

THREE RIVERS COMMUNITY ACTION, INC.
AND SUBSIDIARIES

REPORTING PACKAGE

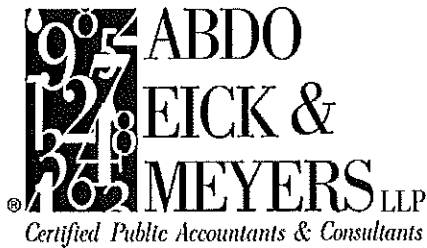
FOR THE YEAR ENDED
SEPTEMBER 30, 2010

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THREE RIVERS COMMUNITY ACTION, INC.
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5201 Eden Avenue
Suite 250
Edina, MN 55436

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of Three Rivers Community Action, Inc. and Subsidiaries (collectively, the Organization), as of September 30, 2010 and the related consolidated statement of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the subsidiaries which statements reflect total assets of \$19,136,507 as of December 31, 2009, and total support and revenues of \$1,734,543 for the year ended December 31, 2009. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Three Rivers Community Action, Inc. and Subsidiaries as of September 30, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2010, on our consideration of Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *OMB A-133* and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Oliver Eick & Meyers, LLP

December 7, 2010
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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FINANCIAL STATEMENTS

THREE RIVERS COMMUNITY ACTION, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2010

ASSETS	
CURRENT ASSETS	
Cash	\$ 2,134,646
Cash restricted	675,395
Investments	44,169
Grants receivable	866,366
Accounts receivable	162,861
Contracts receivable	31,966
Prepaid expenses	<u>197,537</u>
 TOTAL CURRENT ASSETS	 <u>4,112,940</u>
NONCURRENT ASSETS	
Contracts receivable	445,124
Other assets	814,995
Affordable housing projects	21,528,572
Property and equipment	<u>842,987</u>
 TOTAL NONCURRENT ASSETS	 <u>23,631,678</u>
 TOTAL ASSETS	 <u><u>\$ 27,744,618</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Current maturities, affordable housing projects	\$ 80,414
Accounts payable and accrued expenses	1,010,949
Grant advances	<u>297,609</u>
 TOTAL CURRENT LIABILITIES	 <u>1,388,972</u>
NONCURRENT LIABILITIES	
Affordable housing projects	<u>12,361,649</u>
 TOTAL NONCURRENT LIABILITIES	 <u>12,361,649</u>
 TOTAL LIABILITIES	 <u>13,750,621</u>
 MINORITY INTEREST IN COMBINED SUBSIDIARIES	 7,879,160
NET ASSETS	
Unrestricted	<u>6,114,837</u>
 TOTAL NET ASSETS	 <u>6,114,837</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 27,744,618</u></u>

See Independent Auditors' Report and Notes to Financial Statement.

THREE RIVERS COMMUNITY ACTION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

UNRESTRICTED REVENUE	
Federal grant revenue	\$ 5,531,550
State grant revenue	1,571,309
Other grant revenue	545,920
Other program revenue	647,432
Rental income	1,898,907
Interest income	<u>24,754</u>
TOTAL UNRESTRICTED REVENUE	<u>10,219,872</u>
EXPENSES	
Program services	10,577,457
Management and general	236,991
Fundraising	<u>10,177</u>
TOTAL EXPENSES	<u>10,824,625</u>
TOTAL CHANGE IN NET ASSETS BEFORE MINORITY INTEREST	<u>(604,753)</u>
CHANGE IN MINORITY INTEREST IN AFFORDABLE HOUSING PROJECTS	536,398
TOTAL CHANGE IN NET ASSETS	(68,355)
BEGINNING OF YEAR NET ASSETS	<u>6,183,192</u>
END OF YEAR NET ASSETS	<u><u>\$ 6,114,837</u></u>

See Independent Auditors' Report and Notes to Financial Statement.

