

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

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

SEPTEMBER 30, 2022

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

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Wahlenberg Ritzman & Co., LLC

certified public accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of **Northeast South Dakota Community Action Program dba GROW South Dakota (a nonprofit organization, hereafter referred to as "NESDCAP")** and its subsidiaries, which comprise the consolidated statement of financial position as of September 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 NESDCAP and its subsidiaries as of September 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 NESDCAP 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.

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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 NESDCAP'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 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 NESDCAP'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 NESDCAP's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited NESDCAP's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 30, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 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 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also 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 December 27, 2022, on our consideration of NESDCAP'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 NESDCAP'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 NESDCAP's internal control over financial reporting and compliance.

Wohlschlag Ritzman + Co., LLC

Yankton, South Dakota
December 27, 2022

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

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

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 4,924,957	\$ 81,802	\$ 5,006,759	\$ 4,829,745
Receivable from affiliate	103,441	-	103,441	80,120
Other receivables	3,748	2,009	5,757	14,891
Current portion of notes receivable, net of allowance for loan losses of \$11,901 in 2022 and \$24,028 in 2021	226,125	-	226,125	456,534
Grant receivable	106,800	573,480	680,280	377,766
Accrued interest receivable	15,542	-	15,542	14,031
Prepaid expenses	21,939	-	21,939	18,253
Total current assets	<u>5,402,552</u>	<u>657,291</u>	<u>6,059,843</u>	<u>5,791,340</u>
LONG-TERM RECEIVABLES:				
Notes receivable, less allowance for loan losses of \$215,437 in 2022 and \$224,668 in 2021, and current maturities	<u>4,001,013</u>	<u>-</u>	<u>4,001,013</u>	<u>4,173,617</u>
Total long-term receivables	<u>4,001,013</u>	<u>-</u>	<u>4,001,013</u>	<u>4,173,617</u>
OTHER ASSETS:				
Property and equipment, net	188,978	-	188,978	165,652
Cash, reserve for replacement of property	-	41,712	41,712	32,970
Total other assets	<u>188,978</u>	<u>41,712</u>	<u>230,690</u>	<u>198,622</u>
Total Assets	<u>\$ 9,592,543</u>	<u>\$ 699,003</u>	<u>\$ 10,291,546</u>	<u>\$ 10,163,579</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 9,443	\$ 118,873	\$ 128,316	\$ 51,998
Accrued expenses	349,775	-	349,775	317,136
Security deposits	7,040	-	7,040	6,907
Unearned revenue	-	397,179	397,179	188,706
Current portion of notes payable	109,482	-	109,482	8,192
Total current liabilities	<u>475,740</u>	<u>516,052</u>	<u>991,792</u>	<u>572,939</u>
LONG-TERM LIABILITIES				
Notes payable, less current maturities	<u>375,433</u>	<u>-</u>	<u>375,433</u>	<u>1,484,916</u>
Total long-term liabilities	<u>375,433</u>	<u>-</u>	<u>375,433</u>	<u>1,484,916</u>
Total Liabilities	<u>851,173</u>	<u>516,052</u>	<u>1,367,225</u>	<u>2,057,855</u>
NET ASSETS				
With donor restrictions	-	182,951	182,951	140,254
Without donor restrictions	<u>8,741,370</u>	<u>-</u>	<u>8,741,370</u>	<u>7,965,470</u>
Total Net Assets	<u>8,741,370</u>	<u>182,951</u>	<u>8,924,321</u>	<u>8,105,724</u>
Total Liabilities and Net Assets	<u>\$ 9,592,543</u>	<u>\$ 699,003</u>	<u>\$ 10,291,546</u>	<u>\$ 10,163,579</u>

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

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

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2022
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2021

