GROW SOUTH DAKOTA

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
WITH SUPPLEMENTARY INFORMATION

JUNE 30, 2022

GROW SOUTH DAKOTA

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Wohlenberg Ritzman & Co., LLC

certified public accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of GROW South Dakota (a nonprofit corporation)(Corporation) and its subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2022, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation and its subsidiaries as of June 30, 2022, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risk. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

Other auditors previously audited the Corporation's 2021 consolidated financial statements, and they expressed an unmodified audit opinion on those audited consolidated financial statements in their report dated September 16, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, 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 consolidating schedule of financial position, consolidating schedule of activities, and the schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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 consolidating schedule of financial position, consolidating schedule of activities, and the schedule of expenditures of federal awards are 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 September 25, 2022, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation'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 the Corporation's internal control over financial reporting and compliance.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
September 25, 2022

GROW SOUTH DAKOTA AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022
WITH COMPARATIVE TOTALS FOR JUNE 30, 2021

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
ASSETS				
Cash and cash equivalents	$ 4,817,532	$ 2,197,527	$ 7,015,059	6,536,128
Cash and cash equivalents - held in trust	1,322,973	-	1,322,973	1,612,250
Program cash reserve	111,887	-	111,887	111,791
Accounts receivable	13,006	-	13,006	-
Other receivable	3,044	-	3,044	5,363
Accrued interest receivable	31,386	4,429	35,815	27,643
Lease receivable	3,259,957	-	3,259,957	1,729,122
Notes receivable, less allowance for loan losses of $816,927 in 2022 and $700,201 in 2021	7,156,741	6,780,208	13,936,949	12,120,759
Other real estate owned	165,000	-	165,000	165,000
Prepaid assets	6,190	12,500	18,690	13,424
Grants receivable	-	743,223	743,223	659,048
Beneficial interests in assets held by Community Foundation	152,386	-	152,386	161,572
Construction in progress	57,220	-	57,220	-
Property and equipment, net	42,090,093	-	42,090,093	43,227,349
Total Assets	$ 59,187,415	$ 9,737,887	$ 68,925,302	$ 66,369,449
LIABILITIES AND NET ASSETS				
Accounts payable	52,434	367,217	419,651	416,983
Security deposits	16,394	-	16,394	16,259
Accrued expenses	344,189	12,025	356,214	357,286
Other liabilities	-	3,000	3,000	46,600
Revenue received in advance	-	1,188,802	1,188,802	1,481,744
Beneficiary obligation	5,447,090	-	5,447,090	5,447,091
Notes payable, net of unamortized debt issuance cost of $1,280,432 in 2022 and $1,333,590 in 2021	45,089,407	1,922,209	47,011,616	46,514,980
Total Liabilities	50,949,514	3,493,253	54,442,767	54,280,943
Net Assets				
With donor restrictions	-	6,244,634	6,244,634	5,824,512
Without donor restrictions	8,237,901	-	8,237,901	6,263,994
Total Net Assets	8,237,901	6,244,634	14,482,535	12,088,506
Total Liabilities and Net Assets	$ 59,187,415	$ 9,737,887	$ 68,925,302	$ 66,369,449