THREE RIVERS COMMUNITY ACTION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	\$ (68,355)
Adjustment to reconcile increase in net assets to net cash provided (used) by operating activities:	
Minority interest in change in net assets	(536,398)
Depreciation and amortization	1,082,415
Net (appreciation) depreciation in market value of investments	(2,273)
(Increase) decrease in assets:	
Cash restricted	(46,619)
Grants receivable	(450,390)
Accounts receivable	(69,116)
Contracts receivable	(126,087)
Prepaid expenses	(99,847)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	71,443
Grant advances	<u>(138,287)</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>(383,514)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(206,139)
Purchase of investments	(1,324)
Payments toward affordable housing projects	<u>337,590</u>
 NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	 <u>130,127</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on long-term debt	(79,525)
Partner distributions and syndication fees	<u>(87,820)</u>
 NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	 <u>(167,345)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 <u>(420,732)</u>
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>2,555,378</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u><u>\$ 2,134,646</u></u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the year for:	
Interest	<u><u>\$ 349,830</u></u>

See Independent Auditors' Report and Notes to Financial Statement.

THREE RIVERS COMMUNITY ACTION, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Direct services	\$ 3,402,533	\$ -	\$ -	\$ 3,402,533
Salaries and wages	2,665,564	176,424	6,877	2,848,865
Fringe benefits	842,209	39,303	2,971	884,483
Travel & transportation	117,312	3,684	1	120,997
Telephone & postage	94,707	1,284	63	96,054
Office supplies	137,876	1,680	23	139,579
Space costs & utilities	217,471	-	-	217,471
Equipment & maintenance	196,069	156	58	196,283
Other costs	471,226	5,135	184	476,545
Housing partnerships	1,316,062	-	-	1,316,062
Depreciation & amortization	1,073,090	9,325	-	1,082,415
In-kind expenses	43,338	-	-	43,338
	<u>\$ 10,577,457</u>	<u>\$ 236,991</u>	<u>\$ 10,177</u>	<u>\$ 10,824,625</u>
Total				

See Independent Auditors' Report and Notes to Financial Statement.

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THREE RIVERS COMMUNITY ACTION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

Three Rivers Community Action, Inc. (THREE RIVERS) 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. THREE RIVERS' major programs consist of Housing, Head Start, Transportation, Senior Services and other community action programs.

B. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Contributions received are recorded as an increase in unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Accordingly, net assets of THREE RIVERS and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets are those resources over which THREE RIVERS has discretionary control. Designated amounts represent revenues that the Board of Directors has set aside for a particular purpose.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those resources subject to donor imposed restrictions, which will be satisfied by actions of the Organization or passage of time.

Permanently Restricted Net Assets

Permanently restricted net assets are those resources subject to donor imposed restrictions that they be maintained permanently by Organization. There were no permanently restricted net assets.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily restricted or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restriction.

C. Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents.

D. Investments

THREE RIVERS reports its investments in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*. ASC Topic 820 provides guidance for accounting for investments in certain equity securities and for all debt securities. The guidance prescribes that covered investments be reported in the statement of financial position at fair value with any realized or unrealized gains or losses reported in the statement of activities. Donated investments are recorded at fair value on the date of donation and thereafter carried in accordance with the above provisions. See Note 3, Fair Value Investments for amounts recorded in 2010.

THREE RIVERS COMMUNITY ACTION, INC.
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Grants Receivable

Grants receivable represents grant award amounts from government and other nonprofit organizations.

F. 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. The allowance for doubtful accounts at September 30, 2010 is estimated at \$0. Changes in the valuation allowance have not been material to the financial statements.

G. Contracts Receivable

Contracts receivable are amounts due on contracts for deed.

H. Fixed Assets

Furniture and equipment and building and improvements with an initial cost of \$5,000 or more are reported on the balance sheet 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 with five to seven year recovery periods for furniture and equipment and generally 25 years for the building.

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.

I. 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.

J. Affordable Housing Projects and Other Assets - Principles of Consolidation

THREE RIVERS has adopted the provisions of Emerging Issues Task Force Issue 04-5 (EITF 04-5) "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights." As required by EITF -04-5, THREE RIVERS has consolidated all limited partnerships and limited liability companies in which THREE RIVERS is the general partner or managing member.

These financial statements consolidate the statements of Wazuweeta Woods Limited Partnership, Waseca Leased Housing Associates Limited Partnership, Eagle Ridge Apartments Limited Partnership, Harvest Ridge Townhomes Limited Partnership and Trailside Apartments of Albert Lea Limited Partnership (collectively, the Organization). Inter-organization balances and transactions have been eliminated in the combination.

Hayfield Greens Partnership and Opportunity Homes Limited Liability Company continue to be accounted for using the equity method of accounting for investments.

