

**NORTHEAST SOUTH DAKOTA
COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
WITH SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2018

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

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*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northeast South Dakota Community Action Program, Inc.
dba GROW South Dakota
Sisseton, South Dakota

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **Northeast South Dakota Community Action Program dba GROW South Dakota (a nonprofit organization, hereafter referred to as NESDCAP)**, which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NESDCAP as of September 30, 2018, 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.

Report on Summarized Comparative Information

We have previously audited NESDCAP's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 22, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules per location and schedules for NeighborWorks America are presented for additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of NESDCAP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, 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 results 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 NESDCAP's internal control over financial reporting and compliance.

Wohlschlag Ritzman + Co., LLC

Yankton, South Dakota
December 21, 2018

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 SEPTEMBER 30, 2018
 WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 2,794,261	\$ 87,096	\$ 43,849	\$ 2,925,206	\$ 2,019,079
Receivable from affiliate	83,155	-	-	83,155	78,596
Other receivables	8,708	1,350	-	10,058	826
Current portion of notes receivable, net of allowance for loan losses of \$6,098 in 2018 and \$10,269 in 2017	102,156	-	12,879	115,035	194,305
Grant receivable	20,400	136,280	-	156,680	349,353
Accrued interest receivable	13,403	-	-	13,403	13,625
Prepaid expenses	17,266	-	-	17,266	17,266
Total current assets	<u>3,039,349</u>	<u>224,726</u>	<u>56,728</u>	<u>3,320,803</u>	<u>2,673,050</u>
LONG-TERM RECEIVABLES:					
Notes receivable, less allowance for loan losses of \$249,485 in 2018 and \$241,456 in 2017					
current maturities	4,069,785	-	535,582	4,605,367	4,450,087
Total long-term receivables	<u>4,069,785</u>	<u>-</u>	<u>535,582</u>	<u>4,605,367</u>	<u>4,450,087</u>
OTHER ASSETS:					
Investments	-	13,625	-	13,625	21,075
Property and equipment, net	263,369	-	-	263,369	287,285
Cash, reserve for replacement of property	-	12,684	-	12,684	24,860
Total other assets	<u>263,369</u>	<u>26,309</u>	<u>-</u>	<u>289,678</u>	<u>333,220</u>
Total Assets	<u>\$ 7,372,503</u>	<u>\$ 251,035</u>	<u>\$ 592,310</u>	<u>\$ 8,215,848</u>	<u>\$ 7,456,357</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	\$ 10,275	\$ 66,216	\$ -	\$ 76,491	\$ 66,862
Accrued expenses	261,209	112	-	261,321	213,782
Security deposits	5,347	-	-	5,347	3,675
Unearned revenue	-	75,533	-	75,533	76,060
Current portion of notes payable	7,614	-	-	7,614	124,561
Total current liabilities	<u>284,445</u>	<u>141,861</u>	<u>-</u>	<u>426,306</u>	<u>484,940</u>
LONG-TERM LIABILITIES					
Notes payable, less current maturities	1,507,773	21,075	-	1,528,848	1,418,716
Total long-term liabilities	<u>1,507,773</u>	<u>21,075</u>	<u>-</u>	<u>1,528,848</u>	<u>1,418,716</u>
Total Liabilities	<u>1,792,218</u>	<u>162,936</u>	<u>-</u>	<u>1,955,154</u>	<u>1,903,656</u>
NET ASSETS					
Permanently restricted	-	-	592,310	592,310	846,156
Temporarily restricted	-	88,099	-	88,099	100,138
Unrestricted	5,580,285	-	-	5,580,285	4,606,407
	<u>5,580,285</u>	<u>88,099</u>	<u>592,310</u>	<u>6,260,694</u>	<u>5,552,701</u>
Total Liabilities and Net Assets	<u>\$ 7,372,503</u>	<u>\$ 251,035</u>	<u>\$ 592,310</u>	<u>\$ 8,215,848</u>	<u>\$ 7,456,357</u>

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

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2018
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017

	<u>2018</u>			<u>2017</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT:					
Grant income	\$ 635,300	\$ 1,618,954	\$ -	\$ 2,254,254	\$ 2,344,773
Protective payee income	-	-	-	-	-
Interest income	200,630	-	-	200,630	174,650
Rent income	62,025	-	-	62,025	59,193
Housing fee income	50,693	1,963	-	52,656	95,211
Miscellaneous income	67,113	11,042	-	78,155	77,348
Gain (loss) on the disposal of property & equipment	-	572	-	572	(40,547)
Provision for valuation allowance - investments	-	(3,200)	-	(3,200)	(2,500)
Net assets released from restrictions					
Restrictions satisfied by payments	<u>1,895,216</u>	<u>(1,641,370)</u>	<u>(253,846)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>2,910,977</u>	<u>(12,039)</u>	<u>(253,846)</u>	<u>2,645,092</u>	<u>2,708,128</u>
EXPENSES					
PROGRAM SERVICES:					
Weatherization	662,220	-	-	662,220	603,870
Business development	208,649	-	-	208,649	201,852
Self sufficiency	38,673	-	-	38,673	66,222
Housing improvement	603,640	-	-	603,640	995,337
Emergency assistance	<u>149,852</u>	<u>-</u>	<u>-</u>	<u>149,852</u>	<u>128,202</u>
	1,663,034			1,663,034	1,995,483
SUPPORTING SERVICES:					
Management and general	<u>274,065</u>	<u>-</u>	<u>-</u>	<u>274,065</u>	<u>289,404</u>
Total Expenses	<u>1,937,099</u>	<u>-</u>	<u>-</u>	<u>1,937,099</u>	<u>2,284,887</u>
Increase in Net Assets	973,878	(12,039)	(253,846)	707,993	423,241
Net Assets, Beginning of Year	<u>4,606,407</u>	<u>100,138</u>	<u>846,156</u>	<u>5,552,701</u>	<u>5,129,460</u>
Net Assets, End of Year	<u>\$ 5,580,285</u>	<u>\$ 88,099</u>	<u>\$ 592,310</u>	<u>\$ 6,260,694</u>	<u>\$ 5,552,701</u>

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

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED SEPTEMBER 30, 2018
 WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017

