Consolidated Financial Statements
June 30, 2020

GROW South Dakota and Subsidiaries

(With Comparative Totals for 2019)

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Independent Auditor's Report

The Board of Directors
GROW South Dakota
Sisseton, South Dakota

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of GROW South Dakota (a nonprofit corporation) and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2020, 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 Consolidated 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 consolidated 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.

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 GROW South Dakota and its subsidiaries as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information
We have previously audited GROW South Dakota's 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 26, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters

Other Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 28 through 30 is presented for the purposes of additional analysis and is not a required part of the financial statements. The accompanying consolidated schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 *U.S. Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the financial statements.

The supplementary information and the consolidated schedule of expenditures of federal awards is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such 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 supplementary information and the consolidated schedule of expenditures of federal awards 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 a report dated September 25, 2020, on our consideration of GROW South Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 GROW South Dakota'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 GROW South Dakota's internal control over financial reporting and compliance.

Eide Bailly LLP

Aberdeen, South Dakota
September 25, 2020

GROW South Dakota and Subsidiaries
Consolidated Statement of Financial Position
June 30, 2020
(with comparative totals for 2019)

	2020			
	Without Donor Restrictions	With Donor Restrictions	Total	2019
Assets				
Cash and cash equivalents	$ 3,170,348	$ 2,240,069	$ 5,410,417	$ 4,443,302
Cash and cash equivalents - restricted	10,210,885	-	10,210,885	8,020,014
Program cash reserve	50,747	60,891	111,638	134,650
Accrued interest receivable	29,446	6,421	35,867	26,848
Lease receivable	501,687	-	501,687	-
Other receivable	13,105	-	13,105	8,354
Grant receivable	-	111,248	111,248	350,088
Assets held for sale	-	-	-	478,571
Prepaid assets	6,325	5,000	11,325	16,521
Notes receivable, less allowance for loan losses of $667,708 in 2020 and $651,257 in 2019	4,909,891	6,463,909	11,373,800	9,246,593
Beneficial interests in assets held by Community Foundation	135,305	-	135,305	120,010
Other real estate owned	165,000	25,000	190,000	-
Construction in progress	18,473,735	-	18,473,735	10,638,163
Property and equipment, net	19,529,625	-	19,529,625	2,874,673
	$ 57,196,099	$ 8,912,538	$ 66,108,637	$ 36,357,787
Liabilities and Net Assets				
Accounts payable	$ 23,745	$ 8,574	$ 32,319	$ 157,656
Construction costs payable	1,966,793	-	1,966,793	981,839
Security deposits	15,813	-	15,813	15,349
Accrued expenses	316,685	32,270	348,955	180,929
Other liabilities	24,900	-	24,900	-
Retainage payable	835,380	-	835,380	473,638
Refundable advances	-	1,591,800	1,591,800	2,513,353
Beneficiary obligation	4,837,477	-	4,837,477	1,193,071
Notes payable, net of unamortized debt issuance costs of $1,386,748 in 2020 and $736,941 in 2019	44,211,605	2,085,873	46,297,478	23,182,738
Total liabilities	52,232,398	3,718,517	55,950,915	28,698,573
Net Assets (See Note 8)				
With donor restrictions	-	5,194,021	5,194,021	4,255,131
Without donor restrictions	4,963,701	-	4,963,701	3,404,083
Total net assets	4,963,701	5,194,021	10,157,722	7,659,214
	$ 57,196,099	$ 8,912,538	$ 66,108,637	$ 36,357,787

	2020			
	Without Donor Restrictions	With Donor Restrictions	Total	2019
Revenues				
Interest income on loans	$ 232,732	$ 63,693	$ 296,425	$ 256,860
Apartment revenue	193,824	-	193,824	180,823
Grant income	329,089	2,980,690	3,309,779	2,748,999
Lease fee income	555,820	-	555,820	215,012
Interest earned on deposits	20,594	610	21,204	17,509
Gain on debt forgiveness and transfer of NMTC assets	-	-	-	3,079,172
Contract income	-	61,950	61,950	-
Miscellaneous income	14,176	524	14,700	98,776
Gain on sale of assets held for sale	27,429	-	27,429	-
Donations and contributions	8,076	-	8,076	6,951
Endowment fund income	8,691	-	8,691	4,032
Management fees	20,000	-	20,000	6,800
Development fees	100,000	-	100,000	95,407
Origination fees	30,209	-	30,209	27,240
Net assets released from restrictions	2,168,577	(2,168,577)	-	-
Total revenues	3,709,217	938,890	4,648,107	6,737,581
Expenses				
Program - revolving loan funds	208,968	-	208,968	250,159
Program - vehicle lease program	32,684	-	32,684	28,809
Program - housing program	1,442,482	-	1,442,482	1,462,209
Program - new market tax credit	390,697	-	390,697	350,094
Program - other program services	3,229	-	3,229	-
General and administrative	71,539	-	71,539	74,215
Total expenses	2,149,599	-	2,149,599	2,165,486
Change in Net Assets	1,559,618	938,890	2,498,508	4,572,095
Net Assets, Beginning of Year	3,404,083	4,255,131	7,659,214	3,087,119
Net Assets, End of Year (See Note 8)	$ 4,963,701	$ 5,194,021	$ 10,157,722	$ 7,659,214