THREE RIVERS COMMUNITY ACTION, INC.
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

J. Affordable Housing Projects and Other Assets - Principles of Consolidation - Continued

Affordable housing projects owned solely by THREE RIVERS, Northern Oaks Townhomes, Clover Patch Apartments and Southside Apartments are valued at cost. Affordable housing projects that are interests in partnerships where THREE RIVERS and all partners have substantive participating rights, Hayfield Greens Partnership and Opportunity Homes Limited Liability Company, continue to be accounted for using the equity method of accounting based on amounts reported on calendar year ended Schedule K-1 (Form 1065) partnership tax returns.

NORTHERN OAKS: 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 was designed to address a critical housing shortage in the City of Northfield for large families earning less than 50 percent of area median income based on household. Four units have three bedrooms, four units have four bedrooms, and one unit is modified to accommodate handicapped individuals. Northern Oaks is owned solely by THREE RIVERS and is valued at cost.

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 percent 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.

WAZUWEETA WOODS, LP: THREE RIVERS has entered into a limited partnership agreement with Douglas A. Amundson and Ron Carlsen (WAZUWEETA WOODS) 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.

WASECA LEASED HOUSING ASSOCIATES, LP: THREE RIVERS has entered into a limited partnership agreement with Waseca Woods, LLC, American Tax Credit Corporate Fund XIV Limited Partnership and Protech Development Corporation to own, develop, lease and operate five (5) buildings totaling a 33 unit affordable housing apartment rental complex also know as Charter Oaks Apartments (CHARTER OAKS) located in Waseca, Minnesota. THREE RIVERS serves as co-managing general partner with .005 percent ownership. This partnership is reported as a consolidated subsidiary of THREE RIVERS due to the control THREE RIVERS has over the partnership as the partnership's co-managing general partner.

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 four (4) residential homes located in Kasson, Rochester and Faribault, Minnesota. THREE RIVERS owns 50 percent 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.

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

THREE RIVERS COMMUNITY ACTION, INC.
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

J. Affordable Housing Projects and Other Assets - Principles of Consolidation - Continued

HARVEST RIDGE TOWNHOMES, LP: THREE RIVERS has entered into a limited partnership agreement with NDC Corporate Equity Fund VI, LP (HARVEST RIDGE) 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.

CLOVER PATCH: 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.

TRAILSIDE APARTMENTS, LP: THREE RIVERS has entered into a limited partnership agreement with NDC Corporate Equity Fund VII, LP (TRAILSIDE) 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.

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.

Minority interest presented in the consolidated financial statements is comprised of the ownership interest of the tax credit investors related to the partnerships described above.

K. Income Taxes

THREE RIVERS is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Contributions to THREE RIVERS are tax deductible as THREE RIVERS qualifies under section 170(c) of the Internal Revenue Code. THREE RIVERS is listed in Publication 78 (Cumulative List of Organizations Described in section 170(c)), published by the Internal Revenue Service.

L. Affordable Housing Project, Notes and Mortgages

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

M. Amortization

Mortgage costs are amortized over the term of the mortgage loan using the straight-line method. Fees paid to Minnesota Housing Finance Agency are amortized over a 15 year period using the straight-line method.

N. Functional Allocation of Expenses

The costs of providing the Organization's various programs have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

THREE RIVERS COMMUNITY ACTION, INC.
 NOTES TO CONDOLATED FINANCIAL STATEMENTS
 SEPTEMBER 30, 2010

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

O. 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 September 30, 2010, THREE RIVERS had obtained collateral pledges of these securities in excess of bank balance, and thereby limited credit exposure.

P. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Q. Subsequent Events

In preparing these financial statements THREE RIVERS has evaluated events and transactions for potential recognition or disclosure through December 7, 2010, the date the financial statements were available to be issued.

Note 2: CASH RESTRICTED

Cash Restricted consisted of the following at September 30, 2010

Tenant Security Deposits	\$ 89,452
Real Estate Tax and Insurance Escrow	32,823
Development Cost Escrow	79,453
Residual Receipts Reserve	28,316
Replacement Cost Reserve	197,161
Operating Reserve	<u>248,190</u>
 Total	 <u><u>\$ 675,395</u></u>

Note 3: FAIR VALUE INVESTMENTS

THREE RIVERS has adopted ASC Topic 820, *Fair Value Measurements and Disclosures*. ASC Topic 820 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. It emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that the market participants would use in pricing the asset or liability and establishes a fair value hierarchy. 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 that THREE RIVERS has the ability to access.