	2018						Supporting Services	Total Expenses	
	Program Services								
	Weatherization	Business Development	Self Sufficiency	Housing	Emergency Assistance	Total			
Salaries	\$ 117,555	\$ 136,298	\$ 26,318	\$ 204,775	\$ 37,139	\$ 522,085	\$ 163,810	\$ 685,895	\$ 803,035
Contractual	204,705	23	-	56,625	44	261,397	79	261,476	304,584
Materials	200,329	-	-	35,238	-	235,567	-	235,567	260,271
Other Program Expenses	170	1,247	-	49,808	65,071	116,296	2,598	118,894	128,330
Milbank 16 Plex Expenses	-	-	-	100,834	-	100,834	-	100,834	100,909
Employee benefits	11,315	18,203	4,641	7,939	3,156	45,254	19,628	64,882	92,421
Insurance	23,310	3,126	-	9,449	6,054	41,939	10,870	52,809	51,343
Payroll taxes	9,277	9,791	2,002	14,716	2,716	38,502	12,386	50,888	58,314
Travel Expenses	9,827	6,132	72	28,041	357	44,429	6,085	50,514	53,373
Repairs and maintenance	24,229	2,983	1,214	10,367	3,346	42,139	6,008	48,147	53,462
Utilities	14,561	1,821	-	10,004	3,526	29,912	8,577	38,489	32,362
Rent Expense	5,542	6,579	1,459	7,599	3,713	24,892	11,108	36,000	35,500
Retirement	6,184	12,283	2,024	3,641	1,719	25,851	8,684	34,535	43,435
Training	6,573	1,311	-	14,984	294	23,162	3,152	26,314	27,583
Supplies	345	2,701	291	14,379	2,894	20,610	5,196	25,806	51,680
Interest Expense	-	-	-	20,000	-	20,000	-	20,000	20,000
Professional Fees	11,665	-	-	1,645	-	13,310	5,158	18,468	27,468
Food Commodities Used	-	-	-	-	17,738	17,738	-	17,738	18,774
Program Supplies	13,383	250	-	-	-	13,633	-	13,633	11,679
Bad Debt Expense (recoveries)	-	-	-	8,521	-	8,521	-	8,521	73,347
Telephone	153	1,320	652	2,627	1,303	6,055	2,339	8,394	9,502
Depreciation	-	-	-	-	-	-	6,981	6,981	9,412
Marketing	232	4,006	-	75	63	4,376	114	4,490	5,525
Equipment Purchased	2,780	-	-	-	-	2,780	-	2,780	4,370
Memberships	36	357	-	1,348	303	2,044	545	2,589	4,110
Postage	49	218	-	1,025	416	1,708	747	2,455	4,098
	<u>\$ 662,220</u>	<u>\$ 208,649</u>	<u>\$ 38,673</u>	<u>\$ 603,640</u>	<u>\$ 149,852</u>	<u>\$ 1,663,034</u>	<u>\$ 274,065</u>	<u>\$ 1,937,099</u>	<u>\$ 2,284,887</u>

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

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2018
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 707,993	\$ 423,241
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	44,509	47,929
Provision for the allowance for loan losses	8,521	73,347
Value of commodities used	(17,738)	(18,774)
Provision for valuation allowance - investments	3,200	2,500
Loss (gain) on sale of property and equipment	(572)	(40,897)
Value of commodities received	17,738	18,774
Changes in operating assets and liabilities		
(Increase) decrease in:		
Receivables from affiliate	(4,559)	(17,359)
Other receivables	(9,232)	1,324
Grants receivable	192,673	(174,035)
Accrued interest receivable	222	2,601
Prepaid expenses	(0)	(3,165)
Inventory held for resale	-	115,761
Foreclosed property	-	36,722
Increase (decrease) in:		
Accounts payable	9,629	(36,533)
Accrued expenses	47,539	17,766
Security deposits	1,672	(325)
Unearned revenue	(527)	7,441
Net cash provided by operating activities	<u>1,001,068</u>	<u>456,318</u>
Cash Flows From Investing Activities		
Change in funded account for replacement of property	12,176	6,953
Net (increase) in Notes Receivable	(84,532)	(975,046)
Purchase of property and equipment	(20,592)	(1,755)
Proceeds from investment dividend	4,250	-
Proceeds from the sale of property and equipment	572	40,897
Net cash (used in) investing activities	<u>(88,126)</u>	<u>(928,951)</u>
Cash Flows From Financing Activities		
Proceeds received from issuance of notes payable	120,186	-
Principal payments on notes payable	(127,001)	(36,915)
Net cash (used in) financing activities	<u>(6,815)</u>	<u>(36,915)</u>
Increase (decrease) in Cash, Cash Equivalents and Restricted Cash	<u>906,127</u>	<u>(509,548)</u>
Cash, Cash Equivalents and Restricted Cash		
Beginning	<u>2,019,079</u>	<u>2,528,627</u>
Ending	<u>\$ 2,925,206</u>	<u>\$ 2,019,079</u>
Supplemental Disclosures		
Cash payments for:		
Interest	<u>\$ 28,322</u>	<u>\$ 28,443</u>
Reconciliation of Cash to the Balance Sheet		
Cash and cash equivalents - Unrestricted	\$ 2,794,261	\$ 1,987,000
Cash and cash equivalents - Temporarily Restricted	87,096	-
Cash and cash equivalents - Permanently Restricted	43,849	32,079
	<u>\$ 2,925,206</u>	<u>\$ 2,019,079</u>

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

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

The Northeast South Dakota Community Action Program, Inc. (NESDCAP) was incorporated in 1966 as a not-for-profit corporation. In 2012, NESDCAP underwent a branding campaign and is now doing business as GROW South Dakota in combination with the Northeast South Dakota Economic Corporation (NESDEC) and GROW South Dakota.

NESDCAP operates under a Board of Directors selected from the geographical area below. NESDCAP was formed to reduce poverty, revitalize low-income communities, and empower low-income individuals and families to become self-sufficient. The Corporation develops and administers programs to be participated in by the low-income residents of Marshall, Roberts, Day, Faulk, Hand, Spink, Beadle, Brown, Edmunds, McPherson, Campbell, Potter, Walworth, Sully, Hyde, Hughes and Stanley counties. The Corporation is at all times responsible for the needs of low-income residents and services as an advocate and vehicle for low-income interest and concerns in the geographic service area.

