NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT WITH SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2023

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

Table of Contents

Page

Independent Auditor's Report 1

Financial Statements
Statement of Financial Position 4
Statement of Activities 5
Statement of Functional Expenses 6
Statement of Cash Flows 7
Notes to Financial Statements 8

Supplementary Information
Schedule of Expenditures of Federal Awards 34

Independent Auditor's 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* 36

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance 38

Summary Schedule of Prior Audit Findings 41

Schedule of Findings and Questioned Costs 42

Wohlenberg Ritzman & Co., LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northeast South Dakota Economic Corporation
dba GROW South Dakota
Sisseton, South Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **Northeast South Dakota Economic Corporation dba GROW South Dakota (a nonprofit organization, hereafter referred to as "NESDEC")**, which comprise the statement of financial position as of September 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NESDEC as of September 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of NESDEC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

MADISON OFFICE: 205 North Egan Ave. | PO Box 505 | Madison, SD 57042 | (605) 256-9165
YANKTON OFFICE: 207 Douglas Ave. | PO Box 1018 | Yankton, SD 57078 | (605) 665-4401
SIOUX FALLS OFFICE: 3600 S Westport, Suite 101 | Sioux Falls, SD 57106 | (605) 336-0372
EMAIL: wrc@wrccpa.com
TOLL FREE: 1-800-456-0889
FAX #: (605) 665-0592

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NESDEC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risk. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 NESDEC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about NESDEC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited NESDEC's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 27, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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 schedule of expenditures of federal awards 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 December 29, 2023, on our consideration of NESDEC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NESDEC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NESDEC's internal control over financial reporting and compliance.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
December 29, 2023

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2023
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2022

	2023			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**2022**
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 4,229,119	$ 3,171,311	$ 7,400,430	$ 5,586,488
Certificates of deposit	200,000	-	200,000	200,000
Accrued interest receivable	39,750	32,883	72,633	68,961
Other receivables	-	12,583	12,583	389
Due from other governments	-	33,506	33,506	32,709
Other real estate owned	-	129,850	129,850	5,277
Prepaid asset	-	1,715	1,715	244
Current portion of leases receivable	20,383	-	20,383	-
Current portion of notes receivable, net of allowance for loan losses of $160,658 in 2023 and $127,055 in 2022	1,257,189	1,846,202	3,103,391	2,334,869
Total current assets	5,746,441	5,228,050	10,974,491	8,228,937
LONG-TERM RECEIVABLES:				
Leases receivable	154,315	-	154,315	-
Notes receivable, less allowance for loan losses of $889,886 in 2023 and $932,841 in 2022 and less current maturities	8,264,523	9,117,005	17,381,528	17,684,673
Total long-term receivables	8,418,838	9,117,005	17,535,843	17,684,673
OTHER ASSETS:				
Investments	2,192,088	-	2,192,088	2,204,103
Property and equipment, net	653,819	-	653,819	677,451
Total other assets	2,845,907	-	2,845,907	2,881,554
TOTAL ASSETS	$ 17,011,186	$ 14,345,055	$ 31,356,241	$ 28,795,164
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Current portion of long-term debt	$ -	$ 465,571	$ 465,571	$ 436,857
Accounts payable	924	11,377	12,301	1,581
Accrued interest	19,626	32,307	51,933	40,971
Due to affiliate	50,014	51,741	101,755	76,026
Unearned lease revenue	174,698	-	174,698	-
Other current liabilities	-	-	-	27,442
Total current liabilities	245,262	560,996	806,258	582,877
LONG-TERM DEBT				
Notes payable, less current maturities and net of unamortized debt issuance costs of $13,875 in 2023 and $-0- in 2022	4,358,393	6,423,854	10,782,247	8,887,586
TOTAL LIABILITIES	4,603,655	6,984,850	11,588,505	9,470,463
NET ASSETS				
Net assets with donor restrictions	-	7,360,205	7,360,205	7,102,935
Net assets without donor restrictions	12,407,531	-	12,407,531	12,221,766
TOTAL NET ASSETS	12,407,531	7,360,205	19,767,736	19,324,701
TOTAL LIABILITIES AND NET ASSETS	$ 17,011,186	$ 14,345,055	$ 31,356,241	$ 28,795,164

The accompanying notes are an integral part
of these financial statements.

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2023
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2022

	2023			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**2022**
REVENUE AND OTHER SUPPORT				
Interest income - notes receivable	$ 396,681	$ 491,794	$ 888,475	$ 776,132
Federal grant income	-	120,003	120,003	1,920,611
Other grant income	167,500	-	167,500	-
Interest income - checking and CD's	16,560	9,467	26,027	12,357
Rent income	-	3,025	3,025	24,000
Lease fee income	18,102	-	18,102	-
Lease interest income	7,398	-	7,398	-
Matching income	-	-	-	62,500
Miscellaneous income	46,592	4,863	51,455	12,334
Investment income	3,167	-	3,167	18,080
Total revenue and other support	656,000	629,152	1,285,152	2,826,014
EXPENSES				
PROGRAM SERVICES:				
Loan programs	576,454	-	576,454	604,003
Housing programs	26,020	-	26,020	11,230
	602,474	-	602,474	615,233
SUPPORTING SERVICES:				
General and administrative	239,643	-	239,643	297,726
Total Expenses	842,117	-	842,117	912,959
Reclassification of Net Assets:				
Net assets released from restriction in satisfaction of purpose restrictions	371,882	(371,882)	-	-
Change in Net Assets	185,765	257,270	443,035	1,913,055
Net Assets, Beginning of Year	12,221,766	7,102,935	19,324,701	17,411,646
Net Assets, End of Year	$ 12,407,531	$ 7,360,205	$ 19,767,736	$ 19,324,701

The accompanying notes are an integral part
of these financial statements.