Level 2 – Inputs that included quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

THREE RIVERS COMMUNITY ACTION, INC.
 NOTES TO CONDOLIDATED FINANCIAL STATEMENTS
 SEPTEMBER 30, 2010

Note 3: FAIR VALUE INVESTMENTS - CONTINUED

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

In instances where the determination of fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls into is based on the lowest level input that is significant to the fair value measurement in its entity.

THREE RIVERS also has adopted ASC Topic 825, *Financial Instruments*. ASC Topic 825 allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities that are not otherwise required to be stated at fair value, on a contract-by-contract basis. THREE RIVERS has not elected to change the measurement of any existing financial instruments at fair value. However, THREE RIVERS may elect to measure newly acquired financial instruments at fair value in the future.

Financial assets and liabilities recorded at fair value on a recurring basis are as follows:

Assets, Investments	
Level 1	\$ 44,169
Level 2	-
Level 3	-
	<hr/>
Total	<u>\$ 44,169</u>

Investments, which are made up of mutual funds at September 30, 2010, are as follows:

Unrestricted investments	
Mutual funds	
Cost	\$ 48,730
Net unrealized loss	<u>(4,561)</u>
Market value of mutual funds	<u>\$ 44,169</u>

THREE RIVERS COMMUNITY ACTION, INC.
 NOTES TO CONDOLIDATED FINANCIAL STATEMENTS
 SEPTEMBER 30, 2010

Note 4: CONTRACTS RECEIVABLE

THREE RIVERS purchased dilapidated houses, rehabilitated and later sold to eligible families on contracts for deed at 0 percent interest.

Contracts receivable are as follows:

Contracts receivable	\$ 477,090
Less current portion	<u>(31,966)</u>
 Total	 <u>\$ 445,124</u>

Estimated future collections are as follows:

	2011	\$ 31,966
	2012	31,495
	2013	31,495
	2014	31,495
	2015	31,495
	2016 and thereafter	<u>319,144</u>
 Total		 <u>\$ 477,090</u>

Note 5: 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:

Scattered Single Family Housing Developments	\$ 296,400
Scattered Site - Mortgage Foreclosure Houses	248,785
Eagle Ridge	107,470
Harvest Ridge	57,650
Trailside Apartments	60,467
Charter Oaks	30,679
Wazuweeta Woods	<u>13,544</u>
 Total	 <u>\$ 814,995</u>

Amortization on other assets in the affordable housing projects was \$13,936 for the year ended September 30, 2010.

THREE RIVERS COMMUNITY ACTION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

Note 6: AFFORDABLE HOUSING PROJECTS

Affordable Housing projects are recorded at cost or equity. A reconciliation of the projects for the year ending September 30, 2010 is as follows:

Hayfield Greens	\$ 103,539
Opportunity Homes	104,774
Wazuweeta Woods	1,719,064
Charter Oaks	2,398,909
Eagle Ridge	3,978,281
Harvest Ridge	2,149,151
Trailside Apartments	8,918,102
Albert Lea Lot	9,471
Northern Oaks	484,770
Clover Patch	1,188,013
Southside	<u>474,498</u>
 Total	 <u><u>\$ 21,528,572</u></u>

Depreciation on affordable housing projects was \$881,984 for the year ended September 30, 2010.

Note 7: PROPERTY AND EQUIPMENT

Furniture and Equipment	\$ 1,546,737
Building and Improvements	711,592
Land	<u>41,032</u>
	2,299,361
Accumulated Depreciation	<u>(1,456,374)</u>
 Total	 <u><u>\$ 842,987</u></u>

Property, equipment and furniture acquired is owned by THREE RIVERS 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 parent property and equipment was \$186,495 for the year ended September 30, 2010.