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

GROW SOUTH DAKOTA AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021

	2022			2021
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Total**
REVENUE, GAINS (LOSSES) AND OTHER SUPPORT				
Grant income	$ 339,796	$ 3,201,854	$ 3,541,650	$ 2,672,131
Apartment revenue	205,722	-	205,722	198,418
Miscellaneous income	9,118	485	9,603	9,867
Gain on sale of assets held for sale	(247)	-	(247)	-
Interest income on loans	322,190	48,206	370,396	364,750
Interest earned on deposits	2,749	193	2,942	9,253
Donations and contributions	11,235	-	11,235	14,826
Lease fee income	1,969,036	-	1,969,036	1,433,335
Endowment fund income	(16,594)	-	(16,594)	26,465
Management fees	-	-	-	20,000
Organization fees	46,020	-	46,020	39,230
Total Revenue, Gains (Losses) and Other Support	2,889,025	3,250,738	6,139,763	4,788,275
EXPENSES				
Program Activities:				
Revolving loan funds	276,941	-	276,941	144,163
Vehicle lease program	35,839	-	35,839	32,141
Housing program	1,644,250	-	1,644,250	1,380,187
New market tax credit	1,700,054	-	1,700,054	1,223,400
Other program services	-	-	-	9,545
Support Services:				
Management and general	88,650	-	88,650	68,055
Total Expenses	3,745,734	-	3,745,734	2,857,491
Reclassification of Net Assets:				
Net assets released from restriction in satisifcation of purpose restrictions	2,830,616	(2,830,616)	-	-
Change in Net Assets	1,973,907	420,122	2,394,029	1,930,784
Net Assets, Beginning of Year	6,263,994	5,824,512	12,088,506	10,157,722
Net Assets, End of Year	$ 8,237,901	$ 6,244,634	$ 14,482,535	$ 12,088,506

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

GROW SOUTH DAKOTA AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021

	2022							2021
	Program Activities					Supporting Services		
	Loan	Lease	Housing	NMTC	Total	Management and General	Total Expenses	Total Expenses
Expenses by Function								
Depreciation	$ -	$ 30,028	$ 137,417	$ 1,040,500	$ 1,207,945	$ -	$ 1,207,945	$ 890,262
Interest expense including amortization of debt issuance costs	90,742	-	74,730	628,871	794,343	-	794,343	620,113
Contract labor	-	-	372,057	-	372,057	-	372,057	318,110
Materials	-	-	360,164	-	360,164	-	360,164	332,185
Professional fees	90,969	5,811	172,831	7,204	276,815	52,906	329,721	234,540
Maintenance	-	-	148,871	-	148,871	-	148,871	82,030
Bad debt expense (recovery)	57,907	-	69,516	-	127,423	-	127,423	35,842
Utilities	-	-	67,027	-	67,027	-	67,027	58,972
Developer fees	-	-	64,801	-	64,801	-	64,801	16,199
Taxes and license	4,975	-	31,311	-	36,286	-	36,286	33,914
Incentive compensation	11,900	-	11,900	-	23,800	11,900	35,700	33,999
Grants to other organizations/individuals	-	-	35,400	-	35,400	-	35,400	38,900
Audit fees	3,769	-	8,885	17,023	29,677	3,769	33,446	36,170
Miscellaneous	1,987	-	5,784	4,942	12,713	10	12,723	18,494
Management	-	-	32,645	-	32,645	-	32,645	34,563
Insurance	-	-	14,396	-	14,396	14,728	29,124	26,015
Equipment/software purchase	7,222	-	9,224	-	16,446	-	16,446	5,044
Onsite management	-	-	15,000	-	15,000	-	15,000	15,000
Office supplies	44	-	6,577	-	6,621	117	6,738	1,492
Travel and conferences	3,223	-	2,205	-	5,428	125	5,553	4,519
Consultant/speaker fees	584	-	584	1,234	2,402	750	3,152	1,530
Rent	1,000	-	1,000	-	2,000	1,000	3,000	3,000
Telephone	293	-	1,853	-	2,146	293	2,439	2,514
Legal fees	1,171	-	1,185	-	2,356	-	2,356	2,949
Advertising	-	-	1,950	-	1,950	-	1,950	1,460
Service fee	100	-	35	280	415	1,502	1,917	2,356
Dues/subscriptions	750	-	150	-	900	750	1,650	2,900
Postage	305	-	305	-	610	305	915	1,207
Support services	-	-	561	-	561	-	561	-
Board meeting	-	-	-	-	-	495	495	212
Loss (gain) on sale of OREO	-	-	(4,114)	-	(4,114)	-	(4,114)	3,000
Total Expenses by Function	$ 276,941	$ 35,839	$ 1,644,250	$ 1,700,054	$ 3,657,084	$ 88,650	$ 3,745,734	$ 2,857,491