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2023
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2022

	Program Services					
	Loan Program	**Housing Programs**	**Program Services Total**	**General and Administrative**	**2023 Totals**	**2022 Totals**
Salaries and taxes	$ 236,850	$ -	$ 236,850	$ 140,436	$ 377,286	$ 410,179
Interest expense	152,215	19,973	172,188	-	172,188	126,258
Retirement	77,996	-	77,996	27,236	105,232	88,074
Targeted program expense	40,650	-	40,650	-	40,650	23,500
Professional fees	10,166	9,642	19,808	17,828	37,636	21,408
Employee benefits	22,236	-	22,236	12,009	34,245	33,423
Depreciation	-	-	-	23,632	23,632	23,632
Bad debt expense (recovery)	(14,154)	34,880	20,726	-	20,726	125,019
Travel and conferences	6,572	-	6,572	12,367	18,939	11,604
Repairs and maintenance	9,246	4,650	13,896	41	13,937	6,537
Office supplies	9,842	-	9,842	489	10,331	13,464
Insurance	2,685	1,591	4,276	5,028	9,304	5,773
Filing fee expense	8,082	802	8,884	-	8,884	8,588
Marketing	6,521	-	6,521	-	6,521	6,677
Miscellaneous	5,053	15	5,068	-	5,068	5,310
Property tax	1,968	1,190	3,158	-	3,158	376
Education and training	526	-	526	577	1,103	3,137
Sale of asset	-	(46,723)	(46,723)	-	(46,723)	-
Total expenses	$ 576,454	$ 26,020	$ 602,474	$ 239,643	$ 842,117	$ 912,959

The accompanying notes are an integral part
of these financial statements.

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2023
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2022

	2023	2022
Cash Flows From Operating Activities		
Change in net assets	$ 443,035	$ 1,913,055
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	23,632	23,632
Bad debt expense (recovery)	20,726	125,019
Unrealized (gain) loss on investment	12,015	-
Changes in operating assets and liabilities		
(Increase) decrease in:		
Interest receivable	(3,672)	(5,847)
Other receivables	(12,194)	(389)
Due from other governments	(797)	23,613
Prepaid expense	(1,471)	(244)
Leases receivable	(174,698)	-
Increase (decrease) in:		
Interest payable	10,962	(1,132)
Unearned lease revenue	174,698	
Unearned revenue	-	(500,000)
Accounts payable and accrued expenses	36,449	15,059
Other current liabilities	(27,442)	376
Net cash provided by (used in) operating activities	501,243	1,593,142
Cash Flows From Investing Activities		
Net (increase) decrease in certificates of deposits	-	100,000
Net decrease (increase) in notes receivable	(486,103)	(3,351,673)
Net decrease (increase) in other real estate owned	(124,573)	(5,277)
Net decrease in loan guarantee - certificates of deposit	-	39,882
Net cash provided by (used in) investing activities	(610,676)	(3,217,068)
Cash Flows From Financing Activities		
Proceeds received on notes payable	2,353,925	589,461
Principal payments on notes payable	(430,550)	(894,092)
Net cash provided by (used in) financing activities	1,923,375	(304,631)
Change in cash, cash equivalents and restricted cash	1,813,942	(1,928,557)
Cash, cash equivalents and restricted cash		
Beginning	5,586,488	7,515,045
Ending	$ 7,400,430	$ 5,586,488
Supplemental Disclosures		
Cash payments for:		
Interest	$ 161,226	$ 127,390
Reconciliation of Cash to the Balance Sheet		
Cash and cash equivalents	$ 4,229,119	$ 2,956,019
Restricted cash	3,171,311	2,630,469
	$ 7,400,430	$ 5,586,488

The accompanying notes are an integral part
of these financial statements.

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

The Northeast South Dakota Economic Corporation (NESDEC) was incorporated in 1978 as a not-for-profit corporation. In 2012, NESDEC underwent a branding campaign and is now doing business as GROW South Dakota in combination with the Northeast South Dakota Community Action Program (NESDCAP) and GROW South Dakota.

NESDEC operates under a Board of Directors selected from a twenty-two county geographical area. NESDEC's mission is to stimulate economic opportunities through loans, technical assistance and partnerships.

The primary purpose of NESDEC is to provide financing to small- and medium-sized businesses in its geographical area. NESDEC maintains a variety of revolving loan funds funded through various grant and loan programs. In addition, NESDEC also funds housing and other programs.

Financial Statement Presentation

NESDEC is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with NESDEC's financial statements for the year ended September 30, 2022, from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the statement of cash flows, NESDEC considers all highly liquid securities with an initial maturity date of three months or less to be cash equivalents. Certificates of deposits, regardless of maturity, are not considered to be cash and cash equivalents. Loan guarantee - certificates of deposit are not considered cash or cash equivalents.

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Receivables and Credit Policies

Notes receivable are stated at principal amounts plus accrued interest and are collateralized. Payments on notes receivable that are received after a 10-day grace period are assessed a delinquency fee. Due to the uncertainty regarding collection, delinquency fees are recognized as income when received.

The interest rates charged to the borrowers correspond with the customary rates applicable to Community Development Financial Institutions (CDFIs) and the low-income housing industry. NESDEC considers these rates to be reasonable and of market comparison for non-profit lenders and has not made any adjustment for imputed interest that would be applicable to higher interest rate conventional loans.

A note receivable is considered delinquent when the debtor has missed two or more payments. Loans placed on non-accrual status are determined by the board of directors. Interest resumes when principal on non-accrual status loans has been paid current. Management reviews the status of the past due notes and collection proceedings begin as management deems necessary.