NESDCAP formed Milbank Apartments, LLC for the purpose of acquiring a sixteen unit rental housing complex in Milbank, South Dakota.

Principles of Consolidation

The consolidated financial statements of NESDCAP are prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. The consolidated financial statements include the operations of NESDCAP and its wholly-owned subsidiary, Milbank Apartments, LLC.

Basis of Presentation

The accounts of NESDCAP are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standard Codification (ASC). Under the ASC, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2018

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

The accounts of NESDCAP are reported in the following fund groups:

- Unrestricted net assets - resources that are available for general operating activities and any purpose as determined by the Board of Directors.
- Temporarily restricted net assets - resources which are temporarily restricted for specific purposes by a donor, grantor, or other outside party.
- Permanently restricted net assets - resources that are permanently restricted for a specific purpose by a donor, grantor, or other outside party.

Permanently Restricted Support

NeighborWorks America released \$253,846 from restrictions during the year ended September 30, 2018. Grants received in prior years are permanently restricted, although proceeds on capital projects or interest earned over and above the corpus may be transferred to unrestricted net assets for furthering the NESDCAP's mission. However, should NESDCAP become non-operational, all remaining grant funds, interest earnings, capital project proceeds, and the loan and capital projects portfolios representing the use of these funds will revert to NeighborWorks America.

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 the Organization's financial statements for the year ended September 30, 2017, from which the summarized information was derived.

Cash and Cash Equivalents

For financial statement reporting purposes, NESDCAP includes all cash accounts not subject to withdrawal restrictions or penalties, treasury bills, commercial paper and money market funds with a maturity of three months or less when purchased to be cash equivalents. Certificates of deposit, regardless of maturity, are not considered to be cash and cash equivalents.

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2018

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

Foreclosed Property

Real estate and other properties acquired through or in lieu of full or partial settlement of loan obligations are referred to as foreclosed property and initially recorded at the fair value less estimated selling cost at the date of foreclosure. Fair value of the property acquired is measured against the recorded investment of the loan. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. 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.

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.

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 accrued and unpaid interest with the remainder to the outstanding principal balance. Interest income is recognized when due.

The carrying amount of loan 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 reviews notes and 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 revisions as more information becomes available.

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2018

NOTE 1 - NATURE OF ACTIVITIES AND 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 uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

Investments

Investments in marketable securities 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 unrestricted net assets 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.

If a fair value is not readily determinable, investments are recorded at cost, net of the valuation allowance.

Fair Value Measurements

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: <ul style="list-style-type: none">• 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. |
|---------|--|

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2018

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

Fair Value Measurements, continued

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

Property and Equipment

Property and equipment are recorded at cost. Donated property and equipment is 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 temporarily restricted net assets 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 required 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 \$5,000 for 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 either the straight-line method or the double declining balance method. The estimated useful lives used in the computation of depreciation are as follows:

	<u>Years</u>
Office equipment	5-7
Equipment	5-7
Vehicles	5
Buildings and improvements	7-27

Reserve for Replacements

Milbank Apartment, LLC is required to make a monthly deposit in an escrow account established by the mortgage holder. These funds are to provide a reserve for replacement of property.

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2018

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

Restricted and Unrestricted Revenue and Support

Contributions received or donor promises to give are recorded as temporarily restricted, permanently restricted or unrestricted support depending on the existence or nature of any donor restriction. Contributions made to NESDCAP are considered available for unrestricted use unless specifically restricted by the donor. Unrestricted contributions received for NESDCAP's programs are recognized as support when received. Federal grant awards and donations received for specific purposes are recognized as support to the extent of related expenses incurred in compliance with the specific restrictions. The unexpended funds are reported as unearned revenue on the statement of financial position. Non-cash contributions are recognized at fair value. Other contributions and historic properties accepted with the intention to sell are recognized as support at their estimated realizable value in the period received.

Compensated Absences

Vacation and sick leave are accumulated by employees throughout the year. Employees are entitled to receive compensation for unused amounts upon termination. Those amounts have been included in accrued expenses on the financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities.

Costs are allocated between program services and supporting services based on the evaluations of the related benefits. Supporting services include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

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.

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2018

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Raising Activity

NESDCAP 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. NESDCAP 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 unless specifically required by and reported under grantor guidelines.

Advertising

NESDCAP expenses the costs of advertising as incurred.

Income Tax Status

NESDCAP is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. NESDCAP's property management and weatherization programs have for-profit divisions which are subject to tax on unrelated business income. NESDCAP recognizes any material cash liabilities as required. In addition, NESDCAP 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).

NOTE 2 – CUSTODIAL CREDIT RISK – DEPOSITS

NESDCAP maintains its bank deposits in several financial institutions. At various times during 2018, the Organization's deposits were in excess of the amount insured (up to \$250,000 per financial institution) by the Federal Deposit Insurance Corporation (FDIC). The Organization has obtained a Bank Deposit Guaranty Bond with one financial institution to guarantee additional deposits. One of the financial institutions has pledged securities as additional collateral for deposits in excess of insurance or guarantee. At September 30, 2018, all of the Organization's deposits were insured, guaranteed or collateralized.

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
 SEPTEMBER 30, 2018

NOTE 3 - TEMPORARILY RESTRICTED ASSETS AND LIABILITIES

a. *Temporarily Restricted Cash and Certificates of Deposit*

Temporarily restricted cash is comprised of cash balances that are restricted in use under the requirements of various programs. The amount of temporarily restricted cash was \$87,096 and \$0 for years ended September 30, 2018 and 2017, respectively.

b. *Temporarily Restricted Other Receivables*

Temporarily restricted other receivables are comprised of receivables restricted by requirements of various programs. This balance as of September 30, 2018 and 2017 was \$1,350 and \$0, respectively.