Note 8: AFFORDABLE HOUSING PROJECTS DEBT

Affordable Housing Projects long-term debt consists of the following:

Northern Oaks

MHFA, Home Targeted Program, deferred loan, proceeds using in Northern Oaks purchase. This loan is to be forgiven if all conditions are met, May 1, 2018	\$ 320,000
Northfield Community National Bank, mortgage payable, secured by Northern Oaks, payable in monthly installments of \$1,065 including interest at 7.5 percent, final payment due December 2022	90,234
GMHF, mortgage payable, secured by Northern Oaks, payable on December 4, 2022, including zero percent interest	60,000

THREE RIVERS COMMUNITY ACTION, INC.
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

Note 8: AFFORDABLE HOUSING PROJECTS DEBT - CONTINUED

Wazuweeta Woods

MHFA, mortgage payable, secured by Wazuweeta Woods, personally guaranteed by two limited partners, payable in monthly installments of \$5,480, including interest at 5.75%, final payment due August 2032	\$ 843,770
MHFA, Challenge Program, secured by Wazuweeta Woods, payable on July 1, 2032, including zero percent interest	567,701
GMHF, mortgage payable, secured by Wazuweeta Woods, payable on July 1, 2032, including zero percent interest	360,000
First Homes, mortgage payable, secured by Wazuweeta Woods, payable July 1, 2032, including zero percent interest	388,000

Charter Oaks

Glaser Financial Group, Inc., mortgage payable, secured by Charter Oaks, payable in monthly installments of \$6,768.92 from December 1, 2003 to December 1, 2022 and monthly installments of \$6,084.68 from January 1, 2023 until final payment due January 1, 2042, including interest at 8.05 percent	901,205
GMHF, mortgage payable, secured by Charter Oaks, payable on January 1, 2042, including zero percent interest	280,000
Waseca Woods, LLC, developer's fee payable, capitalized as a cost of the rental property, payable as escrows are released	134,952

Eagle Ridge

MHFA, mortgage payable, secured by Eagle Ridge, payable in monthly installments of \$5,165, including interest at 5.75%, final payment due November 1, 2035	835,289
MHFA, mortgage payable, secured by Eagle Ridge, payable on November 1, 2035, including one percent interest	456,670
GMHF, mortgage payable, secured by Eagle Ridge, payable on September 16, 2034, including one percent interest	665,000

THREE RIVERS COMMUNITY ACTION, INC.
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

Note 8: AFFORDABLE HOUSING PROJECTS DEBT - CONTINUED

Harvest Ridge

GMHF, mortgage payable, secured by Harvest Ridge, payable on June 8, 2035, including one percent interest	\$ 400,000
First Homes, mortgage payable, secured by Harvest Ridge, payable June 8, 2035, including one percent interest	300,000
MHFA, mortgage payable, secured by Harvest Ridge, payable March 1, 2036, including one percent interest	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	178,842

Clover Patch

USDA, Rural Development, mortgage payable, secured by Clover Patch Apartments purchase, payable in monthly installments of \$5,113.80 including interest at 6.0 percent, final payment due February 25, 2035	926,105
MHFA, Preservation Affordable Rental Investment Fund Program mortgage payable, secured by Clover Patch Apartments, payable in full on February 25, 2035, including zero percent interest	350,000
Greater Minnesota Housing Fund, mortgage payable, secured by Clover Patch Apartments, payable in full on June 30, 2035, including zero percent interest	120,000
First Homes Properties, mortgage payable, secured by Clover Patch Apartments, payable in full on June 30, 2035, including zero percent interest	50,000

Trailside

Minnwest Bank, M.V., mortgage payable, secured by Trailside Apartments, payable in monthly installments of \$12,850 including interest at 7.48 percent, final payment due December 10, 2024	1,792,185
MHFA, HOME, mortgage payable, secured by Trailside Apartments, payable in full on December 19, 2036, including one percent interest	1,184,921
GMHF, mortgage payable, secured by Trailside Apartments, payable on December 19, 2036, including one percent interest	400,000
SWMHP, mortgage payable, secured by Trailside Apartments, payable on December 19, 2025, including one percent interest	50,000

THREE RIVERS COMMUNITY ACTION, INC.
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

Note 8: AFFORDABLE HOUSING PROJECTS DEBT - CONTINUED

Southside

USDA, Rural Development, mortgage payable, secured by Southside Apartments purchase, payable in monthly installments of \$820.51 including interest at 5.375 percent, final payment due January 1, 2049	\$	159,158
MHFA, HOME, Preservation Affordable Rental Investment Fund Program Loan, secured by Southside Apartments, payable in full on December 9, 2048, including zero percent interest		175,000
GMHF, mortgage payable, secured by Southside Apartments, payable on December 9, 2048, including zero percent interest		175,000
SWMHP, mortgage payable, secured by Southside Apartments, payable on December 9, 2048, including zero percent interest		<u>16,000</u>
		12,442,063
Less current maturities		<u>(80,414)</u>
Total	\$	<u>12,361,649</u>