Payments of notes receivable are allocated first to fees, then to accrued and unpaid interest with the remainder to the outstanding principal balance. Interest income is recognized when due.

The carrying amount of notes receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management reviews all notes receivable and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Additionally, management applies a risk rating calculation based upon various factors including collectability, collateral and ability to make payments to the aggregate remaining loan receivables to estimate a general allowance covering those amounts. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. It is at least reasonably possible this estimate will change within the next year.

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the un-collectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. The Department of Agriculture requires a reserve for loan loss of 5% on the outstanding Rural Microentrepreneur Assistance Program (RMAP) loan balances. The Small Business Administration requires a reserve for loan loss of 15% of microloan loan balances.

A loan is considered to be impaired when, based on current information and events, it is probable that NESDEC will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

Lease Receivable

NESDEC is a lessor for leases of a building. NESDEC recognizes a lease receivable and unearned lease revenue.

At the commencement of a lease, NESDEC initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The unearned lease revenue is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. The unearned lease revenue is recognized as revenue over the life of the lease term.

Key estimates and judgments include how NESDEC determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- NESDEC uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

NESDEC monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and unearned lease revenue if certain changes occur that are expected to significantly affect the amount of the lease receivable.

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Property and Equipment

Purchased property and equipment in excess of $10,000 are recorded at cost. Donated property and equipment are valued at estimated fair value on the date donated and are reported as unrestricted contributions when placed in service unless the donor has restricted the use for the asset to a specific purpose or time period. Contributions of cash or other assets that must be used to acquire property and equipment are reported as increases in net assets with donor restrictions until the assets are acquired and placed in service as instructed by the donor, unless the donor has also required that the acquired asset be used for a specific purpose or time period. If the donor requires property and equipment to be used for a specific purpose, restrictions on net assets are released as the asset is depreciated. If the donor requires property and equipment to be used for a specific time period, restrictions on net assets are released evenly over the period required.

Costs in excess of $10,000 for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Costs for maintenance and repairs are charged to expense currently. When depreciable properties are retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in income.

Depreciation is provided for over the estimated useful lives of the individual assets using the straight-line method. The estimated useful lives used in the computation of depreciation are as follows:

	Years
Buildings	7-40
Equipment	5-7
Vehicles	5

Investments

Investments with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Investments, continued

Inputs to the fair value methodology include:

Level 1 — Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date

Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset either directly or indirectly. Level 2 Inputs include the following:

- Quoted prices for similar Assets or Liabilities in active markets;
- Quoted prices for similar Assets or Liabilities in markets that are not active;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs)

If the asset or liability has a specified (or contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability

Level 3 — Inputs are unobservable inputs for the asset or liability.

Investments in equity securities without readily determinable fair value are stated at cost, net of a valuation allowance. NESDEC periodically reviews these securities for possible impairment to determine the level of the valuation allowance.

Foreclosed Property and Other Real Estate Owned

Real estate and other properties acquired through or in lieu of loan foreclosure are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Net Assets

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

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor or certain grantor-imposed restrictions.

- *Net Assets With Donor Restrictions* – Net assets subject to donor or certain grantor-imposed restrictions. Some donor or grantor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor or grantor. Other donor or grantor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor or grantor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resources was restricted has been fulfilled, or both.

Revenue Recognition

Contributions are recognized when cash or other assets are received. NESDEC's grant awards received are for specific purposes and are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when NESDEC has incurred expenses in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenses are reported as unearned revenue in the statement of financial position.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Functional Allocation of Expenses

The costs of program activities and supporting services have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program activities and supporting services benefited.

Fund Raising Activity

NESDEC does not maintain a formal fund raising or solicitation department. Currently, it does not conduct fund raising campaigns, door-to-door solicitations, telethons, mass mailings or special fund raising events. The program directors do, however, compile data and applications necessary to renew and obtain new grants. NESDEC does not track costs associated with this activity, but believes the time and cost for this activity represents a very small percentage of the program directors' time. Accordingly, fund raising expense is not segregated and presented in the financial statements.

Salaries and Benefits

NESDEC does not incur payroll, but reimburses an affiliate for wages and benefits paid for common employees.

Advertising

NESDEC expenses the costs of advertising as incurred.

Income Taxes

NESDEC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, NESDEC qualifies for the charitable contribution deduction under Section 170(b)(10)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Implementation of New Accounting Standard

In 2023, NESDEC implemented the provisions of FASB ASU 2016-02, *Leases* (Topic 842). ASU 2016-02 affects any entity that enters into a lease. The main difference between previous US GAAP and ASU 2016-02 is the recognition of an intangible lease asset and lease liability for the lessee and the recognition of a lease receivable and an unearned revenue for the lessor.

2. LIQUIDITY AND AVAILABILITY

NESDEC regularly monitors liquidity required to meet its operational needs and strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. As part of a liquidity management plan, cash in excess of daily requirements is invested in short-term investments, CDs, and money market funds.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, NESDEC considers contributions restricted for programs which are ongoing, major, and central to its annual operations, as well as the conduct of services undertaken to support those activities to be general expenditures.

Note receivable made without donor restrictions are not included in the analysis as principal on these loans are used to make new loans and are, therefore, not available to meet current operating needs.