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

GROW SOUTH DAKOTA AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021

	2022	2021
Cash Flows From Operating Activities		
Change in net assets	$ 2,394,029	$ 1,930,784
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Interest expense attributable to amortization of debt issuance costs	53,158	41,634
Depreciation	1,207,945	890,262
(Gain) loss on other real estate owned	(4,114)	3,000
(Gain) loss on sale of assets	247	-
Assets held by Community Foundation net investment (gain) loss	19,677	(26,465)
Provision for loan loss and bad debt expense	127,423	35,842
Change in operating assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(13,704)	-
Accrued interest receivable	(8,172)	8,224
Lease receivable	(1,530,835)	(1,227,435)
Prepaid assets	(5,266)	(2,099)
Other receivable	2,319	4,748
Grant receivable	(84,175)	(547,800)
Increase (decrease) in:		
Accounts payable	2,668	384,664
Security deposits	135	446
Accrued expenses	(1,072)	(151,856)
Other liabilities	(43,600)	21,700
Revenue received in advance	(292,942)	(110,056)
Construction cost payable	-	(1,629,660)
Retainage payable	-	(835,380)
Net cash provided by (used for) operating activities	1,823,721	(1,209,447)
Cash Flows From Investing Activities		
Net (increase) decrease in notes receivable	(1,968,802)	(779,807)
Purchase of assets held by Community Foundation through reinvestment of	(10,491)	198
Proceeds from sale of other real estate	30,000	22,000
Acquisition of property - construction in progress (CIP)	(57,220)	-
Acquisition of property and equipment	(70,936)	(5,670,059)
Net cash provided by (used in) investing activities	(2,077,449)	(6,427,668)
Cash Flows From Financing Activities		
Proceeds from notes payables	800,000	579,410
Principal payments on notes payable	(356,522)	(415,066)
Net cash provided by (used in) financing activities	443,478	164,344
Net change in cash and cash equivalents	189,750	(7,472,771)
Cash and cash equivalents, beginning of year	8,260,169	15,732,940
Cash and cash equivalents, end of year	$ 8,449,919	$ 8,260,169
Cash and Cash Equivalents Consists of		
Cash and cash equivalent	$ 7,015,059	6,536,128
Cash and cash equivalent - restricted	1,322,973	1,612,250
Program cash reserve	111,887	111,791
	$ 8,449,919	$ 8,260,169
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	$ 742,194	$ 737,731
Schedule of Non-Cash Investing and Financing Activities		
Construction in progress contributed by school district	$ -	$ 609,614
Accrued interest capitalized as property and equipment	-	160,187
Amortization of debt issuance costs capitalized as PPE	-	11,524

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

1. NATURE OF ACTIVITIES AND SUMMARY OF 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 fiscal 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.

Summary of Significant Accounting Policies

This summary of significant accounting policies of the Corporation is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Corporation's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

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

Principles of Consolidation

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

Basis of Presentation

The accounts of the Corporation 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 purpose for which they are to be spent and the means by which spending activities are controlled.

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB). The FASB requires the Corporation to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor 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 audited consolidated financial statements for the year ended June 30, 2021, 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.

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

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 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 recognized interest income on impaired loans the same as other loans.

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

Notes Receivable and Allowance for Loan Losses, continued

Impairment is measured on a loan-by-loan basis for all loans by either the present value of expected future cash flows discontinued 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.

Credit Risk – Receivables

The Corporation, as part of its normal business operations, grants credit in the form of notes receivables 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.

Beneficial Interest in Assets Held by South Dakota Community Foundation

The Corporation has an agency fund with the South Dakota Community Foundation (the Foundation). 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 the Foundation 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 that was established by the Foundation for the Corporation. The fund is held and invested by the Foundation for the benefit of the Corporation. The fair value of this account as of June 30, 2022 was $25,299 and is carried on the Foundation's financial statements only and not included as an asset in the consolidated 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 year ended June 30, 2022.

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

Fair Value of Financial Instruments

Unless otherwise indicated, the fair value of all reported assets and liabilities, which represent financial instruments (none of which are held for trading purposes) approximate the carrying value of such amounts.

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 are 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 year ended June 30, 2022.

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

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.