c. *Temporarily Restricted Grants Receivable*

The temporarily restricted grants receivable is comprised of balances that are restricted in use under the requirements of various programs. These balances consisted of the following at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
SDHDA Housing Opportunity Fund	\$ 53,530	\$ 122,206
Small Business Development Center	40,044	50,173
Community Development Block Grant/LISC	18,355	22,952
Department of Energy - Weatherization	11,810	66,450
Low-Income Energy Assistance Program	3,410	11,472
Rural Community Development Initiative	-	11,329
CSBG	-	7,268
South Dakota Housing	-	290
Other	<u>9,131</u>	<u>6,313</u>
	<u>\$ 136,280</u>	<u>\$ 298,453</u>

d. *Temporarily Restricted Investments*

Temporarily restricted investments are comprised of balances that are restricted under the requirements of the program. These balances consisted of the following at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
RAIN Investment	<u>\$ 13,625</u>	<u>\$ 21,075</u>

**NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2018

NOTE 3 - TEMPORARILY RESTRICTED ASSETS AND LIABILITIES, continued

e. *Temporarily Restricted Cash, Reserve for replacement of Property*

Temporarily restricted cash reserve for replacement of property is comprised of the loan loss reserve for the Milbank Apartments LLC. This balance as of September 30, 2018 and 2017 was \$12,684 and \$24,860, respectively.

f. *Temporarily Restricted Accounts Payable*

Temporarily restricted accounts payable is comprised of a balance that is restricted in use under the requirements of various programs. The amount of temporarily restricted accounts payable as of September 30, 2018 and 2017 was \$66,216 and \$59,154, respectively.

g. *Temporarily Restricted Accrued Expenses*

Temporarily restricted accrued expenses are comprised of a balance that is restricted in use under the requirements of various programs. The amount of temporarily restricted accounts payable as of September 30, 2018 and 2017 was \$112 and \$0, respectively.

h. *Temporarily Restricted Unearned Revenue*

Temporarily restricted unearned revenue is comprised of balances that are restricted in use under the requirements of various programs. These balances consisted of the following at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
County Commission	\$ 68,818	\$ 63,106
CSBG	774	-
South Dakota Community Foundation	-	6,872
Other	<u>5,941</u>	<u>6,082</u>
	<u>\$ 75,533</u>	<u>\$ 76,060</u>

i. *Temporarily Restricted Notes Payable*

Temporarily restricted notes payable are comprised of balances that are restricted under the requirements of the program. These balances consisted of the following at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
LISC	<u>\$ 21,075</u>	<u>\$ 21,075</u>

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
 SEPTEMBER 30, 2018

NOTE 4 - PERMANENTLY RESTRICTED ASSETS

NESDCAP receives capital grants from NeighborWorks America for extending affordable loans and funding capital projects. This amount is permanently restricted, although proceeds on capital projects or interest earned over and above the corpus may be transferred to unrestricted net assets for furthering the NESDCAP's mission. Amounts restricted under the program requirements consisted of the following as of September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 43,849	\$ 32,079
Notes receivable	<u>548,461</u>	<u>814,077</u>
	<u>\$ 592,310</u>	<u>\$ 846,156</u>

NOTE 5 - NOTES RECEIVABLE

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, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
Housing Loans	\$ 3,745,985	\$ 3,666,117
Commercial Loans	<u>1,230,000</u>	<u>1,230,000</u>
Total Loans	4,975,985	4,896,117
Less allowance for loan losses	<u>(255,583)</u>	<u>(251,725)</u>
Total notes receivable, net of allowance	<u>\$ 4,720,402</u>	<u>\$ 4,644,392</u>

The activity in the allowance for loan losses for the years ended September 30, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 251,725	\$ 203,612
Provision for bad debts	8,522	73,347
Net recoveries (charge-offs)	<u>(4,664)</u>	<u>(25,234)</u>
Balance, end of year	<u>\$ 255,583</u>	<u>\$ 251,725</u>

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
 SEPTEMBER 30, 2018

NOTE 5 - NOTES RECEIVABLE, continued

The following tables present the activity in the allowance for loan losses for the years ended September 30, 2018 and 2017, by portfolio category.

Allowance for Loan Losses	Commercial	Housing	Total
<u>2018</u>			
Balance, beginning of year	\$ 61,500	\$ 190,225	\$ 251,725
Provision for loan losses	-	8,522	8,522
Net recoveries (charge offs)	-	(4,664)	(4,664)
Balance, end of year	<u>\$ 61,500</u>	<u>\$ 194,083</u>	<u>\$ 255,583</u>
<u>2017</u>			
Balance, beginning of year	\$ 41,500	\$ 162,112	\$ 203,612
Provision for loan losses	20,000	53,347	73,347
Net recoveries (charge offs)	-	(25,234)	(25,234)
Balance, end of year	<u>\$ 61,500</u>	<u>\$ 190,225</u>	<u>\$ 251,725</u>

NESDCAP individually reviews each loan balance where all or a portion of the balance exceeds 90 days past due. Based on the assessment of the borrower's current creditworthiness, NESDCAP estimates the portion, if any, of the balance that will not be calculated. Additionally, on the aggregate remaining loan receivables, NESDCAP estimates an allowance covering those amounts not specifically identified.

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
 SEPTEMBER 30, 2018

NOTE 5 - NOTES RECEIVABLE, continued

The ending balance in the allowance for loan loss is attributed to loans evaluated individually and loans evaluated collectively as follows for the years ended September 30, 2018 and 2017.

		Allowance for Loan Losses		
		Commercial	Housing	Total
<u>2018</u>				
	Individually evaluated for impairment	\$ -	\$ -	\$ -
	Collectively evaluated for impairment	61,500	194,083	255,583
	Balance, end of year	<u>\$ 61,500</u>	<u>\$ 194,083</u>	<u>\$ 255,583</u>
<u>2017</u>				
	Individually evaluated for impairment	\$ -	\$ -	\$ -
	Collectively evaluated for impairment	61,500	190,225	251,725
	Balance, end of year	<u>\$ 61,500</u>	<u>\$ 190,225</u>	<u>\$ 251,725</u>

		Loans Receivable Balances		
		Commercial	Housing	Total
<u>2018</u>				
	Individually evaluated for impairment	\$ -	\$ -	\$ -
	Collectively evaluated for impairment	1,230,000	3,745,985	4,975,985
	Balance, end of year	<u>\$ 1,230,000</u>	<u>\$ 3,745,985</u>	<u>\$ 4,975,985</u>
<u>2017</u>				
	Individually evaluated for impairment	\$ -	\$ -	\$ -
	Collectively evaluated for impairment	1,230,000	3,666,117	4,896,117
	Balance, end of year	<u>\$ 1,230,000</u>	<u>\$ 3,666,117</u>	<u>\$ 4,896,117</u>

Credit Quality Indicators

NESDCAP categorizes loans into risk categories based on the type of loan. There is a minimum of 5% loan loss reserve for the entire portfolio. The loan loss reserve increases to 7% for non-first mortgage, home improvement and down payment mortgages.