	2020								
	Program Services						Management and General	Total	2019
	Loan	Lease	Housing	NMTC	Other	Total			
Expenses by Function									
Depreciation and amortization	$ -	$ 29,342	$ 140,047	$ 214,234	$ -	$ 383,623	$ -	$ 383,623	$ 287,181
Professional fees	59,638	3,342	208,763	19,732	279	291,754	40,093	331,847	455,295
Interest expense including amortization of debt issuance costs	78,381	-	76,525	142,323	-	297,229	-	297,229	345,210
Materials	-	-	252,745	-	-	252,745	-	252,745	104,120
Contract labor	-	-	242,180	-	-	242,180	-	242,180	106,862
Bad debt expense	40,737	-	79,823	-	774	121,334	-	121,334	250,559
Maintenance	-	-	96,396	-	-	96,396	-	96,396	85,036
Grants and other assistance	-	-	75,883	-	2,000	77,883	-	77,883	191,359
Developer fees	-	-	63,001	-	-	63,001	-	63,001	3,000
Utilities	-	-	60,462	-	-	60,462	-	60,462	61,655
Management	-	-	34,794	-	-	34,794	-	34,794	30,999
Incentive compensation	11,333	-	11,333	-	-	22,666	11,333	33,999	33,999
Audit fees	4,845	-	9,392	12,323	-	26,560	4,845	31,405	28,143
Insurance	1,531	-	14,292	-	-	15,823	11,533	27,356	32,352
Taxes and license	-	-	26,424	-	-	26,424	-	26,424	24,445
Miscellaneous	3,237	-	21,568	790	-	25,595	266	25,861	12,264
Onsite management	-	-	15,000	-	-	15,000	-	15,000	15,000
Equipment and software purchases	2,760	-	4,704	-	-	7,464	-	7,464	12,287
Advertising	2,604	-	3,899	-	-	6,503	-	6,503	19,819
Telephone	565	-	2,137	-	-	2,702	565	3,267	3,778
Rent	1,000	-	1,000	-	-	2,000	1,000	3,000	3,000
Travel and conferences	1,802	-	250	-	80	2,132	113	2,245	5,151
Service fees	-	-	-	785	-	785	1,129	1,914	1,238
Postage	346	-	346	-	-	692	346	1,038	2,760
Office supplies	-	-	580	-	96	676	107	783	4,370
Support services	-	-	671	-	-	671	-	671	589
Legal fees	189	-	117	-	-	306	209	515	33,919
Consultant/speaker fees	-	-	-	510	-	510	-	510	-
Dues and subscriptions	-	-	150	-	-	150	-	150	150
Board meeting	-	-	-	-	-	-	-	-	335
Vehicle expense	-	-	-	-	-	-	-	-	3,111
Valuation loss on other real estate owned	-	-	-	-	-	-	-	-	7,500
Total expenses by function	$ 208,968	$ 32,684	$ 1,442,482	$ 390,697	$ 3,229	$ 2,078,060	$ 71,539	$ 2,149,599	$ 2,165,486

	2020	2019
Operating Activities		
Change in net assets	$ 2,498,508	$ 4,572,095
Adjustments to reconcile change in net assets to net cash from operating activities		
Interest expense attributable to amortization of debt issuance costs	15,055	17,867
Depreciation and amortization	383,623	287,181
Loss on other real estate owned	-	7,500
Gain on sale of assets	(27,429)	-
Non cash gain - debt forgiveness and transfer of NMTC assets	-	(3,937,055)
Assets held by Community Foundation net investment gain	(8,691)	(4,032)
Provision for loan loss and bad debt expense	121,334	250,559
Changes in assets and liabilities		
Accrued interest receivable	(9,019)	(12,253)
Lease receivable	(501,687)	-
Prepaids	5,196	12,174
Other receivable	(10,413)	(5,861)
Grant receivable	238,840	323,702
Refundable advances	(921,553)	1,417,601
Accrued expenses	(120,931)	724
Other liabilities	24,900	-
Security deposits	464	1,976
Accounts payable	(125,337)	118,843
Net Cash from Operating Activities	1,562,860	3,051,021
Investing Activities		
Net increase in notes receivable	(2,432,879)	(1,813,627)
Net change in assets held by Community Foundation	(6,604)	(5,748)
Proceeds received on sale of property and equipment	3,000	-
Proceeds from sale of other real estate	-	52,000
Proceeds from sale of assets held for sale	504,000	-
Acquisition of assets held for sale	-	(104,538)
Acquisition of property - construction in progress (CIP)	(13,062,899)	(7,847,238)
Acquisition of property and equipment	(6,505,610)	(50,213)
Net Cash used for Investing Activities	(21,500,992)	(9,769,364)
Financing Activities		
Proceeds from notes payable	23,998,952	16,720,000
Payment of debt issuance costs	(691,441)	(752,749)
Principal payments on notes payable	(234,405)	(205,289)
Net Cash from Financing Activities	23,073,106	15,761,962
Net Change in Cash and Cash Equivalents	3,134,974	9,043,619
Cash and Cash Equivalents, Beginning of Year	12,597,966	3,554,347
Cash and Cash Equivalents, End of Year	$ 15,732,940	$ 12,597,966
Cash and Cash Equivalents Consists of		
Cash and cash equivalents	$ 5,410,417	$ 4,443,302
Cash and cash equivalents - restricted	10,210,885	8,020,014
Program cash reserve	111,638	134,650
	$ 15,732,940	$ 12,597,966
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 405,465	$ 333,107
Schedule of Non-cash Investing and Financing Activities		
Other real estate acquired in settlement of loans	$ 190,000	$ -
Property transferred to School District	-	15,912,617
Debt forgiven by School District	-	19,825,313
Construction in progress contributed by School District	3,644,406	1,193,071
Construction in progress transferred to assets held for sale	-	374,033
Acounts and retainage payable for CIP and PPE	2,802,173	1,455,477
Accrued interest capitalized as CIP and PPE	288,957	126,569
Amortization of debt issuance costs capitalized as CIP and PPE	26,579	15,808

Note 1 - Principal Activity and Significant Accounting Policies

Principal Business Activity

GROW South Dakota (the Corporation) is a nonprofit corporation whose primary objective is to promote and foster economic growth, housing development, and educational opportunities in distressed communities and underserved markets in South Dakota by providing services to individuals, small businesses, and communities through loan products and development services. The Corporation maintains a loan fund through various loan programs.

GROW South Dakota's wholly owned subsidiaries GROW Wolf Creek School, LLC and GROW CTE School, LLC, are nonprofit limited liability companies whose primary objective was to obtain New Market Tax Credit (NMTC) loans to build and lease schools in Oglala Lakota County to the Oglala Lakota County School District (School District). The New Markets Tax Credits allocated to the investors of the program have a seven-year compliance period. It is expected that upon expiration of the seven-year compliance periods, the projects will unwind. It is anticipated the GROW Wolf Creek School, LLC New Markets Tax Credits project will unwind as soon as fiscal year 2026 when the compliance period is scheduled to expire. It is anticipated the GROW CTE School, LLC New Markets Tax Credits project will unwind as soon as fical year 2027 when the compliance period is scheduled to expire.

GROW South Dakota's wholly owned subsidiary Pheasant Valley Courtyard, LLC is a low income housing project located in Milbank, South Dakota, providing affordable housing for families, handicapped, elderly, and disabled persons.