In addition to financial assets available to meet general expenditures over the next 12 months, NESDEC anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2023	2022
Cash and cash equivalents	$ 4,229,119	$ 2,956,019
Certificates of deposit	200,000	200,000
Accrued interest receivable	39,750	37,815
Other receivables	-	389
	$ 4,468,869	$ 3,194,223

3. CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, NESDEC's deposits may not be returned. NESDEC maintains cash balances at several financial institutions located in South Dakota. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. In addition, certain financial institutions obtained additional bank deposit guaranty bonds to cover balances not insured by FDIC. As of September 30, 2023, NESDEC cash balances were fully insured and collateralized and not subject to custodial credit risk.

4. ASSET AND LIABILITY COMPONENTS OF DONOR RESTRICED NET ASSETS

a. Cash

Cash components are comprised of balances that are restricted for certain types of loans and related loan losses as follows:

	2023	2022
Rural Development	$ 2,342,003	$ 1,899,180
Other	829,308	731,289
	$ 3,171,311	$ 2,630,469

b. Accrued Interest Receivable

	2023	2022
Rural Development	$ 26,752	$ 25,812
Other	6,131	5,334
	$ 32,883	$ 31,146

c. Other Receivables

	2023	2022
Rural Development	$ 12,583	$ -
Other	-	-
	$ 12,583	$ -

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

4. ASSET AND LIABILITY COMPONENTS OF DONOR RESTRICED NET ASSETS, continued

d. Due From Other Governments

	2023	2022
Rural Development	$ 14,203	$ 5,270
Other	19,303	27,439
	$ 33,506	$ 32,709

e. Other Real Estate Owned

	2023	2022
Rural Development	$ 127,350	$ -
Other	2,500	-
	$ 129,850	$ -

f. Prepaid Assets

	2023	2022
Rural Development	$ 1,715	$ -
Other	-	-
	$ 1,715	$ -

g. Notes Receivable

	2023	2022
Rural Development	$ 9,721,053	$ 9,890,856
Other	1,845,751	1,704,624
Allowance for loan losses	(603,597)	(641,814)
	$ 10,963,207	$ 10,953,666

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

4. ASSET AND LIABILITY COMPONENTS OF DONOR RESTRICED NET ASSETS, continued

h. Current Liabilities

	2023	2022
Rural Development	$ 83,668	$ 87,749
Other	11,757	5,133
	$ 95,425	$ 92,882

i. Notes Payable

	2023	2022
Rural Development	$ 5,152,408	$ 4,852,142
Other	1,737,017	1,600,031
	$ 6,889,425	$ 6,452,173

5. NOTES RECEIVABLE

NESDEC has 286 notes receivable totaling $21,535,463. Interest rates range from 0% to 8.25%. Each note has its own repayment schedule and interest rate. The notes permit principal repayment at any time without penalty.

The purpose of the loan fund is to provide flexible and accessible loans, primarily gap financing, that will strengthen, create, or save businesses and job opportunities. A summary of notes receivable by portfolio category as of September 30, 2023 and 2022 follows:

	2023	2022
Commercial Loans	$ 19,863,546	$ 19,478,888
Housing Loans	1,671,917	1,600,550
Total Loans	21,535,463	21,079,438
Less allowance for loan losses	(1,050,544)	(1,059,896)
Total Notes Receivable, net of Allowances	$ 20,484,919	$ 20,019,542

5. NOTES RECEIVABLE, continued

Allowance for Loan Losses

The following table presents the activity in the allowance for loan losses, including loan guarantees, for the year ended September 30, 2023, by portfolio segment.

Allowance for Loan Losses:	Commercial	Housing	Total
Balance, beginning of year	$ 1,013,829	$ 46,067	$ 1,059,896
Provision (benefit) for loan losses	(54,705)	37,529	(17,176)
Net recoveries (charge offs)	7,824	-	7,824
Balance, end of year	$ 966,948	$ 83,596	$ 1,050,544

NESDEC individually reviews each loan where all or a portion of the balance exceeds 90 days past due. Based on the assessment of the borrower's current creditworthiness, NESDEC adjusts the borrowers risk category which is used to calculate the portion, if any, of the balance that will not be collected. Additionally, on the aggregate remaining loan receivables, NESDEC estimates an allowance covering those amounts not specifically identified based on the risk category assigned at the borrower's last loan update.

The ending balance as of September 30, 2023 in the allowance for loan loss is attributed to loans evaluated individually and loans evaluated collectively as follows:

	Allowance for Loan Losses		
	Commercial	Housing	Total
Individually evaluated for impairment	$ 78,798	$ -	$ 78,798
Collectively evaluated for impairment	888,150	83,596	971,746
Balance, end of year	$ 966,948	$ 83,596	$ 1,050,544

The balance of loans as of September 30, 2023 evaluated individually and loans evaluated collectively are as follows:

	Notes Receivable Balances		
	Commercial	Housing	Total
Individually evaluated for impairment	$ 495,797	$ -	$ 495,797
Collectively evaluated for impairment	19,367,749	1,671,917	21,039,666
Balance, end of year	$ 19,863,546	$ 1,671,917	$ 21,535,463

5. NOTES RECEIVABLE, continued

Credit Quality Indicators

NESDEC categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt including current financial information, historical payment experience, collateral adequacy, credit documentation, public information, current economic trends, and other factors. NESDEC analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger loans such as business loans. This analysis is performed on an ongoing basis as new information is obtained. NESDEC uses the following definitions for risk ratings:

Prime - Loans with a rating of prime are very low risk. The borrower is in a strong financial position and able to withstand adversity to the business. The business owner typically has a very high credit score, a track record of proven management ability, strong character and there is adequate collateral for the loan or loans. Repayment ability is proven by borrower's financial history and there is adequate cash flow to show a margin for adversity.

Desirable - Loans with this rating present a lower risk to NESDEC than many other loans but they are not as strong as loans rated prime. Losses from loans in this category would be rare. These loans are generally strong in all areas but are more subject to adversity than prime loans. There may be one or more areas with some minor weakness or vulnerabilities.