Based on the most recent analysis performed, the risk category of loans by class of loans as of September 30, 2018 and 2017 was as follows:

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
 SEPTEMBER 30, 2018

NOTE 5 - NOTES RECEIVABLE, continued

Credit Risk Profile by Internally Assigned Grade

<u>2018</u>	<u>5%</u>	<u>7%</u>	<u>Total</u>
Commercial	\$ 1,230,000	\$ -	\$ 1,230,000
Housing	3,406,812	339,173	3,745,985
Total	<u>\$ 4,636,812</u>	<u>\$ 339,173</u>	<u>\$ 4,975,985</u>

<u>2017</u>	<u>5%</u>	<u>7%</u>	<u>Total</u>
Commercial	\$ 1,230,000	\$ -	\$ 1,230,000
Housing	3,320,117	346,000	3,666,117
Total	<u>\$ 4,550,117</u>	<u>\$ 346,000</u>	<u>\$ 4,896,117</u>

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, 2018 and 2017.

<u>2018</u>	<u>Performing</u>	<u>Nonperforming</u>	<u>Total</u>
Commercial	\$ 1,230,000	\$ -	\$ 1,230,000
Housing	3,745,985	-	3,745,985
Total	<u>\$ 4,975,985</u>	<u>\$ -</u>	<u>\$ 4,975,985</u>

<u>2017</u>	<u>Performing</u>	<u>Nonperforming</u>	<u>Total</u>
Commercial	\$ 1,230,000	\$ -	\$ 1,230,000
Housing	3,666,117	-	3,666,117
Total	<u>\$ 4,896,117</u>	<u>\$ -</u>	<u>\$ 4,896,117</u>

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
 SEPTEMBER 30, 2018

NOTE 5 - NOTES RECEIVABLE, continued

Credit Risk Profile by Class Based on Payment Activity, continued

The following table summarizes the aging of the past due loans by loan class within the portfolio segments as of September 30, 2018 and 2017.

	Current	Still Accruing		Nonaccrual Balance
		30-89 Days Past Due	Over 90 Days Past Due	
<u>2018</u>				
Commercial	\$ 1,230,000	\$ -	\$ -	\$ -
Housing	3,745,985	-	-	-
Total	<u>\$ 4,975,985</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
		Still Accruing		
		30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual Balance
<u>2017</u>				
Commercial	\$ 1,230,000	\$ -	\$ -	\$ -
Housing	3,666,117	-	-	-
Total	<u>\$ 4,896,117</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Impaired Loans

A loan is considered impaired when, based on currently available information, it is probable that NESDCAP will not collect all of the principal and interest contractually required by the loan agreement. Impaired loans include loans that are past due over 90 days and loans placed on nonaccrual status. All impaired loans are evaluated for an asset-specific allowance for credit losses. There were no impaired loans as of September 30, 2018 and 2017.

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.

At the time of the restructuring, the loan is evaluated for an asset-specific allowance for credit losses. NESDCAP will continue 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. As of September 30, 2018 and 2017, NESDCAP did not have any troubled debt restructuring.

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
 SEPTEMBER 30, 2018

NOTE 6 – INVESTMENTS

Equity Securities Without a Readily Determinable Fair Value

NESDCAP 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. This investment is carried at cost, net of the valuation allowance.

At September 30, 2018 and 2017, equity securities consisted of the following:

	<u>2018</u>	<u>2017</u>
Great Opportunities, LLC - cost	\$ 21,075	\$ 23,575
Valuation allowance	<u>(7,450)</u>	<u>(2,500)</u>
	<u>\$ 13,625</u>	<u>\$ 21,075</u>

Investment return is summarized as follows:

Interest and dividend income	\$ 4,250	\$ -
(Increase) in valuation allowance	<u>(11,700)</u>	<u>(2,500)</u>
	<u>\$ (7,450)</u>	<u>\$ (2,500)</u>

NOTE 7 - PROPERTY AND EQUIPMENT

At September 30, 2018 and 2017, property and equipment is as follows:

	<u>2018</u>	<u>2017</u>
Land - Milbank	\$ 6,040	\$ 6,040
Office equipment	33,487	42,501
Equipment	126,127	126,127
Buildings and Improvements - Milbank	632,102	611,510
Vehicles	<u>56,660</u>	<u>56,660</u>
	\$ 854,416	\$ 842,838
Less: Accumulated depreciation	<u>(591,047)</u>	<u>(555,553)</u>
	<u>\$ 263,369</u>	<u>\$ 287,285</u>

Depreciation expense for the year ended September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
NESDCAP	\$ 6,981	\$ 9,412
Milbank Apartments	<u>37,528</u>	<u>38,518</u>
	<u>\$ 44,509</u>	<u>\$ 47,930</u>

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
 SEPTEMBER 30, 2018

NOTE 8 - NOTES PAYABLE

At September 30, 2018 and 2017, notes payable consisted of the following:

	<u>2018</u>	<u>2017</u>
Rural Electric Economic Development, Inc., 2% interest; quarterly interest payments of \$5,000; due on November 25, 2019	\$ 1,000,000	\$ 1,000,000
Rural Development, secured by Milbank 16-Plex property; 3.125% interest; monthly installments of \$901; final payment due February 1, 2062	397,642	401,889
NESDCAP, loan to and secured by Milbank 16-Plex property; 1.5% interest; secured; monthly installment of \$414.64; final payment due December 15, 2022	117,745	-
Local Initiatives Support Corporation, proceeds are to support NESDCAP's efforts to assist low-income individuals and families in its target area to become self-sufficient and obtain a higher quality life; unsecured; 0% interest; due on September 30, 2021	21,075	21,075
NESDCAP, loan to and secured by Milbank 16-Plex property; 1% interest; unsecured; monthly installments of \$353.79; final payment due January 1, 2018	-	94,702
NESDCAP, loan to and secured by Milbank 16-Plex property; 3% interest; unsecured; annual installment of \$600; final payment due July 15, 2018	<u>-</u>	<u>25,611</u>
Total Notes Payable	1,536,462	1,543,277
Less: Current portion	<u>(7,614)</u>	<u>(124,561)</u>
Notes Payable: Long-Term portion	<u>\$ 1,528,848</u>	<u>\$ 1,418,716</u>