The consolidated financial statements presented in this report represent all the funds and fiscal activities under the control of the Board of Directors through a seven-member governing board of the Corporation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries: GROW Wolf Creek School, LLC (beginning August 2018), GROW CTE School, LLC (beginning November 2019) and Pheasant Valley Courtyard, LLC. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term is the determination of the allowance for loan losses.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor 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) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) 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. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Corporation reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Comparative Financial Information

The consolidated 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 Corporation's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Corporation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents - restricted consists of cash reserves that are pledged to and controlled by a lender for potential debt repayment and construction costs on the NMTC LLCs and program cash reserves required to be maintained in separate deposit accounts according to funding source requirements.

Beneficial Interest in Assets Held by South Dakota Community Foundation

The Corporation has an agency fund with the South Dakota Community Foundation (SDCF). Distributable income from the fund shall be used to support the mission of the Corporation and will be made available for distribution not less often than annually, which may be on an annualized basis, or a calendar year basis, or a portion of either, as determined by the Directors of the Foundation. The fund is held and invested by SDCF for the benefit of the Corporation, and is reported at fair value in the statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities.

The Corporation has a designated fund separate from the agency fund that was established by SDCF for the Corporation. The fund is held and invested by SDCF for the benefit of the Corporation. The fair value of this account as of June 30, 2020 and 2019, was $25,570 and $23,925, respectively, at fair value and is carried on SDCF's financial statements only and not included as an asset in the statements of financial position. Income from the designated fund is recorded to the extent distributions from the fund are received by the Corporation, to which no distributions were received during the years ended June 30, 2020 and 2019.

Assets Held for Sale

Assets held for sale as of June 30, 2019, consisted of three constructed homes funded under the Project Reinvest program. As of June 30, 2019, the homes were actively listed for sale and were stated at the lower of cost or fair value less cost to sell, which at June 30, 2019, was cost. These assets held for sale were sold during the year ended June 30, 2020, and the related gain on sale of these assets has been reflected in the statement of activities.

Notes Receivable and Allowance for Loan Losses

Notes receivable are stated at the outstanding principal balance adjusted for the allowance for loan losses and are generally secured. The Corporation charges a late fee of 5% of the monthly loan payment or a maximum of $100 for any payments more than 10 days late. 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 as management deems necessary. Payments of notes receivable are allocated first to accrued and unpaid interest with the remainder to the outstanding principal balance.

The Corporation has determined that the accounting for nonrefundable fees and costs associated with originating or acquiring notes receivable does not have a material effect on its consolidated financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively.

The allowance for loan losses on notes receivable 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 lack of collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance when received.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. 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.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. The Corporation recognizes interest income on impaired loans the same as other loans.

Impairment is measured on a loan-by-loan basis for all loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of the unrecovered loan balance or fair value. Subsequent to foreclosure, valuations are periodically assessed by management and the assets are carried at the lower of carrying amount or fair value. Any revenue related to foreclosed assets would be reflected as revenues from foreclosed assets and expenses related to these assets would be reflected as revolving loan fund program expenses.

Property and Equipment

Purchases of property and equipment in excess of $10,000 are recorded at cost. Donated property and equipment is valued at estimated fair value on the date donated if over $10,000. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized if over $10,000. Expenditures 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:

Vehicles	5 years
Furnishings	5 years
Maintenance equipment	7 years
Buildings	25-40 years

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. The Corporation has determined there were no indicators of asset impairment during the years ended June 30, 2020 or 2019.

Income Taxes

The Corporation is organized as a South Dakota nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction, and has been determined not to be a private foundation. The Corporation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Corporation determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The subsidiaries of GROW South Dakota are all single member limited liability companies, and, as such, each respective company's taxable income or loss is allocated to the Corporation. Therefore, no provision for income taxes has been included in the financial statements for those companies.

Management believes that the Corporation has appropriate support for any tax positions taken affecting its annual filing requirements, and, as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Corporation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Revenue Recognition

Contributions are recognized when cash, securities or other assets are received. The Corporation's grant awards received are for specific purposes, such as cost reimbursement-type grants, and are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Revenue recognition is recognized as support to the extent of related expense(s) incurred in compliance with the specific performance requirements. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. At June 30, 2020, the Corporation has received cost-reimbursable grants of approximately $309,000 for which amounts have not been received in advance and have not been recognized in the accompanying consolidated financial statements.

Notes receivable interest income is accrued on the unpaid principal balance. The accrual of interest on notes receivable is discontinued upon board approval unless the credit is well secured and in the process of collection. Apartment and lease revenues are recognized over the term of the lease as earned.

Credit Risk - Receivables

The Corporation, as part of its normal business operations, grants credit in the form of notes receivable to companies primarily to start-up or expand businesses, or to individuals for homeownership in South Dakota. The maximum amount of loss due to credit risk is equal to the outstanding balance on the notes. Risk ratings are reviewed annually on commercial notes, which include assessment of collateral and financial condition of the business. Allowances for loan losses are calculated from those risk ratings on commercial loans. The Corporation's policy is to review collateral and financial statements of the businesses on an annual basis. Allowances for loan losses on residential housing loans are calculated based on the approved lending policy which sets the allowance for loan losses rate based on collateral position.

The Corporation seeks to obtain the most secure position possible, including collateral such as inventory, equipment, accounts receivable, mortgages, vehicle liens, and personal guarantees.

Debt Issuance Costs

Debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, and management believes this is a reasonable estimate of the effective interest method. Debt issuance costs are included within long-term debt in the consolidated statement of financial position. Amortization of debt issuance costs is capitalized during construction and, upon completion of construction, is included in interest expense in the accompanying consolidated financial statements.

Functional Allocation of Expenses

The costs of program and supporting activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs of GROW South Dakota have been allocated among the programs and supporting services benefited. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, certain GROW South Dakota expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include certain professional services and office expenses which are allocated on the basis of estimates of time and effort.

Beneficiary Obligation

The beneficiary obligation represents certain costs of property and equipment and construction in progess that were paid for by the Oglala Lakota County School District (School District) and contributed into GROW Wolf Creek School, LLC, by the School District. Because the School District is considered to be the beneficiary to the assets paid for and contributed, revenue for the contribution of assets was not recognized and, instead, a liability was reported to reflect the value of those assets held to be used for the benefit of the School District over the compliance period of the NMTC project.