Satisfactory - These are average loans for NESDEC's portfolio. They are strong enough to show repayment and collateral coverage but typically show one or more weaknesses. There may be narrow margins for repayment and collateral coverage. The credit scores for the principals may be average or slightly below average. Adversity can quickly affect this type of loan and result in a lower risk rating when updated.

Watch - These loans have one or more definite weaknesses, which may include factors such as a lack of sufficient collateral, weaker cash flows, management weaknesses, poor credit ratings of the principal owners/managers or other risks. Loans with this initial risk rating should not be made unless there are ways identified to reduce NESDEC's risk such as additional collateral, other supporting income or a strong guarantor.

Doubtful - New applications with this rating should not be approved. Existing loans with this rating have proven to be high risk by their performance. They are past due or cannot reasonably demonstrate the ability to repay the loan. Collateral is often inadequate, deteriorated or missing. Loans with this risk rating assigned are typically already having problems with repayment. A loan rated doubtful has a reasonable chance for at least partial repayment.

5. NOTES RECEIVABLE, continued

Projected Loss - A loan designated as projected loss means our best estimate shows NESDEC will experience a partial or total loss of its loan funds. These loans have similar risk characteristics as the Doubtful category. The primary difference is that loan officers are able to make a reasonable estimate of what the expected loss will be. Projected loss loans should be presented to the board for partial or complete charge off.

NESDEC categorizes housing loans into the satisfactory risk category because of the first mortgage collateral position on residential loans. Satisfactory rated loans require the minimum 5% reserve.

Credit Risk Profile by Internally Assigned Grade

Based on the most recent analysis performed, the risk category of loans by class of loans as of September 30, 2023 is as follows:

	Commercial	Housing	Total
Prime	$ 3,125,668	$ -	$ 3,125,668
Desirable	7,782,031	-	7,782,031
Satisfactory	6,922,824	1,671,917	8,594,741
Watch	1,993,962	-	1,993,962
Doubtful	39,061	-	39,061
Projected Loss	-	-	-
Total	$ 19,863,546	$ 1,671,917	$ 21,535,463

Credit Risk Profile by Class Based on Payment Activity

Commercial and housing loans are managed on an individual basis. Loans that are delinquent 90 days or more or are not accruing interest are considered nonperforming. The following table presents the recorded investments in loans by class based on payment activity as of September 30, 2023:

	Performing	Nonperforming	Total
Commercial	$ 19,511,051	$ 352,495	$ 19,863,546
Housing	1,671,917	-	1,671,917
Total	$ 21,182,968	$ 352,495	$ 21,535,463

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

5. NOTES RECEIVABLE, continued

The following table summarizes the aging of the past due loans by loan class within the portfolio segments as of September 30, 2023:

		Still Accruing		
	Current	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual Balance
Commercial	$ 19,472,814	$ 38,237	$ 316,554	$ 35,941
Housing	1,671,917	-	-	-
Total	$ 21,144,731	$ 38,237	$ 316,554	$ 35,941

Impaired loans are loans assigned to a risk category of "doubtful" or "projected loss". The following table summarizes individually impaired loans by class of loans as of September 30, 2023:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With an allowance recorded:				
Commercial	$ 495,797	$ 495,797	$ 78,798	$ 173
Housing	-	-	-	-
Total	$ 495,797	$ 495,797	$ 78,798	$ 173

There are no impaired loans without an allowance recorded.

The following table presents NESDEC's impaired and nonaccrual loans as of September 30, 2023 and 2022:

	2023	2022
Impaired loans with a valuation allowance	$ 495,797	$ 362,989
Total impaired loans	495,797	362,989
Valuation allowance related to impaired loans	78,798	71,953
Total nonaccrual loans	35,941	83,439
Total loans 90 days or more past due and still accruing	316,554	45,026
Total loans 30-89 days past due and still accruing	38,237	508,410
Average investment in impaired loans	4,340	130,240
Interest income recognized on impaired loans	173	3,526

5. NOTES RECEIVABLE, continued

Loan Modifications and Troubled Debt Restructuring

Modifications of terms for loans and their inclusion as troubled debt restructurings are based on individual facts and circumstances. Loan modifications that are included as troubled debt restructurings may involve reduction of the interest rate or renewing at an interest rate below current market rates, extension of the term of the loan and/or forgiveness of principal, regardless of the period of modification.

The following table represents the effects of the troubled debt restructuring during the year ended September 30, 2023:

	Number of Contracts	Outstanding Recorded Investment Pre-Modification	Outstanding Recorded Investment Post-Modification
Troubled debt restructurings:			
Commercial	24	$ 495,797	$ 495,797
Housing	-	-	-
Troubled debt restructurings that subsequently defaulted:			
Commercial	14	396,743	396,743
Housing	-	-	-

During the year ended September 30, 2023, the concessions granted to certain borrowers included extending the payment due dates and lowering the contractual interest rate and did not include reducing accrued interest or reducing the debt's face or maturity amount.

At the time of the restructuring, the loan is evaluated for an asset-specific allowance for credit losses. NESDEC continues to specifically reevaluate the loan in subsequent periods, regardless of the borrower's performance under the modified terms. If the loan defaults after restructuring it is written off with board approval.

6. LEASES

Leases Receivable

NESDEC owns a building that it is leasing on a long-term basis to a related party. The term of the lease is ten years at a discount rate of 4%. The lease receivable is offset by revenue received in advance.

