

January 12, 2012

14985 Glazier Avenue  
Suite 630  
Apple Valley, MN 55124

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

We have audited the financial statements of the Three Rivers Community Action, Inc. and Subsidiaries (Three Rivers), a Minnesota not-for-profit organization, for the year ended September 30, 2011, and have issued our report thereon January 12, 2012. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Office of Management and Budget (OMB) Circular A-133**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

Also, our responsibility is to plan and perform the audits to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered Three Rivers internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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. A *material weakness* is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Three Rivers internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be 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 Three Rivers financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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. Also, in accordance with *OMB Circular A-133*, we examined, on a test basis, evidence about Three Rivers compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Three Rivers compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Three Rivers compliance with those requirements. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *OMB Circular A-133* or *Government Auditing Standards*.

## **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you through various means.

## **Qualitative Aspects of Accounting Practices**

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by Three Rivers are described in Note 1 to the financial statements. We noted no transactions entered into by Three Rivers during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were depreciation and in-kind contributions.

Management's estimate of depreciation is based on estimated lives of assets. Management's estimate of in-kind contributions is based on hours, square footage and contributions times established rates. We evaluated the key factors and assumptions used to develop this estimate in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Three Rivers financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Three Rivers, either individually or in the aggregate, indicate matters that could have a significant effect on Three Rivers financial reporting process. We proposed no material audit adjustments and had no unadjusted audit differences.



### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated January 12, 2012.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Three Rivers financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Three Rivers auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Additional Accounting Services**

You are required to designate a qualified management-level individual at Three Rivers to be responsible and accountable for overseeing the following additional services that we will provide:

- We will prepare the federal and state informational returns for the year ended September 30, 2011.

\* \* \* \*

This report is intended solely for the use of the Board of Directors, management, and the audit committee and is not intended to be and should not be used by anyone other than these specified parties.

The comments and recommendations are purely constructive in nature and should be read in this context. Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

*Abdo Eick & Meyers, LLP*

ABDO, EICK & MEYERS, LLP

January 12, 2012

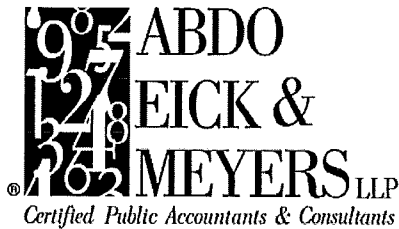
THREE RIVERS COMMUNITY ACTION, INC.  
AND SUBSIDIARIES

REPORTING PACKAGE

FOR THE YEAR ENDED  
SEPTEMBER 30, 2011

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
TABLE OF CONTENTS  
SEPTEMBER 30, 2011

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities and Changes in Net Assets	5
Consolidated Statement of Cash Flows	6
Consolidated Statement of Functional Expenses	8
Notes to Consolidated Financial Statements	22
OTHER REPORTS	
Consolidated Schedule of Expenditures of Federal Awards	25
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27
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 <i>OMB Circular A-133</i>	29
Schedule of Findings and Questioned Costs	30



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14985 Glazier Avenue  
Suite 630  
Apple Valley, MN 55124

## INDEPENDENT AUDITOR'S 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, 2011 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 \$21,599,511 as of December 31, 2010, and total support and revenues of \$1,793,463 for the year ended December 31, 2010. 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, 2011 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 January 12, 2012, 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 12, 2012  
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP  
*Certified Public Accountants*

## FINANCIAL STATEMENTS

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2011

	2011
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,996,948
Cash restricted	1,049,209
Investments	45,448
Grants receivable	499,856
Accounts receivable	188,537
Contracts receivable	35,506
Prepaid expenses	119,520
	4,935,024
TOTAL CURRENT ASSETS	4,935,024
NONCURRENT ASSETS	
Contracts receivable	542,681
Other assets	1,070,920
Affordable housing projects	21,972,556
Property and equipment, net	697,043
	24,283,200
TOTAL NONCURRENT ASSETS	24,283,200
TOTAL ASSETS	\$ 29,218,224
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Current portion - affordable housing projects	\$ 84,387
Accounts payable and accrued expenses	1,330,338
Grant advances	507,196
	1,921,921
TOTAL CURRENT LIABILITIES	1,921,921
NONCURRENT LIABILITIES	
Affordable housing projects	13,722,816
	13,722,816
TOTAL LIABILITIES	13,722,816
MINORITY INTEREST IN COMBINED SUBSIDIARIES	7,359,226
	7,359,226
NET ASSETS	
Unrestricted	6,214,261
	6,214,261
TOTAL NET ASSETS	6,214,261
TOTAL LIABILITIES AND NET ASSETS	\$ 29,218,224

See Independent Auditor's Report and Notes to Financial Statements.