Refundable Advances

Amounts received prior to incurring qualifying expenditures under cost reimbursement type grants are reported as refundable advances in the statement of financial position.

Salaries and Benefits

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

Adoption of Accounting Standards and Pronouncements

The Corporation has adopted Accounting Standards Update (ASU) No. 2014-09 - *Revenue from Contracts with Customers* (Topic 606), as amended, which provides a comprehensive revenue recognition model for all contracts with customers. The new model requires revenue recognition to depict the transfer of promised goods or services to customers at an amount that reflects the consideration expected to be received in exchange for those goods or services. The Corporation has also adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 605). The amendments in this update assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance; and (2) determining whether a contribution is conditional. Management believes these standards improve the usefulness and understandability of the Corporation's financial reporting.

Analysis of various provisions of these standards resulted in no significant changes in the way the Corporation recognizes revenue, and, therefore, no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standards.

Subsequent Events

The Corporation has evaluated subsequent events through September 25, 2020, the date which the consolidated financial statements were available to be issued.

Note 2 - Liquidity and Availability

The Corporation 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 and money market funds.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Corporation 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. Notes receivable made without donor restrictions are not included in the analysis as principal payments received 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, the Corporation anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Financial assets available for general expenditure within one year of the statement of financial position date comprise the following:

	2020	2019
Cash and cash equivalents	$ 2,018,924	$ 911,485
Accrued interest	35,867	26,848
Other receivable	13,105	7,144
Grant receivable	89,248	225,088
Lease receivable	87,500	-
	$ 2,244,644	$ 1,170,565

Note 3 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs to the fair value methodology include:

Level 1 – 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 or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

The fair value of the Corporation's beneficial interest in assets held by the South Dakota Community Foundation (SDCF) is based on the fair value of fund investments as reported by SDCF. These are considered to be Level 3 measurements.

The following is a reconciliation for Level 3 assets measured on a recurring basis:

	SDCF Fund
Balance, June 30, 2019	$ 120,010
Total gains or losses included in changes in net assets	8,691
Contributions (net of admin fees)	6,604
Balance, June 30, 2020	$ 135,305
Balance, June 30, 2018	$ 110,230
Total gains or losses included in changes in net assets	4,032
Contributions (net of admin fees)	5,748
Balance, June 30, 2019	$ 120,010

Note 4 - Restricted Cash

Restricted cash consists of the following at June 30, 2020 and 2019:

	2020	2019
Construction	$ 8,311,322	$ 7,113,076
Debt repayment reserve	1,870,063	892,938
Audit and tax reserve	29,500	14,000
	$ 10,210,885	$ 8,020,014

Restricted cash is for the future payment of audit/tax fees related to the financing of the school buildings as well as funds restricted for the construction of the buildings and debt repayment.

Note 5 - Notes Receivable

The purpose of the loan fund is to provide flexible and accessible loans that will strengthen, create, or save businesses and job opportunities, as well as provide homeownership assistance financing to homeowners. A summary of notes receivable by portfolio category as of June 30, 2020 and 2019, follows:

	2020	2019
Commercial loans	$ 4,695,004	$ 4,027,765
Housing loans	7,339,513	5,863,978
Consumer loans	6,991	6,107
Total loans	12,041,508	9,897,850
Less allowance for loan losses	(667,708)	(651,257)
Total notes receivable, net of allowance	$ 11,373,800	$ 9,246,593

Allowance for Loan Losses

The following table presents the activity in the allowance for loan losses for the years ended June 30, 2020 and 2019, and the recorded investment in loans and impairment method as of June 30, 2020 and 2019, by portfolio segment.

	2020			
	Commercial	Housing	Consumer	Total
Allowance for Loan Losses				
Balance, beginning of year	$ 276,810	$ 373,531	$ 916	$ 651,257
Provision (benefit) for bad debts	7,319	107,580	774	115,673
Loans charged off	(82,081)	(16,500)	(641)	(99,222)
Balance, end of year	$ 202,048	$ 464,611	$ 1,049	$ 667,708
Individually evaluated for impairment	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	202,048	464,611	1,049	667,708
Balance, end of year	$ 202,048	$ 464,611	$ 1,049	$ 667,708
Loans				
Individually evaluated for impairment	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	4,695,004	7,339,513	6,991	12,041,508
Balance, end of year	$ 4,695,004	$ 7,339,513	$ 6,991	$ 12,041,508

	2019			
	Commercial	Housing	Consumer	Total
Allowance for Loan Losses				
Balance, beginning of year	$ 173,479	$ 270,166	$ -	$ 443,645
Provision for (benefit from) bad debts	103,331	143,001	916	247,248
Loans charged off	-	(39,636)	-	(39,636)
Balance, end of year	$ 276,810	$ 373,531	$ 916	$ 651,257
Individually evaluated for impairment	$ 136,040	$ -	$ -	$ 136,040
Collectively evaluated for impairment	140,770	373,531	916	$ 515,217
Balance, end of year	$ 276,810	$ 373,531	$ 916	$ 651,257
Loans				
Individually evaluated for impairment	$ 272,081	$ -	$ -	$ 272,081
Collectively evaluated for impairment	3,755,684	5,863,978	6,107	$ 9,625,769
Balance, end of year	$ 4,027,765	$ 5,863,978	$ 6,107	$ 9,897,850

Credit Quality Indicators

The Corporation 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. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger loans such as commercial loans. This analysis is performed on an ongoing basis as new information is obtained. The Corporation uses the following definitions for risk ratings:

Prime - Loans with a rating of prime are very low risk for the Corporation. 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 the Corporation 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 the Corporation’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 the Corporation'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.

Projected Loss - A loan designated as projected loss means our best estimate shows the Corporation 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.

The Corporation categorizes housing loans into risk categories based on the collateral position. There is a minimum of 5% for first mortgage residential loans. Two points are added to the reserve for housing loans with a second mortgage as collateral.