Revenue Received in Advances

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

Beneficiary Obligation

The beneficiary obligation represents certain costs of property and equipment and construction in progress 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.

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.

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

Net Assets, continued

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.

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 revenue received in advance in the consolidated 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.

Salaries and Benefits

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

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

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.

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 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.

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

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.

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 consolidated statement of financial position date comprise the following:

	2022
Cash and cash equivalents	$ 2,175,194
Accrued Interest	35,815
Other Receivable	16,051
Grant Receivable	656,856
Lease Receivable	194,500
	$ 3,078,416

3. FAIR VALUE MEASUREMENTS AND DISCLOSURES

Certain assets are reported at fair value in the consolidated financial statements. Fair value is the prices 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, 2021	$ 161,572
Total gain or losses included in change in net assets	(16,594)
Contributions/(Disbursements) (net of admin fees)	7,408
Balance, June 30, 2022	$ 152,386

4. CASH AND CASH EQUIVALENTS – HELD IN TRUST

Cash and cash equivalents – held in trust consists of the following at June 30, 2022:

	2022
Debt repayment reserve	$ 1,299,437
Audit and tax reserve	23,536
	$ 1,322,973

Cash and cash equivalents – held in trust 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.

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, 2022, follows:

	2022
Commercial loans	$ 5,403,043
Housing loans	9,342,318
Consumer loans	8,514
Total Loans	14,753,876
Less allowance for loan losses	(816,927)
Total notes receivable, net of allowance	$ 13,936,949

5. NOTES RECEIVABLE, continued

Allowance for Loan Losses

The following table presents the activity in the allowance for loan losses for the year ended June 30, 2022, and the recorded investment in loans and impairment method as of June 30, 2022, by portfolio segment.

	2022			
	Commercial	Housing	Consumer	Total
Allowance for Loan Losses				
Balance, beginning of year	$ 176,587	$ 522,727	$ 887	$ 700,201
Provision for (benefit from) bad debts	56,512	68,073	2,140	126,725
Net recoveries, (charge offs)	-	(10,000)	-	(10,000)
	$ 233,099	$ 580,800	$ 3,027	$ 816,926
Individually evaluated for impairment	$ 233,099	$ -	$ -	$ 233,099
Collectively evaluated for impairment	-	580,800	3,027	583,827
	$ 233,099	$ 580,800	$ 3,027	$ 816,926
Loans				
Individually evaluated for impairment	$ 5,403,043	$ -	$ -	$ 5,403,043
Collectively evaluated for impairment	-	9,342,318	8,514	9,350,832
	$ 5,403,043	$ 9,342,318	$ 8,514	$ 14,753,875

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.

5. NOTES RECEIVABLE, continued

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 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 reasonable 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 change 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.

5. NOTES RECEIVABLE, continued

Based on the most recent analysis performed, the risk category of loans by class of loans as of June 30, 2022 was as follows:

Credit Risk Profile by Internally Assigned Grade

	2022			
	Commercial	Housing	Consumer	Total
Prime	$ 762,924	$ -	$ -	$ 762,924
Desirable	2,493,082	-	-	2,493,082
Satisfactory	1,790,073	9,342,318	-	11,132,391
Watch	356,965	-	3,514	360,479
Doubtful	-	-	5,000	5,000
	$ 5,403,044	$ 9,342,318	$ 8,514	$ 14,753,876

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, 2022:

	2022		
	Performing	Nonperforming	Total
Commercial	$ 5,403,044	$ -	$ 5,403,044
Housing	9,342,318	-	9,342,318
Consumer	8,514	-	8,514
Total	$ 14,753,876	$ -	$ 14,753,876

The following table summarizes the aging of the past due loans by loan class within the portfolio segments as of June 30, 2022.

	2022			
		Still Accruing		
	Current	30-90 Days Past Due	Over 90 Days Past Due	Nonaccrual Balance
Commercial	$ 5,180,971	$ 96,459	$ 125,614	$ -
Housing	8,980,809	132,433	229,076	-
Consumer	5,000	-	3,514	-
Total	$ 14,166,780	$ 228,892	$ 358,204	$ -

5. NOTES RECEIVABLE, continued

There were no impaired or nonaccrual loans as of June 30, 2022.