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2018

NOTE 8 - NOTES PAYABLE, continued

Future minimum principal payments on the above notes are as follows:

<u>Years ending September 30</u>	
2019	\$ 7,614
2020	1,007,797
2021	21,619
2022	8,192
2023	109,338
Thereafter	<u>381,902</u>
	<u>\$ 1,536,462</u>

NOTE 9 - LEASES

NESDCAP has entered into leases for office space, vehicles and office equipment. Future minimum lease payments on non-cancelable operating leases payable is as follows:

<u>Years ending September 30</u>	
2019	\$ 33,488
2020	<u>2,550</u>
	<u>\$ 36,038</u>

Lease expense under these lease obligations for the year ended September 30, 2018 and 2017 was \$42,457 and \$36,643, respectively.

NOTE 10 - RELATED PARTY TRANSACTIONS

The Northeast South Dakota Economic Corporation (NESDEC) was formed to reduce poverty, revitalize low-income communities, empower low-income individuals and families to become self-sufficient. The primary purpose of NESDEC is to provide financing to small- and medium-sized businesses in its geographical area who lack sufficient capital to obtain conventional financial institutional financing.

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 NESDCAP board.

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2018

NOTE 10 - RELATED PARTY TRANSACTIONS, continued

NESDEC and Grow South Dakota employees are also employed by NESDCAP. NESDEC and Grow South Dakota reimburse NESDCAP for salaries, employee benefits and various program and administrative costs. NESDEC paid approximately \$520,921 and \$478,418 for the years ended September 30, 2018 and 2017, respectively, and Grow South Dakota paid approximately \$646,991 and \$335,136 for the years ended September 30, 2018 and 2017, respectively.

NESDCAP leases office and storage space from NESDEC on annual leases. Total lease payments under these leases during the year ended September 30, 2018 and 2017, were \$24,000 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 NESDCAP board.

NESDCAP leases vehicles under operating leases of various terms from Grow South Dakota. Total lease payments under these leases during the years ended September 30, 2018 and 2017, were \$32,257 and \$30,260, respectively.

NESDCAP has advanced Grow South Dakota funds under a continuing loan agreement. This loan carries a balance of \$1,230,000 and \$1,230,000 as of September 30, 2018 and 2017, respectively. Interest earned on this loan during the years ended September 30, 2018 and 2017, were \$36,698 and \$30,421, respectively.

NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES

NESDCAP participates in a number of federal and state assisted 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.

NESDCAP, as part of its normal business operations, grants credit in the form of notes receivable to residents 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. Allowances for loan losses are calculated at 5% of the outstanding loan balances for typical loans and 7% to 50% of the outstanding balances for riskier loans. Collateral is required on all loans, typically a first lien on the residence. NESDCAP seeks to obtain the most secure position possible, including collateral such as mortgages and personal guarantees.

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
SEPTEMBER 30, 2018

NOTE 12 - RETIREMENT PLAN

NESDCAP 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 \$138,494 and \$128,463 for the year ended September 30, 2018 and 2017, respectively. Of these totals, NESDEC paid \$78,786 and \$70,492 for the years ended September 30, 2018 and 2017, respectively, and Grow South Dakota paid \$23,564 and \$10,209 for the years ended September 30, 2018 and 2017, respectively.

NOTE 13 – POSTEMPLOYMENT BENEFIT OBLIGATIONS

NESDCAP provides benefits to former or inactive employees after employment but before retirement. Those benefits include the continuation of health care benefits. To qualify for this benefit an employee has to be employed with NESDCAP for 25 years. At present, there are three employees who have qualified for this benefit. It is not practicable for NESDCAP to reasonably estimate the amount of its liability for postemployment benefits; accordingly, no liability has been recognized in the accompanying statement of financial position. NESDCAP recognizes the costs of postemployment benefits when actually paid.

NOTE 14 – SUBSEQUENT EVENTS

Events occurring after September 30, 2018 were evaluated by management on December 21, 2018, 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 not significant subsequent events needing disclosure.