Based on the most recent analysis performed, the risk category of loans by class of loans as of June 30, 2020 and 2019, was as follows:

Credit Risk Profile by Internally Assigned Grade

	2020			
	Commercial	Housing	Consumer	Total
Prime	$ 850,482	$ -	$ -	$ 850,482
Desirable	1,627,474	-	-	1,627,474
Satisfactory	1,715,634	7,339,513	-	9,055,147
Watch	501,414	-	6,991	508,405
Doubtful	-	-	-	-
	$ 4,695,004	$ 7,339,513	$ 6,991	$ 12,041,508

	2019			
	Commercial	Housing	Consumer	Total
Prime	$ 628,690	$ -	$ -	$ 628,690
Desirable	1,635,789	-	-	1,635,789
Satisfactory	1,219,142	5,863,978	-	7,083,120
Watch	272,063	-	6,107	278,170
Doubtful	272,081	-	-	272,081
	$ 4,027,765	$ 5,863,978	$ 6,107	$ 9,897,850

Credit Risk Profile by Class Based on Payment Activity

Loans are managed on an individual basis. Loans that are delinquent 90 days or more and are not accruing interest are considered nonperforming. The following table presents the recorded investments in loans by class based on payment activity as of June 30, 2020 and 2019:

	2020		
	Performing	Nonperforming	Total
Commercial	$ 4,695,004	$ -	$ 4,695,004
Housing	7,339,513	-	7,339,513
Consumer	6,991	-	6,991
Total	$ 12,041,508	$ -	$ 12,041,508

	2019		
	Performing	Nonperforming	Total
Commercial	$ 3,755,684	$ 272,081	$ 4,027,765
Housing	5,863,978	-	5,863,978
Consumer	6,107	-	6,107
Total	$ 9,625,769	$ 272,081	$ 9,897,850

The following table summarizes the aging of the past due loans by loan class within the portfolio segments as of June 30, 2020 and 2019.

	2020			
		Still Accruing		
	Current	30-90 Days Past Due	Over 90 Days Past Due	Nonaccrual Balance
Commercial	$ 4,588,875	$ 106,129	$ -	$ -
Housing	7,339,513	-	-	-
Consumer	6,636	355	-	-
Total	$ 11,935,024	$ 106,484	$ -	$ -

	2019			
		Still Accruing		
	Current	30-90 Days Past Due	Over 90 Days Past Due	Nonaccrual Balance
Commercial	$ 3,737,914	$ 17,553	$ 217	$ 272,081
Housing	5,863,978	-	-	-
Consumer	5,595	512	-	-
Total	$ 9,607,487	$ 18,065	$ 217	$ 272,081

The following table summarizes individually impaired loans by class of loans as of June 30, 2019. There were no impaired or nonaccrual loans as of June 30, 2020.

	2019				
	Recorded Investment	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Commercial	$ 272,081	$ 272,081	$ 136,041	$ 273,117	$ 4,889
Housing	-	-	-	-	-
Total	$ 272,081	$ 272,081	$ 136,041	$ 273,117	$ 4,889
Without an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Housing	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -

(1) Represents the borrower's loan obligation, gross of any previously charged-off amounts.

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.

During the years ended June 30, 2020 and 2019, there were no loan modifications resulting in troubled debt restructurings.

If a loan is determined to have undergone a troubled debt restructuring, the loan is evaluated for an asset-specific allowance for credit losses. The Corporation 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 may be written off.

Note 6 - Property and Equipment

Property and equipment is as follows:

	2020			2019
	Cost	Accumulated Depreciation	Net	Net
Land	$ 96,000	$ -	$ 96,000	$ 96,000
Vehicles	199,569	(119,093)	80,476	87,968
Buildings	20,570,285	(1,242,879)	19,327,406	18,783,191
Furnishings	67,405	(52,468)	14,937	16,355
Maintenance equipment	30,739	(19,933)	10,806	19,063
	$ 20,963,998	$ (1,434,373)	$ 19,529,625	$ 19,002,577

Construction in progess relates to the construction of a school building for use by the Oglala Lakota County School District. Remaining contractual commitments related to the construction in progress amount to approximately $6,491,000 as of June 30, 2020, which will be funded by restricted cash.

Note 7 - Notes Payable

The proceeds from notes payable, plus earnings and principal received from loan collections, are used to fund loans to area businesses and industry, school construction, building, land, and rehabilitation of an apartment complex. The terms of the notes payable at June 30, 2020 and 2019, are as follows:

	2020	2019
3.0% note payable to Northeast South Dakota Community Action Program, due in quarterly installments of interest only payments until maturity on June 1, 2026, when all principal plus accrued interest shall be due and payable.	$ 1,230,000	$ 1,230,000
3.0% note payable to Northeast South Dakota Economic Corporation, due in quarterly installments of interest only payments until maturity on January 1, 2026, when all principal plus accrued interest shall be due and payable.	1,000,000	1,000,000
1% note payable to US Small Business Administration, due in quarterly installments of principal and interest payments of $15,362, beginning October 7, 2012, with the last payment due on August 22, 2031. A 5% cash reserve on outstanding SBA loan balance is to be set aside in a separate account.	650,666	705,266
2.67% note payable, due on demand, to First Bank & Trust. If no demand, due in annual installments of interest only payments beginning December 18, 2014 until December 18, 2020, when all principal plus accrued interest shall be due and payable.	100,000	100,000
1% note payable to Rural Development, due in annual installments of principal and interest payments of $6,835 (interest only payment for first three years) beginning August 26, 2015, with the last payment due on August 26, 2041.	134,347	139,784
1% note payable to Rural Development, interest only payments for first three years, annual installments of principal and interest of $42,096 beginning July 9, 2019, with last payment due on July 9, 2045.	875,550	578,269
2% note payable to Rural Development, Rural Microentreprenuer Assistance Program (RMAP), due in monthly installments of principal and interest payments (deferred for first two years) of $2,832 beginning December 31, 2016, with last payment due on December 9, 2034.	425,310	450,452
Variable rate (never greater than 4% or less than 2%) note payable to 1st Financial Bank USA, due in quarterly installments of interest only payments beginning January 1, 2016 until October 1, 2025, when all principal plus accrued interest shall be due and payable.	249,985	249,985

