SEMCAC

FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

SEMCAC
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YEARS ENDED SEPTEMBER 30, 2017 AND 2016

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Semcac
Rushford, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Semcac (a nonprofit organization) (the Organization), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information – Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
March 12, 2018

SEMCAC
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and Cash Equivalents	$ 892,680	$ 921,385
Accounts Receivable	386,451	491,985
Contributions and Grants Receivable	1,069,330	742,009
Co-op Patronage Receivable, Net	76,314	77,053
Notes Receivable, Net	116,598	122,913
Inventory	20,939	20,241
Prepaid Expenses	161,696	174,797
MURL Foreclosed Homes	-	40,000
Property and Equipment, Net	1,265,349	1,232,019
Other Assets	12,500	12,500
Total Assets	$ 4,001,857	$ 3,834,902
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	$ 222,823	$ 227,019
Line of Credit	154,900	-
Accrued Expenses and Other Liabilities	484,404	440,260
Deferred Revenue	375,644	435,530
Note Payable	59,361	89,041
Cash Held for Fiscal Agent	69,440	60,629
Total Liabilities	1,366,572	1,252,479
NET ASSETS		
Unrestricted	1,595,184	1,393,953
Temporarily Restricted	1,040,101	1,188,470
Total Net Assets	2,635,285	2,582,423
Total Liabilities and Net Assets	$ 4,001,857	$ 3,834,902

See accompanying Notes to Financial Statements.

SEMCAC
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE, SUPPORT, AND GAINS			
Grant and Contract Revenue	$ 8,827,007	$ -	$ 8,827,007
Contributions	249,629	-	249,629
Program Revenue	2,967,588	-	2,967,588
Fundraising	7,314	-	7,314
Interest Income	8,680	-	8,680
Other Income	126,201	-	126,201
In-Kind Contributions	70,951	-	70,951
Net Assets Released from Restriction	148,369	(148,369)	-
Total Revenue, Support, and Gains	12,405,739	(148,369)	12,257,370
EXPENSES AND LOSSES			
Direct Services	2,811,578	-	2,811,578
Personnel	5,676,090	-	5,676,090
Payroll Taxes and Fringe Benefits	1,452,405	-	1,452,405
Contract Labor and Consultants	377,404	-	377,404
Travel and Transportation	141,146	-	141,146
Space Costs and Utilities	430,280	-	430,280
Consumable Supplies	263,536	-	263,536
Minor Equipment and Lease of Equipment	110,538	-	110,538
Depreciation	198,206	-	198,206
Other Costs	672,374	-	672,374
In-Kind Expenses	70,951	-	70,951
Total Expenses and Losses	12,204,508	-	12,204,508
CHANGE IN NET ASSETS	201,231	(148,369)	52,862
Net Assets - Beginning of Year	1,393,953	1,188,470	2,582,423
NET ASSETS - END OF YEAR	$ 1,595,184	$ 1,040,101	$ 2,635,285

See accompanying Notes to Financial Statements.

SEMCAC
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE, SUPPORT, AND GAINS			
Grant and Contract Revenue	$ 8,073,751	$ 88,642	$ 8,162,393
Contributions	71,608	224,133	295,741
Program Revenue	2,876,414	19,317	2,895,731
Fundraising	5,853	4,259	10,112
Interest Income	11,185	-	11,185
Other Income	145,571	-	145,571
In-Kind Contributions	75,005	-	75,005
Net Assets Released from Restriction	530,873	(530,873)	-
Total Revenue, Support, and Gains	11,790,260	(194,522)	11,595,738
EXPENSES AND LOSSES			
Direct Services	2,616,904	-	2,616,904
Personnel	5,603,617	-	5,603,617
Payroll Taxes and Fringe Benefits	1,379,497	-	1,379,497
Contract Labor and Consultants	565,149	-	565,149
Travel and Transportation	118,550	-	118,550
Space Costs and Utilities	449,313	-	449,313
Consumable Supplies	210,997	-	210,997
Minor Equipment and Lease of Equipment	36,109	-	36,109
Depreciation	189,708	-	189,708
Other Costs	675,964	-	675,964
In-Kind Expenses	75,005	-	75,005
Total Expenses and Losses	11,920,813	-	11,920,813
CHANGE IN NET ASSETS	(130,553)	(194,522)	(325,075)
Net Assets - Beginning of Year	1,524,506	1,382,992	2,907,498
NET ASSETS - END OF YEAR	$ 1,393,953	$ 1,188,470	$ 2,582,423

See accompanying Notes to Financial Statements.