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	2011
UNRESTRICTED REVENUE	
Federal grant revenue	\$ 5,279,548
State grant revenue	2,525,547
Other grant revenue	526,584
Other program revenue	1,291,804
Rental income	1,986,950
Interest income	24,594
TOTAL UNRESTRICTED REVENUE	11,635,027
EXPENSES	
Program services	11,711,784
Management and general	233,463
Fundraising	8,053
TOTAL EXPENSES	11,953,300
TOTAL CHANGE IN NET ASSETS BEFORE MINORITY INTEREST	(318,273)
CHANGE IN MINORITY INTEREST IN AFFORDABLE HOUSING PROJECTS	417,697
TOTAL CHANGE IN NET ASSETS	99,424
BEGINNING OF YEAR NET ASSETS	6,114,837
END OF YEAR NET ASSETS	\$ 6,214,261

See Independent Auditor's Report and Notes to Financial Statements.

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	2011
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (decrease) in net assets	\$ 99,424
Adjustment to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:	
Minority interest in change in net assets	(417,697)
Depreciation and amortization	1,055,381
Net appreciation in market value of investments	(318)
Change in current assets and liabilities	
Cash restricted	(373,814)
Grants receivable	366,510
Accounts receivable	(25,676)
Contracts receivable	(101,097)
Prepaid expenses	78,017
Accounts payable and accrued expenses	319,389
Grant advances	209,587
	1,209,706
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(22,170)
Purchase of investments	(961)
Payments toward affordable housing projects	(1,587,175)
	(1,610,306)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from long-term debt	1,488,473
Principal payments on long-term debt	(123,333)
Partner distributions and syndication fees	(102,238)
	1,262,902
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	862,302
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,134,646
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,996,948
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the year for:	
Interest	\$ 335,059

See Independent Auditor's Report and Notes to Financial Statements.

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	2011			
	Program Services	Management and General	Fundraising	Total
Direct services	\$ 4,490,670	\$ -	\$ -	\$ 4,490,670
Salaries and wages	2,777,621	175,832	5,071	2,958,524
Fringe benefits	937,810	40,759	2,370	980,939
Travel & transportation	107,634	2,801	67	110,502
Telephone & postage	105,659	1,956	158	107,773
Office supplies	84,557	244	252	85,053
Space costs & utilities	228,709	-	-	228,709
Equipment & maintenance	276,463	227	43	276,733
Other costs	443,226	3,238	92	446,556
Housing partnerships	1,192,973	-	-	1,192,973
Depreciation & amortization	1,046,975	8,406	-	1,055,381
In-kind expenses	19,487	-	-	19,487
Total	<u>\$ 11,711,784</u>	<u>\$ 233,463</u>	<u>\$ 8,053</u>	<u>\$ 11,953,300</u>

See Independent Auditor's Report and Notes to Financial Statements.

2010

	Program Services	Management and General	Fundraising	Total
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
Total	<u>\$ 10,577,457</u>	<u>\$ 236,991</u>	<u>\$ 10,177</u>	<u>\$ 10,824,625</u>

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Nature of Activities**

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

**D. 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.

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**E. Investments**

THREE RIVERS reports its investments in accordance with Accounting Standards Codification (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 2, Fair Value Investments for amounts recorded in 2011.

**F. Grants Receivable**

Grants receivable are due primarily from the Federal government and other nonprofit organizations and arise primarily from THREE RIVERS grants and contracts with those agencies to administer various programs. As of September 30, 2011 there were no uncollectible amounts. All accounts are reviewed annually for collectability.

**G. 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, 2011 is estimated at \$0. Changes in the valuation allowance have not been material to the financial statements.

**H. Contracts Receivable**

Contracts receivable arise from the sale of rehabilitated homes to low-income persons on a contract for deed basis. As part of the low-income housing rehabilitation program, contracts bear no interest and payment terms are based on the purchaser's income. Due to program restrictions, contracts for deed receivable 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.

