u>295,757</u>	<u>900,576</u>	<u>238,666</u>	<u>(468,140)</u>	<u>16,812,850</u>
-	-	-	-	-	1,696,562
-	-	-	-	(86,591)	5,149,096
-	-	-	-	(40,748)	2,413,853
-	-	-	-	-	225,779
-	-	-	-	-	325,569
-	-	-	-	-	148,810
-	-	-	-	-	412,905
-	-	-	-	-	279,297
-	-	-	-	-	545,444
-	-	-	-	-	660,487
239,804	247,090	635,493	153,929	(294,912)	1,955,635
245,055	263,666	339,027	57,088	-	2,053,273
16,571	22,072	134,870	36,708	-	531,993
<u>501,430</u>	<u>532,828</u>	<u>1,109,390</u>	<u>247,725</u>	<u>(422,251)</u>	<u>16,398,703</u>
(195,646)	(237,071)	(208,814)	(9,059)	(45,889)	414,147
<u>195,626</u>	<u>237,050</u>	<u>208,793</u>	<u>8,968</u>	<u>(1,631,111)</u>	<u>1,168,654</u>
(20)	(21)	(21)	(91)	(1,677,000)	1,582,801
113,880	(103)	2,111,671	27,014	(2,442,624)	10,469,647
-	-	-	-	(100)	-
-	(4)	(2)	-	28,071	-
-	-	-	-	-	1,386,002
<u>\$ 113,860</u>	<u>\$ (128)</u>	<u>\$ 2,111,648</u>	<u>\$ 26,923</u>	<u>\$ (4,091,653)</u>	<u>\$ 13,438,450</u>

**Three Rivers Community Action, Inc and Subsidiaries**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2019**

Fund #	Federal Grantor	Pass-Through Grantor	Program Title	Federal CFDA	Agency or Pass-Through Number	Passed Through to Subrecipients	Federal Expenditures
600	<b>USDA</b>		Clover Patch Rural Rental Housing Loan	10.415	002-001		\$ 472,465
600			Clover Patch Rural Rental Housing Loan	10.415	020-003		391,929
601			Southside Rural Rental Housing Loan	10.415	039-003		142,155
603			Northbridge Rural Rental Housing Loan	10.415	012-001		1,264,968
			Total CFDA 10.415				<u>2,271,517</u>
118, 119, 168	MDE		CACFP	10.558	441603		<u>98,697</u>
			<i>SNAP Cluster:</i>				
850, 858	MN DHS		Food Support	10.561	133144		<u>47,126</u>
			Total SNAP Cluster and Total CFDA 10.561				<u>47,126</u>
			<b>Total U.S. Department of Agriculture</b>				<b><u>2,417,340</u></b>
607	<b>HUD</b>	City of NF	Northern Oaks Rehab	14.218	N/A		<u>36,248</u>
698, 699	MN DHS		ESG-RH	14.231	126828		<u>71,715</u>
603	MHFA		Home Investment Partnerships Program	14.239	Northbridge Apartments		1,000,000
607	MHFA		Home Investment Partnerships Program	14.239	Northern Oaks		320,000
			Total CFDA 14.239				<u>1,320,000</u>
610	Enterprise		Capacity Bulding	14.252	19SG1571		<u>443</u>
629		Red Wing HRA	Permanent Supportive Housing Prairiewood	14.267	MN0246L5K		221
638, 639			Permanent Supportive Housing	14.267	MN0306L5K		166,048
649			Continuum of Care Planning Grant	14.267	MN0380L5K		62,144
658, 659			Continuum of Care Coordinated Entry	14.267	MN0366L5K	\$ 28,195	128,049
678, 679			SHP - RHASP	14.267	MN0065L5K	96,025	175,319
			Total CFDA 14.267			<u>124,220</u>	<u>531,781</u>
			<b>Total U.S. Housing and Urban Development</b>				<b><u>1,960,187</u></b>
739	<b>DOT</b>	MN DOT	TRANSIT	20.509	MN-2018-016-00		608,580
			<i>Federal Transit Cluster:</i>				
767	MN DOT		Transit	20.526	1002154		<u>772,343</u>
			Total Federal Transit Cluster and Total CFDA 20.526				<u>772,343</u>
			<b>Total U.S. Department of Transportation</b>				<b><u>1,380,923</u></b>
058	<b>DOE</b>	MN DOE	Homebuyer Workshop	81.041	151425		<u>572</u>
518, 519	MN DOE		DOE/WX	81.042	A2500		<u>198,575</u>
			<b>Total U.S. Department of Energy</b>				<b><u>199,147</u></b>
	<b>HHS</b>		<i>Aging Cluster:</i>				
729	SEMAAA		Assisted Transportation	93.044	310-19-003B-063		28,448
719	SEMAAA		HDM	93.045	310-19-03C2-002		73,028
719	SEMAAA		HDM	93.053	310-19-03C2-002		14,881
			Total Aging Cluster				<u>116,357</u>
709	SEMAAA		Caregiver	93.052	310-19-003E-005		<u>53,130</u>
509	MN DOC		EAP/WX Carryover extension	93.568	A2108		28,809
548, 549	MN DOC		EAP/WX Carryover	93.568	A2108, A2109		124,545
559, 550	MN DOC		Energy Assistance Program	93.568	1563		764,108
	MN DOC		Direct Client Benefits	93.568	N/A		2,402,227
			Total CFDA 93.568				<u>3,319,689</u>
037	MNDHS		CSBG	93.569	127536		<u>380,406</u>
118			Head Start	93.600	05CH8380/05		731,970
119			Head Start	93.600	05CH010889-01-00		997,113
			Total CFDA 93.600				<u>1,729,083</u>
			<b>Total U.S. Department of Health and Human Services</b>				<b><u>5,598,665</u></b>
838	<b>DHS</b>	United Way	EFSP	97.024	4859-02-001 - Phase 35		<u>1,053</u>
			<b>Total U.S. Department of Homeland Security and Total CFDA 97.024</b>				<b><u>1,053</u></b>
			<b>Total Federal Expenditures</b>			<b>\$ 124,220</b>	<b>\$ 11,557,315</b>