SUPPLEMENTARY INFORMATION

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

SUPPLEMENTARY FINANCIAL INFORMATION
 SEPTEMBER 30, 2018
 WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017

SCHEDULE OF FINANCIAL POSITION PER LOCATION

	2018			2017	
	NESDCAP	Milbank 16-Plex	Eliminating Entries	Total	Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 2,918,285	\$ 6,921	\$ -	\$ 2,925,206	\$ 2,019,079
Receivable from affiliate	83,155	-	-	83,155	78,596
Other receivables	10,058	-	-	10,058	826
Current portion of notes receivable, net of allowance for loan losses of \$6,098 in 2018 and \$10,269 in 2017	115,035	-	-	115,035	194,305
Grant receivable	156,680	-	-	156,680	349,353
Accrued interest receivable	13,403	-	-	13,403	13,625
Prepaid insurance	17,266	-	-	17,266	17,266
Total current assets	<u>3,313,882</u>	<u>6,921</u>	<u>-</u>	<u>3,320,803</u>	<u>2,673,050</u>
LONG-TERM RECEIVABLES:					
Notes receivable, less allowance for loan losses of \$249,485 in 2018 and \$241,456 in 2017					
current maturities	4,605,367	-	-	4,605,367	4,450,087
Total long-term receivables	<u>4,605,367</u>	<u>-</u>	<u>-</u>	<u>4,605,367</u>	<u>4,450,087</u>
OTHER ASSETS:					
Investments	13,625	-	-	13,625	21,075
Property and equipment, net	20,112	243,257	-	263,369	287,285
Cash, reserve for replacement of property	-	12,684	-	12,684	24,860
Total other assets	<u>33,737</u>	<u>255,941</u>	<u>-</u>	<u>289,678</u>	<u>333,220</u>
Total Assets	<u>\$ 7,952,986</u>	<u>\$ 262,862</u>	<u>\$ -</u>	<u>\$ 8,215,848</u>	<u>\$ 7,456,357</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	\$ 76,491	\$ -	\$ -	\$ 76,491	\$ 66,862
Accrued expenses	253,903	7,418	-	261,321	213,782
Security deposits	-	5,347	-	5,347	3,675
Unearned Revenue	75,533	-	-	75,533	76,060
Current portion of notes payable	-	7,614	-	7,614	124,561
Total current liabilities	<u>405,927</u>	<u>20,379</u>	<u>-</u>	<u>426,306</u>	<u>484,940</u>
LONG-TERM LIABILITIES					
Investment in Milbank 16 Plex	265,290	-	(265,290)	-	-
Credit support guaranty liability	-	-	-	-	-
Notes payable, less current maturities	1,021,075	507,773	-	1,528,848	1,418,716
Total long-term liabilities	<u>1,286,365</u>	<u>507,773</u>	<u>(265,290)</u>	<u>1,528,848</u>	<u>1,418,716</u>
Total Liabilities	<u>1,692,292</u>	<u>528,152</u>	<u>(265,290)</u>	<u>1,955,154</u>	<u>1,903,656</u>
NET ASSETS					
Permanently restricted	592,310	-	-	592,310	846,156
Temporarily restricted	75,415	12,684	-	88,099	100,138
Unrestricted	5,592,969	(277,974)	265,290	5,580,285	4,606,407
	<u>6,260,694</u>	<u>(265,290)</u>	<u>265,290</u>	<u>6,260,694</u>	<u>5,552,701</u>
Total Liabilities and Net Assets	<u>\$ 7,952,986</u>	<u>\$ 262,862</u>	<u>\$ -</u>	<u>\$ 8,215,849</u>	<u>\$ 7,456,357</u>

See Independent Auditor's Report

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

SUPPLEMENTARY FINANCIAL INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2018
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017

SCHEDULE OF ACTIVITIES PER LOCATION

	2018			2017	
	NESDCAP	Milbank 16-Plex	Eliminating Entries	Total	Total
REVENUE AND OTHER SUPPORT:					
Grant income	\$ 2,254,254	\$ -	\$ -	\$ 2,254,254	\$ 2,344,773
Protective payee income	-	-	-	-	-
Interest income	200,591	39	-	200,630	174,650
Rent income	-	62,025	-	62,025	59,193
Housing fee income	52,656	-	-	52,656	95,211
Miscellaneous income	61,672	16,483	-	78,155	77,348
Gain (loss) on the disposal of fixed assets	572	-	-	572	(40,547)
Provision for valuation allowance - investments	(3,200)	-	-	(3,200)	(2,500)
Loss on Milbank 16 Plex	(22,287)	-	22,287	-	-
Total revenue and other support	2,544,258	78,547	22,287	2,645,092	2,708,128
EXPENSES					
PROGRAM SERVICES:					
Weatherization	662,220	-	-	662,220	603,870
Business development	208,649	-	-	208,649	201,852
Self sufficiency	38,673	-	-	38,673	66,222
Housing improvement	502,806	100,834	-	603,640	995,337
Emergency assistance	149,852	-	-	149,852	128,202
	1,562,200	100,834	-	1,663,034	1,995,483
SUPPORTING SERVICES:					
Management and general	274,065	-	-	274,065	289,404
Total Expenses	1,836,265	100,834	-	1,937,099	2,284,887
Increase in Net Assets	707,993	(22,287)	22,287	707,993	423,241
Net Assets, Beginning of Year	5,552,701	(243,003)	243,003	5,552,701	5,129,460
Net Assets, End of Year	<u>\$ 6,260,694</u>	<u>\$ (265,290)</u>	<u>\$ 265,290</u>	<u>\$ 6,260,694</u>	<u>\$ 5,552,701</u>

See Independent Auditor's Report

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

SUPPLEMENTARY FINANCIAL INFORMATION
 SEPTEMBER 30, 2018

SCHEDULE OF FINANCIAL POSITION
 NEIGHBORWORKS AMERICA TEMPORARILY AND PERMANENTLY RESTRICTED CAPITAL FUND

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 31,995	\$ 43,849	\$ 75,844
Notes receivable	-	548,461	548,461
Total Assets	<u>\$ 31,995</u>	<u>\$ 592,310</u>	<u>\$ 624,305</u>
LIABILITIES AND NET ASSETS			
Net assets	<u>\$ 31,995</u>	<u>\$ 592,310</u>	<u>\$ 624,305</u>
Total Liabilities and Net Assets	<u>\$ 31,995</u>	<u>\$ 592,310</u>	<u>\$ 624,305</u>

SCHEDULE OF ACTIVITIES
 NEIGHBORWORKS AMERICA TEMPORARILY AND PERMANENTLY RESTRICTED CAPITAL FUND

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT:			
Capital Grant - NeighborWorks America	\$ -	\$ (253,846)	\$ (253,846)
Increase in Net Assets	-	(253,846)	(253,846)
Net Assets, Beginning of Year	<u>31,995</u>	<u>846,156</u>	<u>878,151</u>
Net Assets, End of Year	<u>\$ 31,995</u>	<u>\$ 592,310</u>	<u>\$ 624,305</u>

During the year ended September 30, 2018, \$20,499 was earned in investment and interest income on the net assets of the NeighborWorks America Permanently Restricted Capital Funds. These proceeds were unrestricted by the organization for operational use. Also during the year, NeighborWorks Authorized the release of \$253,846 from Permanently Restricted for lending capital. There were no proceeds from capital projects in excess of the amount of funds necessary to maintain the net assets at a level disclosed in the Capital Fund Agreement with NeighborWorks America. Notes Receivable consists of projects for Milbank Apartments LLC, Pheasant Valley Courtyard LLC and for Single Family Housing Loans.