**I. 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.

**J. 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.

THREE RIVERS COMMUNITY ACTION, INC.  
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**K. 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, Trailside Apartments of Albert Lea Limited Partnership and Bridge Run Townhomes Limited Liability Company (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.

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.

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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

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.

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.

BRIDGE RUN TOWNHOMES, LLC: THREE RIVERS organized a limited liability company (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.

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.

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**L. Income Taxes**

THREE RIVERS is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. THREE RIVERS adopted the provisions of ASC Topic 740, Income Taxes, relating to unrecognized tax benefits on April 1, 2009. The adoption of these provisions did not result in an increase of recognized tax liabilities as THREE RIVERS believes its filing positions would be sustained on audit and does not anticipate any adjustments that would result in a material adverse effect on THREE RIVERS financial condition, results of operations or cash flows.

THREE RIVERS recognizes interest accrued related to unrecognized tax benefits, if any, in interest expense and penalties in operating expenses. During the year ended September 30, 2011 THREE RIVERS did not recognize any interest or penalties. THREE RIVERS believes it is no longer subject to income tax examinations for the years prior to 2007.

**M. 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.

**N. 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.

**O. 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.

**P. 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, 2011, THREE RIVERS had obtained collateral pledges of these securities in excess of bank balance, and thereby limited credit exposure.

**Q. Subsequent Events**

THREE RIVERS evaluated subsequent events, in accordance with FASB ASC Topic 855, Subsequent Events, through January 12, 2012, the date the financial statements were available to be issued.

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
 NOTES TO CONDOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2011

**Note 2: 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.

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	\$ 45,448
Level 2	-
Level 3	-
	<hr/>
Total	<u>\$ 45,448</u>

Investments, which are made up of mutual funds at September 30, 2011, are as follows:

Unrestricted investments	
Mutual funds	
Cost	\$ 49,691
Net unrealized loss	(4,243)
	<hr/>
Market value of mutual funds	<u>\$ 45,448</u>

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
 NOTES TO CONDOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2011

**Note 3: CASH RESTRICTED**

Cash restricted consisted of the following at September 30, 2011:

Tenant Security Deposits	\$	104,761
Real Estate Tax and Insurance Escrow		34,803
Development Cost Escrow		78,784
Residual Receipts Reserve		27,561
Replacement Cost Reserve		305,223
Cash held for construction costs		245,238
Operating Reserve		<u>252,839</u>
 Total	 \$	 <u><u>1,049,209</u></u>

**Note 4: CONTRACTS RECEIVABLE**

THREE RIVERS purchased dilapidated houses, rehabilitated and later sold to eligible families on contracts for deed at 0 percent interest. THREE RIVERS built a townhome and later sold to an eligible family on a contract for deed at 4.5 percent interest.

Contracts receivable are as follows at September 30, 2011:

Contracts receivable	\$	578,187
Less current portion		<u>(35,506)</u>
 Total	 \$	 <u><u>542,681</u></u>

Estimated future collections are as follows:

	\$	35,506
2012		35,602
2013		35,703
2014		35,809
2015		148,836
2016		<u>286,731</u>
2017 and thereafter		
 Total	 \$	 <u><u>578,187</u></u>

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

**Note 5: PROPERTY AND EQUIPMENT**

Furniture and Equipment	\$ 1,532,174
Building and Improvements	748,324
Land	41,032
	2,321,530
Accumulated Depreciation	(1,624,487)
	\$ 697,043

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 \$168,113 for the year ended September 30, 2011.

**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:

Scattered Single Family Housing Developments	\$ 170,500
Scattered Site - Mortgage Foreclosure Houses	437,983
Eagle Ridge	102,201
Rochester Multi-Family Project	91,082
Red Wing Transit Hub	80,598
Harvest Ridge	54,769
Trailside Apartments	56,238
Bridge Run	34,883
Charter Oaks	29,724
Wazuweeta Woods	12,942
	1,070,920
Total	\$ 1,070,920

Amortization on other assets in the affordable housing projects was \$14,151 for the year ended September 30, 2011.