	2020	2019
2.56% note payable, due on demand, to First Bank & Trust. If no demand, due in annual installments of interest only payments beginning September 28, 2017 until September 28, 2026, when all principal plus accrued interest shall be due and payable.	100,000	100,000
2.5% note payable to MMCDC, due in monthly installments of interest only payments beginning November 1, 2019 until April 1, 2021, then monthly installments of principal and interest of $10,909 beginning May 1, 2021, with last payment due on October 1, 2029.	1,000,000	-
5% note payable to South Dakota Housing Development Authority, due in monthly installments of $12,493 beginning November 1, 2011 until May 1, 2026, when all unpaid principal plus accrued interest shall be due and payable.	775,717	883,894
0% note payable to South Dakota Housing Development Authority, payments due based on surplus cash, maturing June 26, 2032.	135,717	137,906
0% note payable to South Dakota Housing Development Authority, due in monthly principal payments of $11,108, beginning June 1, 2026 until May 1, 2038, when all unpaid principal shall be due and payable.	1,599,500	1,599,500
0% note payable to Northeast South Dakota Community Action Program, due in annual payments beginning June 1, 2026 until June 1, 2038, when all principal shall be due and payable.	142,434	144,623
1.5165% note payable to Dakotas XXVII, LLC, effective rate of 2.04%, net of unamortized debt issuance costs of $439,428 and $458,146, monthly interest only payments until December 2026, then monthly installments of $659,450, including interest with last payment due December 2043, secured by GROW Wolf Creek School property.	9,880,572	9,861,854
1.5165% note payable to Dakotas XXVII, LLC, effective rate of 2.04%, net of unamortized debt issuance costs of $173,727 and $181,128, monthly interest only payments until December 2026, then monthly installments of $260,713, including interest with last payment due December 2043, secured by GROW Wolf Creek School property.	3,906,273	3,898,872
1.5165% note payable to USBCDE SUB-CDE 177, LLC, effective rate of 2.04%, net of unamortized debt issuance costs of $65,616 and $68,411, monthly interest only payments until December 2026, then monthly installments of $98,470, including interest with last payment due December 2043, secured by GROW Wolf Creek School property.	1,475,384	1,472,589
1.5165% note payable to USBCDE SUB-CDE 177, LLC, effective rate of 2.04%, net of unamortized debt issuance costs of $28,060 and $29,256, monthly interest only payments until December 2026, then monthly installments of $42,110, including interest with last payment due December 2043, secured by GROW Wolf Creek School property.	630,940	629,744

	2020	2019
1.4294% note payable to Dakotas XXXIII, LLC, effective rate of 1.707%, net of unamortized debt issuance costs of $408,100, annual interest only payments until December 2026, then annual installments of $698,204, including interest with last payment due December 2049, secured by GROW CTE School property.	13,195,900	-
1.4294% note payable to Dakotas XXXIII, LLC, effective rate of 1.707%, net of unamortized debt issuance costs of $167,872, annual interest only payments until December 2026, then annual installments of $287,206, including interest with last payment due December 2049, secured by GROW CTE School property.	5,428,128	-
1.4294% note payable to USBCDE SUB-CDE 197, LLC, effective rate of 1.707%, net of unamortized debt issuance costs of $73,679, annual interest only payments until December 2026, then annual installments of $126,055, including interest with last payment due December 2049, secured by GROW CTE School property.	2,382,421	-
1.4294% note payable to USBCDE SUB-CDE 197, LLC, effective rate of 1.707%, net of unamortized debt issuance costs of $30,266, annual interest only payments until December 2026, then annual installments of $51,780, including interest with last payment due December 2049, secured by GROW CTE School property.	978,634	-
	$ 46,297,478	$ 23,182,738

A summary of approximate principal maturities on the notes payable for the remaining term of the debt are as follows:

Years Ending June 30,	Amount
2021	$ 453,306
2022	347,951
2023	358,297
2024	368,968
2025	380,197
Thereafter	45,775,507
Less unamortized debt issuance costs	(1,386,748)
	$ 46,297,478

Interest expense on long-term debt (including amortization of debt issuance costs) for the years ended June 30, 2020 and 2019, was $297,229 and $345,210, respectively.

Note 8 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

	2020	2019
Subject to Expenditure for Specified Purpose		
Loan programs	$ 622,869	$ 552,733
Housing programs	4,571,152	3,702,398
	$ 5,194,021	$ 4,255,131

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows for the years ended June 30, 2020 and 2019:

	2020	2019
Satisfaction of purpose restrictions		
Loan programs	$ 602,549	$ 253,630
Housing programs	1,566,028	1,535,809
	$ 2,168,577	$ 1,789,439

Note 9 - Beneficial Interests in Assets Held by Community Foundation

At June 30, 2020 and 2019, investments held by the South Dakota Community Foundation consisted of the following:

	2020	2019
Beginning balance	$ 120,010	$ 110,230
Fund contributions (net of admin fees)	6,605	5,748
Interest and dividend income	3,243	2,558
Net realized and unrealized gain	5,447	1,474
	$ 135,305	$ 120,010

Note 10 - Deposits and Investments – Risk Concentrations

The Corporation deposits and maintains its cash balances and savings accounts at financial institutions. The cash balances are held in institutions insured by the Federal Deposit Insurance Corporation (FDIC). In addition, certain financial institutions obtained additional bank deposit guaranty bonds to cover balances not insured by FDIC. The Corporation believes it is not exposed to any significant credit risk on cash and cash equivalents and has not experienced any loss in such accounts during 2020 or 2019. As a loan requirement for GROW Wolf Creek School, LLC and GROW CTE School, LLC checking and savings accounts are required to be held at one financial institution; therefore, as of June 30, 2020 and 2019, the Corporation had $10,927,329 and $8,623,482, respectively, in uninsured cash balances related to the subsidiaries, GROW Wolf Creek School, LLC and GROW CTE School, LLC.

Note 11 - Related Party Transactions

The 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 disadvantaged persons. The Northeast South Dakota Economic Corporation (NESDEC) was formed to accept public and private funds to raise the economic welfare, educational, and social levels of underprivileged or low-income residents of a twenty-two county area, and groups composed, substantially, of such residents, to foster and promote community-wide interest and concern for the problems of said residents and groups. All three organizations are branded under the name GROW South Dakota, however NESDCAP and NESDEC are separate entities and therefore not presented as part of these financial statements.

The Corporation does not have any employees, nor does it have its own offices. Rather, it reimburses NESDCAP/NESDEC for salaries, employee benefits, and various administrative/program costs which amounted to approximately $438,319 and $445,871 for the years ended June 30, 2020 and 2019, respectively, and related accounts payable to NESDCAP was $346 and $16,115 as of June 30, 2020 and 2019, respectively. The Corporation leases vehicles to NESDCAP. All vehicle leases are considered operating leases because NESDCAP has the option to terminate leases upon thirty-day notice. Vehicle lease income was $39,550 and $33,988 for the years ended June 30, 2020 and 2019, respectively. The Corporation also obtained long-term notes payable from NESDCAP/NESDEC to fund its loan fund. Total related party loan balance was $2,372,434 and $2,374,623 as of June 30, 2020 and 2019, respectively, and total interest expense paid was $66,780 and $66,799 for the years ended June 30, 2020 and 2019, respectively.