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 year ended June 30, 2022, 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.

6. PROPERTY AND EQUIPMENT

Property and equipment is as follows:

	2022		
	Cost	Accumulated Depreciation	Net
Land	$ 96,000	$ -	$ 96,000
Vehicles	251,380	(176,834)	74,545
Buildings	45,174,270	(3,281,917)	41,892,353
Furnishings	75,563	(62,804)	12,758
Maintenance Equipment	27,865	(13,428)	14,437
	$ 45,625,078	$ (3,534,984)	$ 42,090,093

Construction in progress in 2022 related to the construction of an elevator for use by the Pheasant Valley Courtyard, LLC which has not been completed.

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022, are as follows:

	2022
3% note payable to Northeast South Dakota Economic Development 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
3% 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% 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.	539,817
1% note payable to Rural Development, due in annual Installments of principal and interest payments of $6,835 (interest only payments for first three years) beginning August 26, 2015 with the last payment due on August 26, 2041.	123,309
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.	885,742
2% note payable to Rural Development, Rural Microentrepreneurs 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.	373,341

7. NOTES PAYABLE, continued

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
1% note payable to the Bush Foundation, annual interest only payments with principal due at maturity on December 31, 2030	500,000
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
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.	875,156
3% note payable to Opportunity Finance Network due in quarterly interest only payments until February 18, 2030 when principal and interest payments of $267,666 will be due annually for three years with the remaining outstanding principal amount due and payable on February 18, 2032.	800,000
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.	542,477
0% note payable to South Dakota Housing Authority due in monthly principal payments of $11,108, beginning June 1, 2026 until May 1, 2038, when all principal plus shall be due and payable.	1,599,500
0% note payable to Northeast South Dakota Community Action Program, due in annually payments beginning June 1, 2026 until June 1, 2038, when all principal shall be due and payable.	107,219
0% note payable to South Dakota Housing Development Authority, payments due based on surplus cash maturing June 26, 2032	100,502

7. NOTES PAYABLE, continued

1.5165% note payable to Dakotas XXVII, LLC effective rate of 2.04% 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.	10,320,000
1.5165% note payable to Dakotas XXVII, LLC, effective rate of 2.04% 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.	4,080,000
1.5165% note payable to USBCDE SUB-CDE 177, LLC, effective rate of 2.04% 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.	1,541,000
1.5165% note payable to USBCDE-SUB 177, LLC, effective rate of 2.04%, 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.	659,000
1.4294% note payable to Dakotas XXXIII, LLC, effective rate of 1.707%, 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.	13,604,000
1.4294% note payable to Dakotas XXXIII, LLC, effective rate of 1.707%, 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.	5,596,000
1.4294% note payable to USBCDE SUB-CDE 197, LLC, effective rate of 1.707%, 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.	2,456,100
1.4294% note payable to USBCDE SUB-CDE 197, effective rate of 1.707%, 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.	1,008,900
Total:	48,292,048
Less: Unamortization of Debt Issuance Costs	(1,280,432)
	$ 47,011,616

7. NOTES PAYABLE, continued

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

Year Ending June 30,		
2023	$	457,502
2024		368,166
2025		379,384
2026		2,895,164
2027		1,205,040
Thereafter		42,986,792
Less unamortized debt issuance costs		(1,280,432)
	$	47,011,616

Interest expense on long-term debt (including amortization of debt issuance costs) for the year ended June 30, 2022 was $794,343.