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

**Note 7: 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	\$ 108,649
Opportunity Homes	121,773
Wazuwecta Woods	1,662,985
Bridge Run	1,274,727
Charter Oaks	2,318,765
Eagle Ridge	3,834,875
Harvest Ridge	2,061,640
Trailside Apartments	8,513,251
Albert Lea Lot	9,471
Northern Oaks	463,127
Clover Patch	1,143,900
Southside	<u>459,393</u>
Total	<u><u>\$ 21,972,556</u></u>

Depreciation on affordable housing projects was \$873,117 for the year ended September 30, 2011.

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
 NOTES TO CONDOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2011

**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
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Northfield Community National Bank, mortgage payable, secured by Northern Oaks, payable in monthly installments of \$1,065 including interest at 6.75 percent, final payment due December 2022		81,328
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GMHF, mortgage payable, secured by Northern Oaks, payable on December 4, 2022, including zero percent interest		60,000
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**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		826,062
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MHFA, Challenge Program, secured by Wazuweeta Woods, payable on July 1, 2032, including zero percent interest		567,701
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GMHF, mortgage payable, secured by Wazuweeta Woods, payable on July 1, 2032, including zero percent interest		360,000
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First Homes, mortgage payable, secured by Wazuweeta Woods, payable July 1, 2032, including zero percent interest		388,000
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**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		892,198
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GMHF, mortgage payable, secured by Charter Oaks, payable on January 1, 2042, including zero percent interest		280,000
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Waseca Woods, LLC, developer's fee payable, capitalized as a cost of the rental property, payable as escrows are released		91,055
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THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
 NOTES TO CONDOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2011

**Note 8: AFFORDABLE HOUSING PROJECTS DEBT - CONTINUED**

**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 \$ 820,968

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

**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 176,043

**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 920,144

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

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

**Note 8: AFFORDABLE HOUSING PROJECTS DEBT - CONTINUED**

**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	\$ 1,773,226
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

**Southside Apartments**

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	157,383
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	16,000

**Bridge Run Townhomes, LLC**

MHFA, mortgage payable, secured by Bridge Run Townhomes, LLC, payable on November 4, 2040, including zero percent interest.	360,000
MHFA, mortgage payable, secured by Bridge Run Townhomes, LLC, payable on December 4, 2025, including zero percent interest.	1,050,473
GMHF, mortgage payable, secured by Bridge Run Townhomes, LLC, payable on November 4, 2040, including zero percent interest.	60,000
SWMHP, mortgage payable, secured by Bridge Run Townhomes, LLC, payable on November 4, 2040, including zero percent interest.	<u>18,000</u>

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

**Note 8: AFFORDABLE HOUSING PROJECTS DEBT - CONTINUED**

	13,807,203
Less current maturities	<u>(84,387)</u>
Total	<u>\$ 13,722,816</u>

Estimated future long-term debt maturities are as follows:

	\$ 84,387
2012	84,387
2013	90,121
2014	96,254
2015	102,811
2016	109,823
2017 and thereafter	<u>13,323,807</u>
Total	<u>\$ 13,807,203</u>

Interest expense paid for the year ending September 30, 2011 was \$335,059.

Three Rivers	\$ 20,771
Eagle Ridge	47,752
Harvest Ridge	10,810
Trailside	135,387
Charter Oaks	72,220
Wazuweeta	<u>48,119</u>
	<u>\$ 335,059</u>

**Note 9: OPERATING LEASES**

THREE RIVERS is subject to operating leases covering primarily premises and office equipment with lease periods expiring between 2012 and 2016. Rent expense was \$110,840 the year ended September 30, 2011. Minimum future lease obligations are as follows:

Year	Amount
2012	\$ 126,008
2013	125,778
2014	108,067
2015	22,092
2016	<u>3,300</u>
Total	<u>\$ 385,245</u>

**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 \$114,816 to the Plan for the year ended September 30, 2011.

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
NOTES TO CONDOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

**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 \$298,357 for the year ending September 30, 2011.

The Head Start program received \$19,487 in donated space, supplies and other items for the year ending September 30, 2011.

**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 \$6,486. For the year ending September 30, 2011, \$1,234 was paid out in benefits under this program.