Estimated future long-term debt maturities are as follows:

		\$	80,414
	2011		85,842
	2012		91,643
	2013		97,853
	2014		104,490
	2015		<u>11,981,821</u>
	2016 and thereafter		
Total		\$	<u>12,442,063</u>

Interest expense paid for the year ending September 30, 2010 was \$349,830

Three Rivers	\$	31,095
Eagle Ridge		48,635
Harvest Ridge		11,006
Trailside		136,888
Charter Oaks		73,083
Wazuweeta		<u>49,123</u>
	\$	<u>349,830</u>

THREE RIVERS COMMUNITY ACTION, INC.
 NOTES TO CONDOLIDATED FINANCIAL STATEMENTS
 SEPTEMBER 30, 2010

Note 9: OPERATING LEASES

THREE RIVERS is subject to operating leases covering primarily premises and office equipment. Lease expense was \$110,840 the year ended September 30, 2010. Minimum future lease obligations are as follows:

Year	Amount
2011	\$ 62,589
2012	56,024
2013	51,694
2014	44,837
2015	15,374
Total	\$ 230,518

Note 10: RETIREMENT PLANS

THREE RIVERS maintains a defined contribution retirement plan covering substantially all employees.

THREE RIVERS' contributions to the Plan are based on employee contributions and length of service. This Plan is intended to qualify under Internal Revenue Code Section 403(b).

THREE RIVERS contributed \$105,968 to the Plan for the year ended September 30, 2010.

Note 11: DONATED SERVICES AND SERVICES

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.

A substantial number of unpaid volunteers have made significant contributions of their time. The value of this contributed time is at a fair value wage plus fringe and is reported as revenue and expense in the period in which the volunteer hours are provided. Volunteer hours are not recorded in the audited financial statements. The estimated value of the unrecorded volunteer hours was \$356,685 for the year ending September 30, 2010.

The Head Start program received \$43,338 in donated space, supplies and other items for the year ending September 30, 2010.

Note 12: CONTINGENCIES

THREE RIVERS provides a self-insured short-term disability program to certain qualifying employees, which may provide 67 percent of an employee's weekly earnings up to a maximum of 26 weeks. Under this program the historical average annual payout has been \$6,795. For the year ending September 30, 2010, \$4,572 was paid out in benefits under this program.

OTHER REPORTS

THREE RIVERS COMMUNITY ACTION, INC.
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Federal Grantor	Pass-through Grantor	Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures	
USDA	GMHF	Rural Community Development Initiative	10.446	2010-RCDI-TRCA	\$ 8,500	
	MN Ded	CACFP	10.558	8-260-501	93,557	
	TOTAL U.S. DEPARTMENT OF AGRICULTURE					<u>102,057</u>
		SHP - RHASP	14.235	MN0065B5K020802	45,606	
		SHP - RHASP		MN0065B5K020801	117,755	
		SHP - THP		MN0065B5K020802	36,179	
		SHP - THP		MN0065B5K020802	95,075	
						<u>294,615</u>
	MN DHS	HPRP	14.257	1039056	745,803	
	TOTAL U.S. HOUSING & URBAN DEVELOPMENT					<u>1,040,418</u>
DOT	MN DOT	TRANSIT - ARRA BUS	20.509	94553	(709)	
		TRANSIT		95806	268,694	
		TRANSIT		93563	209,252	
		TRANSIT		96203	4,308	
	TOTAL U.S. DEPARTMENT OF TRANSPORTATION					<u>481,545</u>
DOE	MN DOC	DOE/WX	81.042	B29041-1553	104,860 *	
		DOE/WX - ARRA		B29154-1653	1,139,707 *	
						<u>1,244,567</u>
		DOE Pilot Project	81.117	B34268	1,834	
TOTAL U.S. DEPARTMENT OF ENERGY					<u>1,246,401</u>	
HHS	SEMAAA	Wabasha Transportation	93.044	310-10-003B-063	8,806	
		Wabasha Transportation		310-09-003B-063	243	
						<u>9,049</u>
	SEMAAA	HDM	93.045	310-10-03C2-002	71,051	
		HDM		310-09-03C2-002	19,301	
						<u>90,352</u>
	SEMAAA	CAREGIVER	93.052	310-10-003E-005	40,592	
		CAREGIVER		310-09-003E-005	5,616	
						<u>46,208</u>
	SEMAAA	HDM	93.053	310-10-03C2-002	11,175	
HDM			310-09-03C2-002	7,155		
					<u>18,330</u>	
HHS	MN DOC	EAP/WX Carryover	93.568	B29041-1564	31,189	
		EAP/WX		B29041-1564	8,558	
		EAP		B29041-1564	478,134	
					<u>517,881</u>	