Note 12 - Commitments and Contingencies

The Corporation 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.

During 2020, the world-wide coronavirus pandemic impacted national and global economies. The Corporation is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Corporation is not known.

Note 13 - Leases

The Corporation's subsidiaries, GROW Wolf Creek School, LLC and GROW CTE School, LLC, entered into lease agreements as the lessor with Oglala Lakota County School District (School District) for the school buildings. The term of the GROW Wolf Creek School, LLC lease runs through November 20, 2038 (initial lease term), with the School District having the right to extend the term for one additional five-year term immediately following the expiration of the initial lease term. In the event the School District exercises its extension option at the conclusion of the initial lease term, the School District will pay an annual lease payment equal to the Fair Market Rent as defined in the lease. Upon the conclusion of the seven-year compliance period for the NMTC, it is the intention of the parties to terminate the lease and GROW Wolf Creek School, LLC would transfer the leased assets to the School District. The term of the GROW CTE School, LLC lease runs through November 20, 2039 (initial lease term) with the School District having the right to extend the term for two additional five-year terms immediately following the expiration of the initial lease term. In the event the School District exercises its extension option at the conclusion of the initial lease term, the School District will pay an annual lease payment equal to the Fair Market Rent as defined in the lease. Upon the conclusion of the seven-year compliance period for the NMTC, it is the intention of the parties to terminate the lease and GROW CTE School, LLC would transfer the leased assets to the School District. Both leases have graduated lease payments over the term of the lease, which for financial reporting is recorded on a straight line basis over the term of the lease which, at times, results in lease payments receivable or unearned as of the statement of financial position date.

Future minimum required lease payments expected to be collected by the GROW Wolf Creek School, LLC and GROW CTE School, LLC leases through November 20, 2038 and November 20, 2039, respectively, are as follows:

Years Ending June 30,	
2021	$ 175,000
2022	389,000
2023	389,000
2024	389,000
2025	389,000
Thereafter	31,166,750
	$ 32,897,750

The Corporation also leases vehicles to NESDCAP, a related party as indicated in Note 10. Future required minimum lease payments from NESDCAP are $30,900 in 2021.

Supplementary Information
June 30, 2020 and 2019

GROW South Dakota and Subsidiaries

	2020						
	Parent	Subsidiary	Subsidiary	Subsidiary			
	GROW South Dakota	GROW Wolf Creek School, LLC	Grow CTE School, LLC	Pheasant Valley Courtyard LLC	Eliminations	Consolidated Total	2019
Assets							
Cash and cash equivalents	$ 5,072,133	$ 380	$ 720	$ 337,184	$ -	$ 5,410,417	$ 4,443,302
Cash and cash equivalents - restricted	-	1,280,225	8,930,660	-	-	10,210,885	8,020,014
Program cash reserve	111,638	-	-	-	-	111,638	134,650
Accrued interest receivable	35,867	-	-	-	-	35,867	26,848
Lease receivable	-	501,687	-	-	-	501,687	-
Other receivables	10,000	-	-	3,105	-	13,105	8,354
Grants receivable	111,248	-	-	-	-	111,248	350,088
Assets held for sale	-	-	-	-	-	-	478,571
Prepaid assets	5,000	-	-	6,325	-	11,325	16,521
Notes receivable, less allowance for loan losses of $667,708 in 2020 and $651,257 in 2019	11,373,800	-	-	-	-	11,373,800	9,246,593
Beneficial interests in assets held by Community Foundation	135,305	-	-	-	-	135,305	120,010
Investment in GROW Wolf Creek School, LLC	21,000	-	-	-	(21,000)	-	-
Investment in GROW CTE School, LLC	21,000	-	-	-	(21,000)	-	-
Other real estate owned	190,000	-	-	-	-	190,000	-
Construction in progress	-	-	18,473,735	-	-	18,473,735	10,638,163
Property and equipment, net	80,476	16,817,780	-	2,762,036	(130,667)	19,529,625	2,874,673
	$ 17,167,467	$ 18,600,072	$ 27,405,115	$ 3,108,650	$ (172,667)	$ 66,108,637	$ 36,357,787

	Parent GROW South Dakota	Subsidiary GROW Wolf Creek School, LLC	Subsidiary Grow CTE School, LLC	Subsidiary Pheasant Valley Courtyard LLC	Eliminations	Consolidated Total	2019
Liabilities and Net Assets							
Accounts payable	$ 9,525	$ 10,000	$ -	$ 12,794	$ -	$ 32,319	$ 157,656
Construction costs payable	-	829,983	1,136,810	-	-	1,966,793	981,839
Security deposits	-	-	-	15,813	-	15,813	15,349
Accrued expenses	31,876	127,268	163,787	26,024	-	348,955	180,929
Other liabilities	24,900	-	-	-	-	24,900	-
Retainage payable	-	-	835,380	-	-	835,380	473,638
Refundable advances	1,591,800	-	-	-	-	1,591,800	2,513,353
Beneficiary obligation	-	1,574,142	3,263,335	-	-	4,837,477	1,193,071
Notes payable, net of unamortized debt issuance costs of $1,386,748 in 2020 and $736,941 in 2019	5,765,858	15,893,169	21,985,083	2,653,368	-	46,297,478	23,182,738
Total liabilities	7,423,959	18,434,562	27,384,395	2,707,999	-	55,950,915	28,698,573
Net Assets							
With donor restrictions	5,194,021	-	-	-	-	5,194,021	4,255,131
Without donor restrictions	4,549,487	165,510	20,720	400,651	(172,667)	4,963,701	3,404,083
Total net assets	9,743,508	165,510	20,720	400,651	(172,667)	10,157,722	7,659,214
	$ 17,167,467	$ 18,600,072	$ 27,405,115	$ 3,108,650	$ (172,667)	$ 66,108,637	$ 36,357,787