SEMCAC
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 52,862	$ (325,075)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	198,206	189,708
Provision for Uncollectible Co-op Patronage Receivable	1,416	-
Change in Discount on Co-op Patronage Receivable	705	194
Impairment on Repossessed Homes	-	15,959
Loss on Sale of Repossessed Homes	14,979	25,292
Loss on Sale of Property and Equipment	1,272	-
Changes in Operating Assets and Liabilities:		
Accounts Receivable	105,534	(18,641)
Contributions and Grants Receivable	(327,321)	345,537
Co-op Patronage Receivable, Net	(1,382)	(194)
Inventory	(698)	(1,866)
Prepaid Expenses	13,101	(35,164)
Accounts Payable	(4,196)	(118,669)
Accrued Expenses and Other Liabilities	44,144	(106,270)
Deferred Revenue	(59,886)	(6,331)
Cash Held for Fiscal Agent	8,811	(96,649)
Net Cash Provided (Used) by Operating Activities	47,547	(132,169)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on Land Contracts Receivable	-	55,547
Payments on Note Receivable	6,315	6,753
Proceeds from Sales of Repossessed Homes	25,021	109,091
Purchases of Property and Equipment	(232,808)	(266,185)
Net Cash Used by Investing Activities	(201,472)	(94,794)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Line of Credit	154,900	-
Principal Payments on Notes	(29,680)	(29,681)
Net Cash Provided (Used) by Financing Activities	125,220	(29,681)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(28,705)	(256,644)
Cash and Cash Equivalents - Beginning of Year	921,385	1,178,029
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 892,680	$ 921,385
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer from Land Contract Receivable to MURL Repossessed Homes	$ -	$ 40,000

See accompanying Notes to Financial Statements.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Semcac (the Organization) was organized as a nonprofit corporation in 1966. The Organization was formed to develop and provide a variety of health, education, housing, and human service programs for low-income citizens in Dodge, Fillmore, Freeborn, Houston, Mower, Steele, and Winona counties in Minnesota. The Organization is primarily supported through federal and state government grants.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Accumulated deposits at these financial institutions, at times, may exceed federally insured limits.

Accounts Receivable

Accounts receivable consist primarily of amounts billed under performance contracts related to senior, weatherization, and family planning programs. Amounts are reviewed for collectability by management and an allowance for doubtful accounts is recorded as needed based on collection history and customer attributes. The Organization considers all receivables to be collectible and, therefore, no allowance has been recorded. If an amount becomes delinquent after all collection efforts have failed, the account is written off.

Contribution and Grants Receivable

The Organization records unconditional promises to give expected to be collected within one year at net realizable value. The Organization determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable.

Grants that qualify as contributions are recorded as invoiced to the funding sources. Revenue is recognized in the accounting period when the related allowable expenses are incurred.

At September 30, 2017 and 2016, the Organization considers all contributions and grants to be collectible and, therefore, no allowance has been recorded.

Co-op Patronage Receivable

The Organization is a member of a telephone co-operative company (the Co-op). As a member, the Organization receives a patronage dividend from the Co-op. The Co-op's current dividend policy is to pay 10% of current profits and 90% of the profits earned 10 years ago. This dividend policy is to allow the Co-op to maintain sufficient operating cash flow. The Co-op reserves the right to change the dividend policy. The Organization has recorded a receivable based on the projected dividends attributed by the Co-op to the Organization. The receivable has been recorded at the present value of the allocated profits discounted at 5% over 10 years. The Organization has elected to record an uncollectible allowance of $47,529 and $47,876 as of September 30, 2017 and 2016, respectively, due to the uncertainty of the future patronage dividend.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Co-op Patronage Receivable (Continued)

The cumulative Co-op patronage receivable at September 30, 2017 and 2016 is as follows:

	2017	2016
Co-op Patronage Receivable	$ 158,431	$ 159,585
Allowance for Uncollectible Receivable	(47,529)	(47,876)
Expected Co-op Patronage Receivable	110,902	111,709
Discounted at 5%	(34,588)	(34,656)
Net Co-op Patronage Receivable	$ 76,314	$ 77,053

MURL Foreclosed Homes

MURL foreclosed homes are properties acquired through, or in lieu of, foreclosure and are held for sale and initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in gain/loss on sale of assets in the statement of activities.