8. NET ASSETS WITH DONOR RESTRICTIONS

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

		2022
Subject to Expenditure for Specified Purpose		
Loan Programs	$	682,341
Housing Programs		5,562,293
	$	6,244,634

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows for the year ended June 30, 2022:

		2022
Satisfaction of purpose restrictions		
Loan Programs	$	981,306
Housing Programs		1,849,310
	$	2,830,616

9. BENEFICIAL INTERESTS IN ASSETS HELD BY COMMUNITY FOUNDATION

At June 30, 2022, investments held by the South Dakota Community Foundation consisted of the following:

	2022
Beginning Balance	$ 161,572
Net Contributions (disbursments) - net of admin expenses	7,408
Interest and dividend income	3,083
Net realized and unrealized gain	(19,677)
	$ 152,386

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 2022 and 2021. 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, 2022, the Corporation had $860,379 in uninsured cash balances related to the subsidiaries, GROW Wolf Creek School, LLC and GROW CTE School, LLC.

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.

11. RELATED PARTY TRANSACTIONS, continued

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 $416,921 for the year ended June 20, 2022 and related accounts payable to NESDCAP was $9,964 as of June 30, 2022. The Corporation leases vehicles to NESDCAP. All vehicles' leases are considered operating leases because NESDCAP has the option to terminate leases upon thirty-day notice. Vehicle and equipment lease income was $49,201 for the year ended June 30, 2022. The Corporation also obtained long-term notes payable from NESDCAP/NESDEC to fund its loan fund. Total related party loan balance including accrued interest, was $2,346,075 as of June 30, 2022, and total interest expense paid was $67,725 for the year ended June 30, 2022.

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.

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.

13. LEASES, continued

The term of the GROW CTE School 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 conclusions 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 consolidated 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:

2023	$ 389,000
2024	389,000
2025	389,000
2026	864,000
2027	864,000
Thereafter	29,438,750
	$ 32,333,750

The Corporation also leases vehicles to NESDCAP, a related party as indicated in Note 11. Future required minimum lease payments from NESDCAP are $0 in 2023.

14. SUBSEQUENT EVENTS

Events occurring after June 30, 2022, were evaluated by management on September 25, 2022, the date the financial statements were available to be issued, to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There are no significant subsequent events needing disclosure.

SUPPLEMENTARY INFORMATION

GROW SOUTH DAKOTA AND SUBSIDIARIES

SUPPLEMENTARY FINANCIAL INFORMATION
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2022
WITH COMPARATIVE TOTALS FOR JUNE 30, 2021

	2022						2021
	Parent	Subsidiary	Subsidiary	Subsidiary			
	GROW South Dakota	GROW Wolf Creek School, LLC	Grow CTE School, LLC	Pheasant Valley Courtyard, LLC	Elimination	Consolidated Total	Total
ASSETS							
Cash and cash equivalents	$ 6,682,725	$ 36,419	$ 987	$ 294,928	$ -	$ 7,015,059	$ 6,536,128
Cash and cash equivalents - restricted	-	518,249	804,724	-	-	1,322,973	1,612,250
Program cash reserve	111,887	-	-	-	-	111,887	111,791
Accounts receivable	13,006	-	-	-	-	13,006	-
Other receivable	-	-	-	3,044	-	3,044	5,363
Accrued interest receivable	35,815	-	-	-	-	35,815	27,643
Lease receivable	-	1,921,757	1,338,200	-	-	3,259,957	1,729,122
Notes receivable, less allowance for loan losses of $816,927 in 2022 and $700,201 in 2021	13,936,949	-	-	-	-	13,936,949	12,120,759
Other real estate owned	165,000	-	-	-	-	165,000	165,000
Prepaid assets	12,500	-	-	6,190	-	18,690	13,424
Grants receivable	743,223	-	-	-	-	743,223	659,048
Beneficial interests in assets held by					-		
Community Foundation	152,386	-	-	-	-	152,386	161,572
Investment in GROW Wolf Creek School, LLC	21,000	-	-	-	(21,000)	-	-
Investment in GROW CTE School, LLC	21,000	-	-	-	(21,000)	-	-
Construction in progress	-	-	-	57,220	-	57,220	-
Property and equipment, net.	81,810	15,962,473	23,679,856	2,480,621	(114,667)	42,090,093	43,227,349
Total Assets	$ 21,977,301	$ 18,438,898	$ 25,823,767	$ 2,842,003	(156,667)	$ 68,925,302	$ 66,369,449
LIABILITIES AND NET ASSETS							
Accounts payables	$ 375,434	$ -	$ -	$ 44,217	$ -	$ 419,651	$ 416,983
Security deposits	-	-	-	16,394	-	16,394	16,259
Accrued expenses	36,592	126,569	162,887	30,166	-	356,214	357,286
Other liabilities	3,000	-	-	-	-	3,000	46,600
Revenue received in advance	1,188,802	-	-	-	-	1,188,802	1,481,744
Beneficiary obligation	-	1,911,274	3,535,816	-	-	5,447,090	5,447,091
Notes payable, net of unamortized debt issuance costs of $1,280,432 in 2022 and $1,333,590 in 2021	6,677,350	15,953,389	22,031,179	2,349,698	-	47,011,616	46,514,980
Total Liabilities	8,281,178	17,991,232	25,729,882	2,440,475	-	54,442,767	54,280,943
Net Assets							
With donor restrictions	6,244,634	-	-	-	-	6,244,634	5,824,512
Without donor restrictions	7,451,489	447,666	93,885	401,528	(156,667)	8,237,901	6,263,994
Total Net Assets	13,696,123	447,666	93,885	401,528	(156,667)	14,482,535	12,088,506
Total Liabilities and Net Assets	$ 21,977,301	$ 18,438,898	$ 25,823,767	$ 2,842,003	$ (156,667)	$ 68,925,302	$ 66,369,449