	2020						
	Parent	Subsidiary	Subsidiary	Subsidiary			
	GROW South Dakota	GROW Wolf Creek School, LLC	GROW CTE School, LLC	Pheasant Valley Courtyard LLC	Eliminations	Consolidated Total	2019
Revenues							
Interest income on loans	$ 296,425	$ -	$ -	$ -	$ -	$ 296,425	$ 256,860
Apartment revenue	-	-	-	193,824	-	193,824	180,823
Grant income	3,008,512	-	-	301,267	-	3,309,779	2,748,999
Lease fee income	39,550	516,270	-	-	-	555,820	215,012
Interest earned on deposits	17,749	-	-	3,455	-	21,204	17,509
Gain on debt forgiveness and transfer of assets	-	-	-	-	-	-	3,079,172
Contract income	61,950	-	-	-	-	61,950	-
Miscellaneous income	8,527	-	-	6,173	-	14,700	98,776
Gain on sale of assets held for sale	27,429	-	-	-	-	27,429	-
Donations and contributions	8,076	-	-	-	-	8,076	6,951
Endowment fund income	8,691	-	-	-	-	8,691	4,032
Management fees	20,000	-	-	-	-	20,000	6,800
Development fees	100,000	-	-	-	-	100,000	95,407
Return on investment in subsidiaries	35,060	-	-	-	(35,060)	-	-
Origination fees	30,209	-	-	-	-	30,209	27,240
Total revenues	3,662,178	516,270	-	504,719	(35,060)	4,648,107	6,737,581
Expenses							
Program - revolving loan funds	208,968	-	-	-	-	208,968	250,159
Program - vehicle lease program	32,684	-	-	-	-	32,684	28,809
Program - housing program	998,581	-	-	451,901	(8,000)	1,442,482	1,462,209
Program - new market tax credit	34,140	356,557	-	-	-	390,697	350,094
Program - other program services	3,229	-	-	-	-	3,229	-
General and administrative	70,779	480	280	-	-	71,539	74,215
Total expenses	1,348,381	357,037	280	451,901	(8,000)	2,149,599	2,165,486
Change in Net Assets	2,313,797	159,233	(280)	52,818	(27,060)	2,498,508	4,572,095
Equity Contribution from GROW South Dakota	-	-	21,000	-	(21,000)	-	-
Distribution to GROW South Dakota	-	(14,583)	-	(20,477)	35,060	-	-
Net Assets, Beginning of Year	7,429,711	20,860	-	368,310	(159,667)	7,659,214	3,087,119
Net Assets, End of Year	$ 9,743,508	$ 165,510	$ 20,720	$ 400,651	$ (172,667)	$ 10,157,722	$ 7,659,214

Federal Awards Reports in Accordance with the Uniform Guidance
June 30, 2020

GROW South Dakota and Subsidiaries

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*

The Board of Directors
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 consolidated financial statements of GROW South Dakota and its subsidiaries (the Corporation), which comprise the consolidated statement of financial position as of June 30, 2020, 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, and have issued our report thereon dated September 25, 2020.

Internal Control over Financial Reporting
In planning and performing our audit of the consolidated financial statements, we considered the Corporation'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 consolidated 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.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Corporation's consolidated 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 consolidated 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 communication is not suitable for any other purpose.

Eide Bailly LLP

Aberdeen, South Dakota
September 25, 2020

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

To the Board of Directors
GROW South Dakota
Sisseton, South Dakota

Report on Compliance for Each Major Federal Program
We have audited GROW South Dakota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on GROW South Dakota's major federal programs for the year ended June 30, 2020. GROW South Dakota'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on the compliance for each of GROW South Dakota's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 GROW South Dakota'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 GROW South Dakota's compliance.

Opinion on Each Major Federal Program
In our opinion, GROW South Dakota has complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance
Management of GROW South Dakota is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered GROW South Dakota'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 the GROW South Dakota'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 compliance requirement 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 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.

Eide Bailly LLP

Aberdeen, South Dakota
September 25, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Direct Funding			
Intermediary Relending Program - Note 4	10.767		$ 1,052,005
Rural Microentrepreneur Assistance Program - Direct Loan - Note 4	10.870		450,452
Rural Microentrepreneur Assistance Program - Project Grant	10.870		14,973
Total U.S. Department of Agriculture			1,517,430
U.S. Department of Health and Human Services			
Passed Through South Dakota Community Action Partnership			
Assets for Independence Demonstration Program	93.602	90EI094801	23,417
Total U.S. Department of Health and Human Services			23,417
U.S. Small Business Administration			
Direct Funding			
Intermediary Lending Program - Note 4	59.062		705,266
Total U.S. Small Business Administration			705,266
U.S. Department of Treasury			
Direct Funding			
Community Development Financial Institutions Program FA Program	21.020		1,185,768
Community Development Financial Institutions Program Capital Magnet Fund	21.011		630,896
Total U.S. Department of Treasury			1,816,664
Total Federal Financial Assistance			$ 4,062,777

Note 1 – Basis of Presentation

The accompanying consolidated schedule of expenditures of federal awards (the schedule) includes the federal award activity of GROW South Dakota and its subsidiaries, under programs of the federal government for the year ended June 30, 2020. The information 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 GROW South Dakota, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of GROW South Dakota.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, 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. No federal financial assistance has been provided to a subrecipient.

Note 3 – Indirect Cost Rate

GROW South Dakota has not elected to use the 10% *de minimis* cost rate.

Note 4 – Federal Loan Programs

The federal loan programs listed below are administered directly by GROW South Dakota and balances and transactions related to these programs are included in GROW South Dakota's consolidated financial statements. Expenditures reported in this schedule consist of the beginning of the year loan balance plus additional loan advances during the year. The balances of loans outstanding at June 30, 2020, under those federal loan programs are as follows:

	Federal CFDA Number	Amount
U.S. Small Business Adminstration (ILP)	59.062	$ 650,666
U.S. Department of Agriculture (IRP I and IRP II)	10.767	1,009,897
U.S. Department of Agriculture (RMAP)	10.870	425,310

Section I – Summary of Auditor's Results

<u>CONSOLIDATED FINANCIAL STATEMENTS</u>

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

<u>FEDERAL AWARDS</u>

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

<u>Name of Federal Program</u>	CFDA Number
Intermediary Relending Program	10.767
Community Development Financial Institutions Program	21.020

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

There were no consolidated financial statement findings in the current year.

Section III – Federal Award Findings and Questioned costs

There were no federal award findings and questioned costs reported in the current year.