Property and Equipment

The Organization records property and equipment additions over $5,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Property and equipment purchased with grant funds are owned by the Organization while used in the programs for which it was purchased or in other future authorized programs. However, the various funding sources have a reversionary interest in the property and equipment purchased with grant funds. Its disposition, as well as the ownership of any proceeds therefrom, is subject to funding source regulations. The property and equipment purchased with grant funds is normally restricted by the funding source for use in specific programs operated by the Organization. The Organization has adopted a policy of implying a time restriction on assets purchased with grant contributions. Grant funded property and equipment are recorded as restricted support. As the property and equipment are depreciated, the temporarily restricted net assets are released from restriction and reported in the statement of activities as net assets released from restriction.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Held for Fiscal Agent

The Organization acts as the fiscal agent for the Bluff Country Minnesota Multi-County Housing and Redevelopment Authority, Inc. Cash held for fiscal agent are funds held by the Organization for the other nonprofit organization.

Net Assets

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

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations or where donor-imposed stipulations are met in the year of the contribution.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or may not be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by our actions. The restrictions stipulate that resources be maintained permanently but permit us to expend the income generated in accordance with the provisions of the agreements. The Organization had no permanently restricted net assets at September 30, 2017 and 2016.

Revenue and Revenue Recognition

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

In-Kind Contributions

In-kind contributions for space and professional services are recorded in the statement of activities and recognized as revenue and expenses in the period they are received. During the years ended September 30, 2017 and 2016, the Organization received $70,951 and $75,005 of such contributions for its food shelf program, respectively. In addition, the Organization received contributions of nonprofessional volunteer services during the year with a fair value of $192,876 and $119,060 for its senior dining program, which are not recognized in the financial statements for the years ended September 30, 2017 and 2016, respectively.

NOTE 1 PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs are expensed as incurred and were $87,463 and $96,276 during the years ended September 30, 2017 and 2016, respectively.

Functional Allocation of Expenses

The Organization utilizes cost allocation methods to distribute certain direct and indirect costs to its various programs. Costs, which are common to more than one program, have been identified and classified into cost pools. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Note 10 presents total expenses by function.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been reflected in these financial statements.

The Organization has adopted the income tax standard regarding the recognition and measurement of uncertain tax positions and has determined that it has no uncertain tax positions as of September 30, 2017 and 2016.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

We have evaluated subsequent events through March 12, 2018, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at several banks. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. One of the banks has pledged securities for the Organization’s cash balances with a market values of $717,547 and $1,076,400 at September 30, 2017 and 2016, respectively. As of September 30, 2017 and 2016, there were no amounts in excess of FDIC and collateral coverage.

NOTE 3 FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include 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 asset or liability, which are typically based on an Organization’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 is based on the lowest level input that is significant to the fair value measurement in its entirety.

Subsequent to initial recognition, the Organization may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair value. However, it may elect to measure newly acquired financial instruments at fair value in the future.

The Organization had no assets or liabilities measured at fair value on a recurring or nonrecurring basis at September 30, 2017 and 2016.

NOTE 4 NOTES RECEIVABLE

The Organization is the nonprofit sponsoring agency for an AHP $100,000 subsidy from the Federal Home Loan Bank of Des Moines. The subsidy was for the construction of 20 affordable housing units for income eligible participants. Four of the units must be available to participants at or below 50% of the median income and 16 of the units must be available to participants between 51% and 60% of the median income for Fillmore County. The affordability period for the units must be maintained for 15 years, which expired in 2014.

The Organization loaned the funds to the project owner, Rushford Housing Limited Partnership. The loan agreement calls for interest at 1% per year with the interest and principal repaid in monthly installments of $598 beginning on January 1, 2015 through December 31, 2029. The balance of the note at September 30, 2017 and 2016 was $82,702 and $89,017, respectively. Collection is fully expected and, accordingly, no allowance has been recorded.