See Independent Auditor's Report

GROW SOUTH DAKOTA AND SUBSIDIARIES

SUPPLEMENTARY FINANCIAL INFORMATION
CONSOLIDATING SCHEDULE OF ACTIVITIES
YEAR ENDED JUNE 30, 2022
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2021

	2022						2021
	Parent	Subsidiary	Subsidiary	Subsidiary			
	GROW South Dakota	GROW Wolf Creek School, LLC	GROW CTE School, LLC	Pheasant Valley Courtyard, LLC	Eliminations	Consolidated Total	Total
REVENUE, GAINS (LOSSES) AND OTHER SUPPORT							
Grant income	$ 3,282,171	$ -	$ -	$ 259,479	$ -	$ 3,541,650	2,672,131
Apartment revenue	-	-	-	205,722	-	205,722	198,418
Miscellaneous income	6,503	-	-	3,100	-	9,603	9,867
Gain on sale of assets held for sale	-	-	-	(247)	-	(247)	-
Interest income on loans	370,396	-	-	-	-	370,396	364,750
Interest earned on deposits	2,296	-	-	646	-	2,942	9,253
Donations and contributions	11,235	-	-	-	-	11,235	14,826
Lease fee income	49,201	885,035	1,034,800	-	-	1,969,036	1,433,335
Endowment fund income	(16,594)	-	-	-	-	(16,594)	26,465
Management fees	20,000	-	-	-	(20,000)	-	20,000
Return on investment in subsidiaries	80,366	-	-	-	(80,366)	-	-
Origination fees	46,020	-	-	-	-	46,020	39,230
Total Revenue, Gains (Losses) and Other Support	3,851,594	885,035	1,034,800	468,700	(100,366)	6,139,763	4,788,275
EXPENSES							
Program Activities:							
Revolving loan funds	276,941	-	-	-	-	276,941	144,163
Vehicle lease program	35,839	-	-	-	-	35,839	32,141
Housing program	1,158,491	-	-	493,759	(8,000)	1,644,250	1,380,187
New market tax credit	26,480	719,769	973,805	-	(20,000)	1,700,054	1,223,400
Other program services	-	-	-	-	-	-	9,545
Support Services:							
General and administrative	88,650	-	-	-	-	88,650	68,055
Total Expenses	1,586,401	719,769	973,805	493,759	(28,000)	3,745,734	2,857,491
Change in Net Assets	2,265,193	165,266	60,995	(25,059)	(72,366)	2,394,029	1,930,784
Distribution to GROW South Dakota	-	(22,889)	(37,000)	(20,477)	80,366	-	-
Net Assets, Beginning of Year	11,430,930	305,289	69,890	447,064	(164,667)	12,088,506	10,157,722
Net Assets, End of Year	$ 13,696,123	$ 447,666	$ 93,885	$ 401,528	$ (156,667)	$ 14,482,535	$ 12,088,506