OTHER REPORTS

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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	\$ 18,544	
	MN Ded	CACFP	10.558	8-260-501	94,275	
	TOTAL U.S. DEPARTMENT OF AGRICULTURE					<u>112,819</u>
		SHP - RHASP	14.235	MN0065B5K020802	130,309 *	
		SHP - RHASP		MN0065B5K021003	96,947 *	
		SHP - THP		MN0056B5K020802	113,486 *	
		SHP - THP		MN0056B5K021003	50,185 *	
						<u>390,927</u>
	MN DHS	HPRP	14.257	1039056	754,197 *	
	HAC	THRIVE	14.506	TF10-042	25,726	
TOTAL U.S. HOUSING & URBAN DEVELOPMENT					<u>1,170,850</u>	
DOT	MN DOT	TRANSIT	20.509	97673	238,633 *	
		TRANSIT - ARRA FACILITY		96203	74,780 *	
	TOTAL U.S. DEPARTMENT OF TRANSPORTATION					<u>313,413</u>
DOE	MN DOC	DOE/WX	81.042	B29041-W13-1553	126,162 *	
		DOE/WX - ARRA		B29154-E60-1653	1,177,221 *	
						<u>1,303,383</u>
		DOE Pilot Project	81.117	B34268	4,616	
TOTAL U.S. DEPARTMENT OF ENERGY					<u>1,307,999</u>	
HHS	SEMAAA	Wabasha Transportation	93.044	310-11-003B-063	6,131	
	SEMAAA	HDM	93.045	310-10-03C2-002	4,730	
				310-11-03C2-002	48,369	
						<u>53,099</u>
	SEMAAA	CAREGIVER	93.052	310-10-003E-005	5,408	
				310-11-003E-005	42,029	
						<u>47,437</u>
	SEMAAA	HDM	93.053	310-10-03C2-002	3,735	
310-11-03C2-002				7,888		
					<u>11,623</u>	
HHS	MN DOC	EAP/WX	93.568	B29041-EA1-1564	1,282 *	
		EAP/WX Carryover		B29041-EA0-1564	109,042 *	
		EAP/WX Carryover		28657-EA0-1564	2,569 *	
		EAP		B46939-1563	436,786 *	

THREE RIVERS COMMUNITY ACTION, INC.  
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Federal Grantor	Pass-through Grantor	Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
<b>HHS</b>	MN DHS	CSBG	93.569	1010056-R	\$ 144,661
		CSBG Discretionary		1112056	10,000
					<u>154,661</u>
		Head Start	93.600	05CH4171/45	998,956
	Head Start		05CH4171/46	461,727	
				<u>1,460,683</u>	
	MN DHS	Medical Assistance	93.778	462713000	77,550
	TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES				<u>2,360,863</u>
<b>DHS</b>	UNITED WAY	EFSP	97.024	28-4859-02-001	13,604
	TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY				<u>13,604</u>
Total Federal Expenditures					<u>\$ 5,279,548</u>

\* indicates programs audited as major programs

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

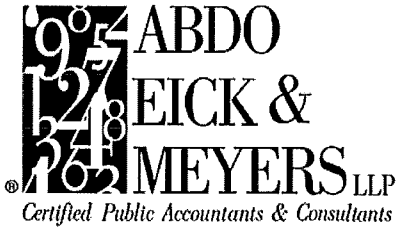
The accompanying schedule of expenditures of federal awards is presented on the same basis of accounting as the financial statements of THREE RIVERS.

**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 \$920,144 and \$157,383. These loans require significant continuing compliance, primarily eligibility and allowability.



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14985 Glazier Avenue  
Suite 630  
Apple Valley, MN 55124

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, 2011, and have issued our report thereon dated REPORT DATE. 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.



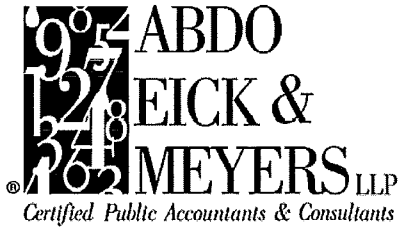
### Compliance and Other Matters

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.

January 12, 2012  
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP  
*Certified Public Accountants*



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14985 Glazier Avenue  
Suite 630  
Apple Valley, MN 55124

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, 2011. 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, 2011.



## 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.

January 12, 2012  
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP  
*Certified Public Accountants*

THREE RIVERS COMMUNITY ACTION, INC. AND SUBSIDIARIES  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

**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

Identification of Major Programs/Projects:

	<b>CFDA Number</b>
Federal Programs:	
Supportive Housing Program	14.235
Homelessness Prevention and Rapid Re-Housing	14.257
Public Transit	20.509
Weatherization	81.042
Energy Assistance Program	93.568
 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.