The Organization also had a note receivable from Semcac Housing-Rushford Inc., a related party. The note has no interest rate and is due on November 1, 2061, or when the project is sold, whichever occurs first. The balance of the note at September 30, 2017 and 2016 was $33,897 and $33,897, respectively. Collection is fully expected and, accordingly, no allowance has been recorded.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30, 2017:

	Unrestricted Property	Grant Award Property	Total
Land	$ 256,335	$ -	$ 256,335
Buildings and Improvements	1,235,609	-	1,235,609
Equipment	274,186	1,439,868	1,714,054
Total	1,766,130	1,439,868	3,205,998
Less: Accumulated Depreciation	805,195	1,135,454	1,940,649
Total Property and Equipment	$ 960,935	$ 304,414	$ 1,265,349

Property and equipment consist of the following at September 30, 2016:

	Unrestricted Property	Grant Award Property	Total
Land	$ 100,645	$ -	$ 100,645
Buildings and Improvements	994,117	-	994,117
Equipment	281,345	1,607,443	1,888,788
Construction in Process	238,035	-	238,035
Total	1,614,142	1,607,443	3,221,585
Less: Accumulated Depreciation	743,982	1,245,584	1,989,566
Total Property and Equipment	$ 870,160	$ 361,859	$ 1,232,019

In January 2018, the Organization entered into an architect contract for the design of a new bus facility. The services under this contract are not to exceed $194,997.

NOTE 6 LINE OF CREDIT

The Organization entered into a revolving line of credit agreement dated March 21, 2017, which is secured by deposit accounts and property of the Organization. The borrowing capacity of this line of credit is $154,900 and has a variable interest rate of one month LIBOR plus 2.75% (3.98% as of September 30, 2017). The outstanding balance of the line was $154,900 at September 30, 2017.

NOTE 7 NOTE PAYABLE

The Organization entered into a loan agreement dated June 18, 2009, with the city of Rushford for $331,203. A total amount of $82,801 was repayable at a 1% interest rate and was paid in full on May 25, 2012. The remaining amount of $248,402 is to be forgiven over a period of five years after the initial five-year term of the loan if the property remains unsold. No interest is to be applied to this portion of the loan. The outstanding balance of the loan at September 30, 2017 and 2016 was $59,361 and $89,041, respectively.

NOTE 8 LEASES

The Organization leases various facilities and equipment for operation of its programs primarily under cancellable leases.

Future minimum lease payments are as follows:

Year Ending September 30,	Amount
2018	$ 266,953
2019	102,389
2020	64,059
2021	35,991
2022	3,622
Total Minimum Lease Payments	$ 473,014

Rent expense for the years ended September 30, 2017 and 2016 totaled $295,505 and $189,071, respectively.

NOTE 9 RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2017 and 2016 consist of:

	2017	2016
Grant-Funded Equipment	$ 304,414	$ 361,859
Housing Funds	226,024	313,776
Patronage Dividends	76,314	77,053
Food Programs	329,889	390,456
Senior Programs	53,984	34,419
Community Services	10,907	10,907
MnDOT Reserve	38,569	-
Total Temporarily Restricted Net Assets	$ 1,040,101	$ 1,188,470

NOTE 10 RETIREMENT PLAN

The Organization has a defined contribution retirement plan authorized under Section 401(k) of the Internal Revenue Code. The plan is open to all employees who have been employed by the Organization for one year, work a minimum of 800 hours, and are at least 21 years of age. Participants become fully vested after five years of service. The Organization's contributions are determined at the discretion of the board of directors. The employer contribution for the years ended September 30, 2017 and 2016, was a matching contribution of up to 4% of eligible employee gross wages. Employer contributions for the years ended September 30, 2017 and 2016, were $129,669 and $134,929, respectively.