6. LEASES, continued

Lease income consists of the following:

	2023	2022
Interest income on lease receivable	$ 7,398	$ -
Fee income on lease receivable	18,102	-
	$ 25,500	$ -

Future maturities of noncancelable lease receivable at September 30, 2023 are as follows:

2024	$ 20,383
2025	21,213
2026	22,078
2027	22,977
2028	23,913
Thereafter	64,134
	$ 174,698

7. PROPERTY AND EQUIPMENT

Property and equipment is as follows:

	2023	2022
Buildings	$ 836,417	$ 836,417
Land	142,506	142,506
Office equipment	22,771	22,771
	1,001,694	1,001,694
Less: accumulated depreciation	(347,875)	(324,243)
	$ 653,819	$ 677,451

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

8. INVESTMENTS

Securities With Readily Determinable Fair Value

Fair value of investments measured on a recurring basis at September 30, 2023, are as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value Balance at 9/30/2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
CDC Bancshares, Inc	$2,042,088	$ -	$ 2,042,088	$ -
	$2,042,088	$ -	$ 2,042,088	$ -

NESDEC owns an interest in CDC Bancshares, Inc. at a total cost of $1,402,670. The entity is a bank holding company organized under the laws of the state of Minnesota. The holding company owns Community Development Bank. As of September 30, 2023 and 2022, CDC Bancshares, Inc. is valued as follows:

	2023	2022
CDC Bancshares, Inc.	$ 1,402,670	$ 1,402,670
Cumulative unrealized gain (loss)	639,418	639,418
	$ 2,042,088	$ 2,042,088

An appraisal of fair value, with a measurement date of June 30, 2021, was used to establish the value at September 30, 2023.

Investment return for the years ended September 30, 2023 and 2022 is as follows:

	2023	2022
Dividends/Distributions	$ 2,987	$ 2,987
Unrealized gain	-	-
	$ 2,987	$ 2,987

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

8. INVESTMENTS, continued

Securities Without Readily Determinable Fair Value

NESDEC has an investment in Great Opportunities, LLC, a South Dakota Limited Liability Company, formed in 2007. Great Opportunities selectively provides seed funding for start-up companies in need of equity capital. In 2021, the LLC was dissolved and the investment was exited. This investment is carried at cost, net of the valuation allowance, which is now zero.

NESDEC has an investment in Prairie Gold Fund I LP, a Limited Partnership, formed in 2003. Prairie Gold selectively provides seed funding for startup companies in need of equity capital. This investment is carried at cost, net of the valuation allowance.

NESDEC has an investment in Hancock Holdings LLC, a Limited Liability Company, formed in 2010. Hancock Holding LLC owns real estate leased to the Hancock branch of Community Development Bank. This investment is carried at cost, net of the valuation allowance.

At September 30, 2023 and 2022, securities without readily determinable fair value consisted of the following:

2023	Great Opportunities	Hancock Holdings	Prairie Gold	Total
Cost	$ 75,000	$ 150,000	$ 104,718	$ 329,718
Valuation allowance	(75,000)	-	(104,718)	(179,718)
	$ -	$ 150,000	$ -	$ 150,000

2022	Great Opportunities	Hancock Holdings	Prairie Gold	Total
Cost	$ 75,000	$ 150,000	$ 104,718	$ 329,718
Valuation allowance	(75,000)	-	(92,703)	(167,703)
	$ -	$ 150,000	$ 12,015	$ 162,015

8. INVESTMENTS, continued

Investment return is summarized as follows:

2023	Great Opportunities	Hancock Holdings	Prairie Gold	Total
Dividends/Distribution	$ 194	$ 12,000	$ -	$ 12,194
Allowance provision	-	-	-	-
	$ 194	$ 12,000	$ -	$ 12,194

2022	Great Opportunities	Hancock Holdings	Prairie Gold	Total
Dividends/Distribution	$ 93	$ 15,000	$ -	$ 15,093
Allowance provision	-	-	-	-
	$ 93	$ 15,000	$ -	$ 15,093

9. NOTES PAYABLE

Notes payable as of September 30, 2023 and 2022 consisted of the following:

	2023	2022
Dakota Resources, annual interest only payments, 3.5 % interest, due December 1st, principal due on December 1, 2032, uncollateralized.	$ 1,500,000	$ -
Community Development Financial Institutions, Financial Assistance, semi-annual interest only payments, 1.95% interest, principal due in three annual payments beginning on December 31, 2025, with final payment due	1,389,975	1,389,975
Northwest Area Foundation, annual interest only payments, 1% interest, final interest payment and principal due March 31, 2025	1,000,000	1,000,000

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

9. NOTES PAYABLE, continued

	2023	2022
Rural Development, collateralized by security interest in loans made with the proceeds of this loan, annual installments of $31,838, (interest payments only for first three years), 1% interest, final payment due on April 5, 2052	867,380	249,580
Wells Fargo Community Development Corporation - subordinated loan, quarterly interest payments only, 2.0% interest, principal due July 8, 2024, uncollateralized	750,000	750,000
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of $23,555 (interest payments only for the first three years), 1% interest, final payment due on May 1, 2049	536,874	554,845
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of $31,838, (interest payments only for first three years), 1% interest, final payment due on June 25, 2040	495,366	521,985
Rural Development, Rural Microentrepreneur Assistance Program (RMAP), collateralized by security interest in loans made with the proceeds of this loan, 1% interest, P&I payments of $2,536 beginning July 31, 2022 with final payment due July 31, 2040	473,276	496,689
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual interest payment to October 10, 2011, annual installments of $31,838 start October 10, 2012, 1% interest, final payment due October 10, 2039	468,484	495,368