THREE RIVERS COMMUNITY ACTION, INC.
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Federal Grantor	Pass-through Grantor	Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures	
HHS	MN DHS	CSBG	93.569	1010056-R	\$ 148,539	
		CSBG Discretionary		1012056	10,000	
		CSBG		810056	<u>12,533</u>	
					<u>171,072</u>	
		Head Start	93.600	05CH4171/45	312,647 *	
		Head Start		05CH4171/44	<u>1,175,607 *</u>	
					<u>1,488,254</u>	
		Head Start - ARRA	93.708	05SE4171/01	<u>80,430 *</u>	
		MN DHS	CSBG - ARRA	93.708	1010056	<u>188,167</u>
		MN DHS	Medical Assistance	93.708	462713000	<u>20,472</u>
	TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			<u>2,630,215</u>		
DHS	UNITED WAY	EFSP	93.708	28-4859-02-001	12,657	
		EFSP		27-4859-02-001	<u>5,123</u>	
					<u>17,780</u>	
		EFSP - ARRA	97.114	AR-4859-02-001	<u>13,134</u>	
	TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>30,914</u>		
Total Federal Expenditures					<u>\$ 5,531,550</u>	

* indicates programs audited as major programs

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is presented on the same basis of accounting as the financial statements of THREE RIVERS.

NOTE B - HUD, HOME TARGETED PROGRAM, DEFERRED LOAN (CFDA #14.239)

THREE RIVERS is obligated on a Home Targeted deferred loan in the amount of \$320,000. This deferred loan requires significant continuing compliance, primarily eligibility and allowability.

NOTE C - USDA, RURAL DEVELOPMENT, RENTAL ASSISTANCE AND INTEREST CREDIT

LOAN (CFDA #10.415) THREE RIVERS is obligated on two Rental Assistance and Interest Credit loans in the amount of \$926,105 and \$159,158. These loans require significant continuing compliance, primarily eligibility and allowability.

5201 Eden Avenue
Suite 250
Edina, MN 55436

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

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

We have audited the consolidated financial statements of Three Rivers Community Action, Inc. and Subsidiaries (collectively, the Organization), as of and for the year ended September 30, 2010, and have issued our report thereon dated December 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



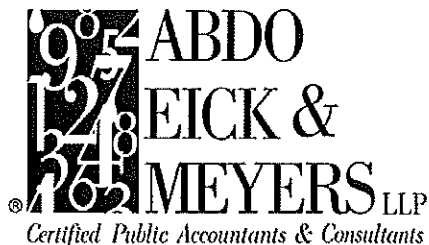
Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

December 7, 2010
Minneapolis, Minnesota



5201 Eden Avenue
Suite 250
Edina, MN 55436

REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Three Rivers Community Action, Inc. and Subsidiaries (collectively, the Organization), with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2010. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

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

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.



Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with *OMB Circular A-133*, 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 the Organization'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 a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

December 7, 2010
Minneapolis, Minnesota

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Certified Public Accountants

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THREE RIVERS COMMUNITY ACTION, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 2010

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

	CFDA Number
<u>Identification of Major Programs/Projects:</u>	
Federal Programs:	
Head Start - Cluster	93.600, 93.708
Weatherization - Cluster	81.042
Dollar threshold used to distinguish between Type A and Type B Programs:	\$ 300,000
Auditee qualified as low-risk auditee pursuant to OMB Circular A-133	Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

There are no significant deficiencies, material weaknesses, or instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Auditing Standards.

SECTION III - MAJOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no significant deficiencies, material weaknesses, or instances of noncompliance including questioned costs that are required to be reported in accordance with Circular A-133.

OTHER ISSUES

The Summary Schedule of Prior Audit Findings is not included in this report because there were no prior audit findings related to federal award programs.

A Corrective Action Plan is not required because there were no findings required to be reported under the Federal Single Audit Act.