NOTE 11 FUNCTIONAL EXPENSES

Total expenses by function were as follows for the years ended September 30:

	2017	2016
Program Activities:		
Child Education Services	$ 3,222,463	$ 2,987,094
Older Americans	2,345,646	2,487,672
Energy Assistance	770,997	754,500
Community Services	750,469	954,264
Weatherization	1,136,682	1,125,304
Housing/Housing Assistance	634,300	537,047
Health	535,211	466,801
Food Assistance	276,025	269,486
Transportation	1,761,142	1,623,413
Total Program Activities	11,432,935	11,205,581
Management and General	720,240	641,833
Fundraising and Development	51,333	73,399
Total	$ 12,204,508	$ 11,920,813

NOTE 12 RELATED PARTY

The Organization is a general partner in MDI Limited Partnership #78 (the Partnership) with 0.010% ownership interest. The Organization was not required to invest any money in the Partnership. The Organization's investment in the partnership is $-0- at September 30, 2017 and 2016.

The Partnership was formed to develop affordable housing for low- to moderate-income persons. The project developed 62 rental units with two-thirds of the units available for low- to moderate-income renters and one-third for other renters.

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CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' 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
Semcac
Rushford, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Semcac (the Organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 12, 2018.

Internal Control Over Financial Reporting

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

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

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

Board of Directors
Semcac

Compliance and Other Matters

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

Purpose of this Report

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
March 12, 2018

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Semcac
Rushford, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Semcac's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Semcac's major federal programs for the year ended September 30, 2017. Semcac's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Semcac's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Semcac's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Semcac complied, in all material respects, with the types of 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, 2017.

Report on Internal Control Over Compliance

Management of Semcac is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Semcac's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Semcac's internal control over compliance.

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

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
March 12, 2018

SEMCAC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2017

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number		Federal Expenditures
Department of Agriculture				
Pass-Through Minnesota Department of Education				
Non-Cash Assistance (Commodities):				
Child & Adult Food Program	10.558	1000003559	$ 95,959	
Total Non-Cash Assistance				$ 95,959
Pass-Through Minnesota Department of Human Services				
Cash Assistance:				
Supplemental Nutrition Assistance Program (SNAP)	10.580	GRK%102214	22,500	
Total Cash Assistance				22,500
Total Department of Agriculture				118,459
Department of Housing and Urban Development				
Pass-Through Minnesota Department of Economic Development				
Small Cities Grant - Albert Lea	14.228	CDAP-14-0058-0-FY15	18,242	
Small Cities Grant - LaCrescent	14.228	CDAP-16-0034-0-FY17	1,167	
Small Cities Grant - LeRoy	14.228	CDAP-15-0035-0-FY16	16,004	
Small Cities Grant - Houston	14.228	CDAP-16-0030-0-FY17	576	
Total CFDA 14.228				35,989
Pass-Through Minnesota Department of Human Services				
Emergency Shelter Grant (ESGP) - 2017	14.231	GRK%63655	18,512	
Emergency Shelter Grant (ESGP) - 2018	14.231	GRK%63655	7,997	
Total CFDA 14.231				26,509
Pass-Through Three Rivers Community Action, Inc.				
HUD SHP RHASP - 2016	14.235	**	18,465	
HUD SHP RHASP - 2017	14.235	**	10,742	
Total CFDA 14.235				29,207
Total Department of Housing and Urban Development - Cash Assistance				91,705
Department of Transportation				
Pass-Through Minnesota Department of Transportation				
Transportation Program - 2017	20.509	1001744	162,178	
Total Department of Transportation - Cash Assistance				162,178
Department of Energy				
Pass-Through Minnesota Department of Commerce				
DOE/WX - 2017	81.042	A2500	374,986	
DOE/WX - 2018	81.042	A2500	44,281	
Total CFDA 81.042				419,267
Total Department of Energy - Cash Assistance				419,267
Department of Health and Human Services				
Aging Cluster:				
Pass-Through Southeastern Minnesota Area Agency on Aging, Inc.				
Non-Cash Assistance (Commodities):				
Nutrition Services Incentive Program - 2016	93.053	310-16-03C1-001	39,852	
Nutrition Services Incentive Program - 2017	93.053	310-17-03C1-001	87,326	
Nutrition Services Incentive Program - 2016	93.053	310-16-03C2-001	13,742	
Nutrition Services Incentive Program - 2017	93.053	310-17-03C2-001	26,618	
Total Non-Cash Assistance and CFDA 93.053			167,538	