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

9. NOTES PAYABLE, continued

	2023	2022
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of $31,838, (interest payments only for first three years), 1% interest, final payment due on March 14, 2037	413,904	441,329
SBA, collateralized by security interest in loans made with the proceeds of this loan, monthly installments of $4,659, 0.125% interest, final payment due April 7, 2030	366,273	421,650
Rural Development, collateralized by security interest in loans made with the proceeds of this loan, annual installments of $31,838, (interest payments only for first three years), 1% interest, final payment due June 7, 2035	358,600	386,573
Community Development Financial Institutions, Financial Assistance, semi-annual interest only payments, 2.24% interest, principal due in six semi-annual payments beginning on June 30, 2029, with final payment due April 4, 2032.	332,293	332,293
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of $16,980, (interest payments only for first three years), 1% interest, final payment due on October 1, 2042	306,267	320,046
Rural Development, collateralized by security interest in loans made with the proceeds of this loan, annual installments of $31,838 (interest payments only for first three years), 1% interest, final payment due August 14, 2033	301,437	329,975

9. NOTES PAYABLE, continued

	2023	2022
Rural Development, collateralized by security interest in loans made with the proceeds of this loan, annual installments of $42,450, (interest payments only for first three years), 1% interest, final payment due October 8, 2028	245,886	285,481
Rural Development, collateralized by security interest in loans made with the proceeds of this loan, annual installments of $31,838, (interest payments only for first three years), 1% interest, final payment due February 15, 2031	243,490	272,602
Rural Development, Rural Microentrepreneur Assistance Program (RMAP), collateralized by security interest in loans made with the proceeds of this loan, monthly principal and interest payments of $2,842, 2% interest, final payment due December 20, 2030	227,344	254,167
Wells Fargo Community Investment Holdings - Subordinated loan, quarterly interest payments only 2.0% interest, principal due July 27, 2027, uncollateralized	250,000	250,000
SBA, collateralized by security interest in loans made with the proceeds of this loan, monthly installments of $5,287, 2.875% interest, final payment due April 11, 2033.	250,000	-
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of $31,838, (interest payments only for first three years), 1% interest, final payment due on February 10,	214,100	243,503

9. NOTES PAYABLE, continued

	2023	2022
SBA, collateralized by security interest in loans made with the proceeds of this loan, monthly installments begin in month 13 and are calculated based on current balance, 0.375%, final payment due October 14, 2025	120,744	178,382
Venture Communications Cooperative, annual interest only payments, 1% interest, due February 1st; principal due at maturity on February 1, 2026.	100,000	100,000
Dacotah Bank, annual interest only payments, 2% interest, due June 7th; principal due at maturity on June 7, 2028, uncollateralized	50,000	50,000
Total	11,261,693	9,941,886
Less: Current portion	(465,571)	(436,857)
Less: Unamortized debt issuance costs	(13,875)	-
	$10,782,247	$ 9,505,029

Interest expense for the year ending September 30, 2023 and 2022, respectively, was $172,188 and $126,258.

The estimated minimum principal payments due in the next five years are as follows:

2024	$ 465,571
2025	2,252,867
2026	1,131,529
2027	1,114,381
2028	960,996
Thereafter	5,336,349
Less: unamortized debt issuance costs	(13,875)
	$11,247,818

10. COMMITMENTS, CONTINGENT LIABILITIES AND CONCENTRATION OF CREDIT RISK

NESDEC participates in a number of federal and private grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Compliance with applicable grant requirements for grants whose grant periods have not expired will be established at some future date. In the opinion of management, the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although they expect such amounts, if any, to be immaterial.

NESDEC, as part of its normal business operations, grants credit in the form of notes receivable to businesses located primarily in the northeastern South Dakota area. The maximum amount of loss due to credit risk is equal to the outstanding balance on the notes. Risk ratings are reviewed annually on all notes, which include assessment of collateral and financial condition of the business. Allowances for loan losses are calculated from the risk ratings. NESDEC's policy is to review collateral and financial statements of the businesses on an annual basis. Collateral is required on all loans, typically a first lien or shared first lien on assets. NESDEC seeks to obtain the most secure position possible, including collateral such as inventory, equipment, accounts receivable, mortgages, vehicle liens and personal guarantees.

11. RELATED PARTY TRANSACTIONS

Northeast South Dakota Community Action Program (NESDCAP) is a nonprofit organization that promotes health, education and social and economic welfare to low-income, minority and disadvantage persons. NESDEC employees are also employed by NESDCAP. NESDEC reimburses NESDCAP for salaries, employee benefits and various administrative and program costs which amounted to approximately $547,987 and $560,059 for the years ended September 30, 2023 and 2022, respectively.

NESDCAP leases office and storage space from NESDEC on annual leases. Total lease payments under these leases during the year ended September 30, 2023 and 2022, were $29,700 and $24,000, respectively.

Grow South Dakota is a not-for-profit corporation formed to promote and foster economic, housing, and educational development in distressed communities and underserved markets in South Dakota and to purposefully serve low to moderate income individuals and communities. A minority of Grow South Dakota board members also serve on the NESDEC board. NESDEC reimburses Grow South Dakota for various administrative costs which amounted to approximately $248 and $990 for the years ended September 30, 2023 and 2022, respectively.

11. RELATED PARTY TRANSACTIONS, continued

NESDEC has a direct loan receivable totaling $3,826 with a board member. The lending expertise of the board members is utilized in assessing NESDEC's loan portfolio.

NESDEC has a direct loan receivable totaling $1,000,000 with Grow South Dakota, an affiliate. Interest earned on this loan during the years ended September 30, 2023 and 2022, was $30,000 and $30,000, respectively.