See Independent Auditor's Report

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Amounts Passed Through to Sub-Recipients	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
477 Cluster:				
Passed Through South Dakota Department of Social Services:				
Community Services Block Grant	93.569	18-0821-610 19-0821-610	\$ - -	\$ 299,023 <u>155,577</u> \$ 454,600
Passed Through the South Dakota Community Action Partnership:				
OCS - Community Service Block Grant	93.569	90ET0461-02-00	-	<u>8,678</u> <u>8,678</u>
Total 477 Cluster				463,278
Passed Through South Dakota Department of Social Services:				
Low-Income Home Energy Assistance	93.568	18-0821-606 19-0821-606	- -	221,361 <u>17,360</u> 238,721
Passed Through the South Dakota Community Action Partnership:				
Cooperative Agreement to Support Navigators in Federally-facilitated Exchanges	93.332	NAVCA150264-03-00	-	<u>35,336</u> <u>35,336</u>
Total U.S. Department of Health and Human Services			-	<u>737,335</u>
U.S. DEPARTMENT OF ENERGY				
Passed Through the South Dakota Department of Social Services:				
Weatherization Assistance for Low-Income Persons	81.042	18-0821-602 19-0821-602	- -	346,675 <u>86,395</u> <u>433,070</u>
Total U.S. Department of Energy			-	<u>433,070</u>
U.S. DEPARTMENT OF AGRICULTURE - RURAL DEVELOPMENT				
Direct Funding:				
Rural Community Development Initiative - Note 3	10.446	00-23	39,162	50,582
Passed through the Local Initiatives Support Corporation:				
Rural Community Development Initiative	10.446	41204-0060 41204-0061 41204-0064	- - -	6,578 6,268 <u>10,334</u> 73,762
Food Distribution Cluster:				
Passed Through Feeding South Dakota				
Commodity Supplemental Food Program - Administrative Costs	10.565	**	-	361
Commodity Supplemental Food Program - Food Commodities	10.565	**	-	<u>17,738</u> <u>18,099</u>
Total U.S. Department of Agriculture			<u>39,162</u>	<u>91,861</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed Through South Dakota Housing Development Authority:				
Housing Counseling Grants (Comprehensive Housing Counseling)	14.259	HC170841004	-	1,296
Passed Through the Local Initiatives Support Corporation:				
Community Compass Technical Assistance and Capacity Building	14.259	41204-0063	-	<u>22,052</u> 23,348
Continuum of Care Program	14.267	**	-	3,337 3,337
Passed Through the Local Initiatives Support Corporation:				
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	41204-0062	-	16,139 <u>16,139</u>
Total U.S. Department of Housing and Urban Development			-	<u>42,824</u>
SMALL BUSINESS ADMINISTRATION				
Passed Through the USD Small Business Development Center:				
Small Business Development Center	59.037	UP1700065B A000322S009	- -	31,153 <u>67,740</u> <u>98,893</u>
Total Small Business Administration			-	<u>98,893</u>

See Independent Auditor's Report

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Amounts Passed Through to Sub-Recipients	Federal Expenditures
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY Passed through Second Harvest in Sioux Falls: Emergency Food and Shelter National Board Program	97.024	**	11,404	11,404
Total U.S. Federal Emergency Management Agency			-	11,404
U.S. DEPARTMENT OF TREASURY CDFI Cluster: Passed Through Neighborhood Reinvestment Corporation: Expandable Grants	21.U01	**	634,300	634,300
Total U.S. Department of Treasury				634,300
Total Federal Funding			\$ 39,162	\$ 2,049,687

** Pass-through entity identifying number not available

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Northeast South Dakota Community Action Program, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: Significant Accounting Policies

Expenditures are recognized following the cost principles contained in Subpart E - Cost Principles of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Northeast South Dakota Community Action Program, Inc.'s summary of significant accounting policies is presented in Note 1 in NESDCAP's consolidated financial statements.

The Northeast South Dakota Community Action Program, Inc. has not elected to use the 10% de minimis cost rate.

Note 3: Amounts Passed Through to Sub-Recipients

Federal expenditures include \$39,162 that have been passed through to the following agencies

	Federal CFDA Number	Amounts Passed Through to Sub-Recipients
Faulkton Economic Development	10.446	\$ 13,797
Campbell County Economic Development	10.446	\$ 6,935
Wagner Area Growth, Inc.	10.446	\$ 9,500
Grow Spink	10.446	\$ 8,930
		\$ 39,162

See Independent Auditor's Report

*Wahlenberg
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 Community Action Program, Inc.
dba GROW South Dakota
Sisseton, South Dakota

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 Northeast South Dakota Community Action Program, Inc. dba GROW South Dakota (a nonprofit organization, hereafter referred to as NESDCAP), which comprise the statement of financial position as of September 30, 2018, 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 December 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NESDCAP'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 NESDCAP's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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Yankton Office	207 Douglas Avenue	PO Box 1018	Yankton, SD 57078	605.665.4401
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Member of: Private Companies Practice Section American Institute of CPAs, South Dakota Society of CPAs



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.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

Wohlberg Ritzman + Co., LLC

Yankton, South Dakota
December 21, 2018

*Wahlenberg
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 Community Action Program, Inc.
dba GROW South Dakota
Sisseton, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Northeast South Dakota Community Action Program, Inc. dba GROW South Dakota (a nonprofit organization, hereafter referred to as NESDCAP) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of NESDCAP's major federal programs for the year ended September 30, 2018. NESDCAP's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of NESDCAP'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).

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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 NESDCAP'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 NESDCAP's compliance.

Opinion on Each Major Federal Program

In our opinion, NESDCAP complied, in 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, 2018.

Report on Internal Control Over Compliance

Management of NESDCAP 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 NESDCAP'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 NESDCAP'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.

Wohlberg Ritzman + Co., LLC

Yankton, South Dakota
December 21, 2018

**NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
SEPTEMBER 30, 2018**

FINANCIAL STATEMENT AUDIT FINDINGS

There were no prior audit financial statement audit findings reported.

MAJOR FEDERAL AWARD PROGRAMS AUDIT FINDINGS

There were no prior major federal award program findings reported.

**NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

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	_____ <u>X</u> no	
Significant deficiency(ies) identified?	_____ yes	_____ <u>X</u> none reported	

Noncompliance material to financial statements noted? _____ yes _____ X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?	_____ yes	_____ <u>X</u> no	
Significant deficiency(ies) identified?	_____ yes	_____ <u>X</u> 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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.569	Community Services Block Grant

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 COMMUNITY ACTION PROGRAM, INC.
dba GROW South Dakota**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – continued
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

SECTION II – FINANCIAL STATEMENT AUDIT

There are no financial statement audit findings to report.

SECTION III – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There are no federal award program findings to report.