SEMCAC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2017

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number		Federal Expenditures
Department of Health and Human Services (Continued)				
Pass-Through Southeastern Minnesota Area Agency on Aging, Inc.				
Cash Assistance:				
Title III SEMAA 2016	93.044	310-16-003B-052	$ 6,325	
Title III SEMAA 2017	93.044	310-17-003B-052	44,670	
Total CFDA 93.044			50,995	
Congregate Dining - 2016	93.045	310-16-03C1-001	30,936	
Congregate Dining - 2017	93.045	310-17-03C1-001	386,671	
Home Delivered Meals - 2016	93.045	310-16-03C2-001	62,673	
Home Delivered Meals - 2017	93.045	310-17-03C2-001	133,206	
Total CFDA 93.045			613,486	
Total Aging Cluster				$ 832,019
Matter of Balance	93.043	310-17-003D-017		1,068
Caregiver Advocate - 2016	93.052	310-16-003E-004	9,375	
Caregiver Advocate - 2017	93.052	310-17-003E-004	41,250	
Total CFDA 93.052				50,625
Pass-Through Planned Parenthood of Minnesota/North Dakota/South Dakota				
Title X PPMNS - 2017	93.217	**	44,500	
Total Pass-Through Planned Parenthood of Minnesota/North Dakota/South Dakota				44,500
Pass-Through Minnesota Department of Commerce				
EAP/WX CO - 2017	93.568	A 2107	294,422	
EAP/WX CO - 2018	93.568	A 2108	33,465	
EAP/WX CO2 - 2017	93.568	A 2107	134,805	
Energy Assistance	93.568	FFY2017	798,615	
Total Pass-Through Minnesota Department of Commerce and CFDA 93.568				1,261,307
Pass-Through Minnesota Department of Human Service -- 477 Cluster				
CSBG - 2017	93.569	GRK% 94812	361,802	
Total Pass-Through Minnesota Department of Human Service and 477 Cluster				361,802
Pass-Through Minnesota Department of Education				
Early Head Start Child Care Partnership	93.600	O5HP0014/01	53,167	
Head Start - 2017 (direct received)	93.600	O5CH8379/02	1,382,153	
Head Start - 2018 (direct received)	93.600	O5CH8379-03-02	818,231	
Total CFDA 93.600				2,253,551
Total Department of Health and Human Services				4,804,872
Department of Homeland Security				
Pass-Through EFASP National Board				
Emergency Food & Shelter Program - 2017	97.024	485918	5,740	
Total Department of Homeland Security - Cash Assistance				5,740
Total Expenditures of Federal Awards				$ 5,602,221

** Agency or Pass-Through Number is Unavailable

See Notes to Schedule of Expenditures of Federal Awards.

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Semcac (the Organization) under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, activities and changes in net assets, and cash flows of the Organization.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 SUBRECIPIENT PAYMENTS, NONCASH ASSISTANCE, INSURANCE, AND LOANS OR LOAN GUARANTES

The purpose of the schedule of expenditures of federal awards is to present a summary of the Organization's federal grant activity. The Organization did not provide any federal awards to subrecipients for the year ended September 30, 2017.

SEMCAC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2017

Part I: Summary of the Independent Auditors' Results:

Financial Statements

1. Type of auditors' report issued: Unmodified

2. Internal control over financial reporting:

   - Material weakness(es) identified? _____yes __x__no

   - Significant deficiency(ies) identified that are not considered to be material weakness(es)? _________ yes __x______none reported

3. Noncompliance material to financial statements noted? _________ yes __x______no

Federal Awards

1. Internal control over major federal programs:

   - Material weakness(es) identified? _________ yes __x______no

   - Significant deficiency(ies) identified that are not considered to be material weakness(es)? _________ yes __x__ none reported

2. Type of auditors' report issued on compliance for major federal programs: Unmodified

3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _________ yes __x_____ no

Identification of Major Federal Programs

U.S. Department of Health and Human Services:
Head Start CFDA #93.600

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

SEMCAC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2017

Part I: Summary of the Independent Auditors' Results (Continued):

Auditee qualified as low-risk auditee pursuant to Uniform Guidance?	x yes	____ no

Part II: Findings Related to the Basic Financial Statements:

None

Part III: Findings and Questioned Costs for Federal Awards:

None

Part IV: Prior Year Findings:

There were no findings in the prior year that were required to be reported.