See Independent Auditor's Report

GROW SOUTH DAKOTA AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S Department of Agriculture - Rural Development			
Direct Funding:			
Intermediary Relending Program - Note 4	10.767		$ 1,048,172
Rural Microentrepreneur Program - Direct Loan - Note 4	10.870		399,586
Rural Microentrepreneur Program - Project Grant	10.870		8,352
Total U.S Department of Agriculture - Rural Development			**$ 1,456,110**
U.S Department of Health and Human Services Administration for Children and Families			
Passed Through South Dakota Community Action Partnership			
Assets for Independence Demonstration Program	93.602		$ 8,700
Total U.S Department of Health and Human Services Administration for Children and Families			**$ 8,700**
U.S Small Business Administration			
Direct Funding			
Intermediary Lending Program - Note 5	59.062		$ 595,518
Pass Through Startup Sioux Falls			
Community Navigator Pilot Program	59.077	***	$ 617
Total U.S Small Business Administration			**$ 596,135**
U.S Department of Treasury			
Direct Funding			
CDFI Cluster:			
Community Development Financial Instiution Program - FA Program	21.020		$ 1,826,265
Community Development Financial Instiution Program - Capital Magnet Fund	21.011		426,600
Total U.S Department of Treasury			**$ 2,252,865**
Total Federal Finance Assistance			**$ 4,313,810**

***** Pass-Through Identifying Number not available**

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, 2022. 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, 2022, under those federal loan programs are as follows:

	Assistance Listing Number	Outstanding Balance at June 30, 2022
U.S. Small Business Administration (ILP)	59.062	$ 539,817
U.S. Department of Agriculture (IRP I and IRP II)	10.767	$ 1,009,051
U.S. Department of Agriculture (RMAP)	10.870	$ 373,341

See Independent Auditor's Report

Wohlenberg Ritzman & Co., LLC
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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, 2022, 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, 2022

Report on 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) as a basis for designing 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.

Madison Office	205 North Egan Avenue	PO Box 505	Madison, SD 57042	605.256.9165
Yankton Office	207 Douglas Avenue	PO Box 1018	Yankton, SD 57078	605.665.4401
Sioux Falls Office	507 West 10th Street	PO Box 876	Sioux Falls, SD 57101	605.336.0372

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Member of: Private Companies Practice Section American Institute of CPAs, South Dakota Society of CPAs

AICPA GAQC Member

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.

Report on Compliance and Other Matters

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

Purpose of this Report

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

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
September 25, 2022

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

The Board of Directors
GROW South Dakota
Sisseton, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on 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, 2022. 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.

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Corporation's internal control over compliance relevant to the audit to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

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

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
September 25, 2022

GROW SOUTH DAKOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

Financial Statement Findings

There were no consolidated financial statement findings reported in the prior year.

Federal Award Findings

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

GROW SOUTH DAKOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified			
Internal Control over financial reporting:				
Material weakness(es) identified?	______	Yes	X	No
Significant deficiency(ies) identified?	______	Yes	X	None reported
Noncompliance material to financial statements noted?	______	Yes	X	No

Federal Awards

Internal Control over major programs:				
Material weakness(es) identified?	______	Yes	X	No
Significant deficiency(ies) identified?	______	Yes	X	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be Reported in accordance with the Uniform Guidance 2 CFR 200.516(a)?	______	Yes	X	No

Identification of major programs:

Assistance Listing Number	Name of Federal Program of Cluster
10.767	Intermediary Relending Program

Dollar threshold used to distinguish between Type A and Type B Programs:

Auditee qualified as low-risk auditee?	X	Yes	______	No

GROW SOUTH DAKOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

SECTION II – FINANCIAL STATEMENT AUDIT

There are no financial statement audit findings to report.

SECTION III – MAJOR FEDERAL AWARDS PROGRAMS AUDIT

There are no federal award program findings to report.