**Three Rivers Community Action, Inc. and Subsidiaries**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2019**

**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, 2019. 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 minimis 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, 2019, consists of:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Clover Patch Rural Rental Housing Loan	10.415	\$ 467,126
Clover Patch Rural Rental Housing Loan	10.415	387,500
Southside Rural Rental Housing Loan	10.415	139,687
Northbridge Rural Rental Housing Loan	10.415	1,251,599
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**  
**Year Ended December 31, 2019**

**NOTE 5 – ENERGY ASSISTANCE PAYMENTS**

Included in CFDA 93.568 are client benefits paid by the State of Minnesota of \$2,402,227. These expenditures are not included in the consolidated statement of activities.

**NOTE 6 – RECONCILIATION TO THE CONSOLIDATED STATEMENT OF ACTIVITIES**

Total expenditures of federal awards	\$ 11,557,315
Less direct client benefits	(2,402,227)
Less beginning balance Clover Patch rural rental housing loans	(864,394)
Less beginning balance Southside rural rental housing loan	(142,155)
Less beginning balance Northbridge rural rental housing loan	(1,264,968)
Less beginning balance HOME investment partnerships program	<u>(1,320,000)</u>
Total federal grant revenue per consolidated statement of activities	<u>\$ 5,563,571</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, which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year ended December 31, 2019, and the related notes to consolidated financial statements and have issued our report thereon dated May 20, 2020. The financial 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, 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.

### **Internal Control over Financial Reporting (Continued)**

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.

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 20, 2020

**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, 2019. 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, 2019.

## **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 20, 2020



**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 consolidated 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.:	10.415
Name of Federal Program or Cluster	Loan Program
CFDA No.:	93.568
Name of Federal Program or Cluster	Low-Income Home Energy Assistance
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.