12. RETIREMENT PLAN

NESDCAP, an affiliate of NESDEC, maintains a defined contribution Simplified Employee Pension Plan. Substantially, all employees meeting certain eligibility requirements are covered by this plan. NESDCAP may contribute up to 15% of total employee compensation to the plan; however, the Board has set the percentage at 10%. Total employer contributions to this plan were $188,750 for the fiscal year ended September 30, 2023, of which NESDEC paid $105,232.

13. SUBSEQUENT EVENTS

Events occurring after September 30, 2023, were evaluated by management on December 29, 2023, the date the financial statements were available to be issued, to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There are no significant subsequent events needing disclosure.

SUPPLEMENTARY INFORMATION

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2023

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Assistance Listing Number	Disbursements/ Expenditures
U.S. SMALL BUSINESS ADMINISTRATION		
Direct Funding:		
Microloan Program - Project Grant (SBAOCAML220367-01-00)	59.046	$ 80,479
Microloan Program - Project Grant (SBAOCAML230508-01-00)	59.046	19,304
Microloan Program - Direct Loans - Note 3	59.046	850,031
Total U.S. Small Business Administration		949,814
U.S. DEPARTMENT OF AGRICULTURE - RURAL DEVELOPMENT		
Direct Funding:		
Intermediary Relending Program - Note 3	10.767	4,719,087
Rural Microentrepreneur Assistance Program - Project Grant	10.870	20,221
Rural Microentrepreneur Assistance Program - Direct Loans - Note 3	10.870	750,856
Total U.S. Department of Agriculture - Rural Development		5,490,164
Total Federal Funding		$ 6,439,978

Note 1: Basis of Presentation
This accompanying Schedule of Expenditures of Federal Awards (the schedule) includes the federal award activity of the Northeast South Dakota Economic Corporation under programs of the federal government for the year ended September 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Northeast South Dakota Economic Corporation, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of the organization.

Note 2: 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 Northeast South Dakota Economic Corporation has not elected to use the 10% de minimis cost rate.

Note 3: Federal Loan Programs
The outstanding balances of federal loans at September 30, 2023 were as follows:

	Assistance Listing Number	Outstanding Balance
U.S. Department of Agriculture - Intermediary Relending Program	10.767	$ 4,451,788
U.S. Department of Agriculture - Rural Microentrepreneur Assistance Program	10.870	700,620
U.S. Department of Treasury - Community Development Financial Institutions Program	21.020	1,722,268
U.S. Small Business Administration	59.046	737,017
		$ 7,611,693

Wohlenberg Ritzman & Co., LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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*

To the Board of Directors
Northeast South Dakota Economic Corporation
dba GROW South Dakota
Sisseton, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Northeast South Dakota Economic Corporation dba GROW South Dakota (a nonprofit organization, hereafter referred to as "NESDEC"), which comprise the statement of financial position as of September 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 29, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NESDEC's internal control over financial reporting (internal control) as a basis for designing 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 NESDEC's internal control. Accordingly, we do not express an opinion on the effectiveness of NESDEC'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 entity'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.

MADISON OFFICE: 205 North Egan Ave. | PO Box 505 | Madison, SD 57042 | (605) 256-9165
YANKTON OFFICE: 207 Douglas Ave. | PO Box 1018 | Yankton, SD 57078 | (605) 665-4401
SIOUX FALLS OFFICE: 3600 S Westport, Suite 101 | Sioux Falls, SD 57106 | (605) 336-0372
EMAIL: wrc@wrccpa.com
TOLL FREE: 1-800-456-0889
FAX #: (605) 665-0592

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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
December 29, 2023

Wohlenberg Ritzman & Co., LLC
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors
Northeast South Dakota Economic Corporation
dba GROW South Dakota
Sisseton, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Northeast South Dakota Economic Corporation dba GROW South Dakota's (a nonprofit organization, hereafter referred to as "NESDEC") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on NESDEC's major federal programs for the year ended September 30, 2023. NESDEC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, NESDEC complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended September 30, 2023.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of NESDEC and to meet our ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of NESDEC's compliance with the compliance requirements referred to above.

MADISON OFFICE: 205 North Egan Ave. | PO Box 505 | Madison, SD 57042 | (605) 256-9165
YANKTON OFFICE: 207 Douglas Ave. | PO Box 1018 | Yankton, SD 57078 | (605) 665-4401
SIOUX FALLS OFFICE: 3600 S Westport, Suite 101 | Sioux Falls, SD 57106 | (605) 336-0372
EMAIL: wrc@wrccpa.com
TOLL FREE: 1-800-456-0889
FAX #: (605) 665-0592

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to NESDEC's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on NESDEC's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards,* and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about NESDEC's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards,* and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding NESDEC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of NESDEC's internal control over compliance relevant to the audit to design audit procedures that are appropriate in the circumstances 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 NESDEC's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
December 29, 2023

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
SEPTEMBER 30, 2023

SECTION II – FINANCIAL STATEMENT AUDIT

There were no prior financial statement audit findings reported.

SECTION III – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no prior major federal award program findings reported.

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2023

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified?		yes	X	no
Significant deficiency(ies) identified?		yes	X	none reported
Noncompliance material to financial statements noted?		yes	X	no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?		yes	X	no
Significant deficiency(ies) identified?		yes	X	none reported

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

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance 2 CFR 200.516(a)?		yes	X	no

Identification of major programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
10.767	Intermediary Relending Program

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

Auditee qualified as low-risk auditee?	X	yes		no

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
YEAR ENDED SEPTEMBER 30, 2023

SECTION II – FINANCIAL STATEMENT AUDIT

There are no financial statement audit findings reported.

SECTION III – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There are no major federal award program findings reported.