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE, GAINS (LOSSES) AND OTHER SUPPORT				
Grant and contract income	\$ 813,325	\$ 3,846,447	\$ 4,659,772	\$ 3,617,862
Interest income	187,465	-	187,465	204,681
Rent income	101,741	-	101,741	104,192
Housing fee income	105,518	-	105,518	57,628
Miscellaneous income	106,948	11,187	118,135	81,051
Investment return:				
Dividends and distributions	-	-	-	15,088
Write down on investments	-	-	-	(13,625)
Gain (loss) on the disposal of surplus items	642	-	642	3,563
Gain (loss) on loan forgiveness	-	-	-	382,831
	<u>1,315,639</u>	<u>3,857,634</u>	<u>5,173,273</u>	<u>4,453,271</u>
EXPENSES				
PROGRAM SERVICES:				
Weatherization	984,301	-	984,301	679,056
Business development	236,772	-	236,772	208,967
Self sufficiency	1,746	-	1,746	1,407
Housing improvement	829,599	-	829,599	763,581
Emergency assistance	<u>1,889,687</u>	<u>-</u>	<u>1,889,687</u>	<u>1,324,697</u>
	3,942,105	-	3,942,105	2,977,708
SUPPORTING SERVICES:				
Management and general	<u>412,571</u>	<u>-</u>	<u>412,571</u>	<u>378,797</u>
	<u>4,354,676</u>	<u>-</u>	<u>4,354,676</u>	<u>3,356,505</u>
Reclassification of Net Assets:				
Released in satisfaction of purpose	3,823,679	(3,823,679)	-	-
Reserve deposits required by grantor agency	<u>(8,742)</u>	<u>8,742</u>	<u>-</u>	<u>-</u>
	<u>3,814,937</u>	<u>(3,814,937)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	775,900	42,697	818,597	1,096,766
Net Assets, Beginning of Year	<u>7,965,470</u>	<u>140,254</u>	<u>8,105,724</u>	<u>7,008,958</u>
Net Assets, End of Year	<u>\$ 8,741,370</u>	<u>\$ 182,951</u>	<u>\$ 8,924,321</u>	<u>\$ 8,105,724</u>

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

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

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

	2022						Supporting Services	Total Expenses		
	Program Services					Total				Management and General
	Weatherization	Business Development	Self Sufficiency	Housing Improvement	Emergency Assistance					
Other program expenses	\$ 156	\$ 2,084	\$ -	\$ 29,552	\$ 1,614,782	\$ 1,646,574	\$ 3,861	\$ 1,650,435	\$ 1,139,984	
Salaries	152,029	153,540	1,637	369,625	181,377	858,208	284,220	1,142,428	1,087,757	
Materials	370,120	-	-	48,522	-	418,642	-	418,642	247,679	
Contractual	283,744	99	-	76,362	15,840	376,045	57	376,102	210,205	
Employee benefits	6,581	21,621	9	50,778	8,992	87,981	26,482	114,463	101,082	
Milbank 16 Plex expenses	-	-	-	89,815	-	89,815	-	89,815	91,618	
Payroll taxes	11,656	10,580	100	26,760	13,272	62,368	20,852	83,220	78,215	
Repairs and maintenance	53,772	2,292	-	8,011	2,966	67,041	5,585	72,626	47,032	
Insurance	32,251	5,405	-	10,621	6,994	55,271	13,170	68,441	56,235	
Retirement	5,650	12,214	-	20,110	4,202	42,176	12,657	54,833	51,150	
Utilities	20,426	4,184	-	8,872	5,415	38,897	12,723	51,620	34,571	
Supplies	342	5,386	-	19,437	14,993	40,158	8,485	48,643	45,435	
Travel expenses	7,892	2,976	-	28,926	2,760	42,554	5,073	47,627	16,801	
Rent expense	11,084	11,524	-	7,632	3,942	34,182	7,422	41,604	38,821	
Training	3,781	488	-	22,919	586	27,774	1,104	28,878	10,960	
Professional fees	5,513	1,641	-	9,398	2,124	18,676	4,000	22,676	25,028	
Program supplies	14,029	-	-	-	-	14,029	-	14,029	13,220	
Interest expense	-	-	-	10,924	-	10,924	-	10,924	32,775	
Marketing	1,174	107	-	6,768	139	8,188	262	8,450	7,298	
Food commodities used	-	-	-	-	8,426	8,426	-	8,426	10,367	
Telephone	135	1,944	-	1,814	1,493	5,386	2,560	7,946	8,453	
Memberships	31	518	-	3,252	412	4,213	775	4,988	4,684	
Equipment purchased	3,522	-	-	-	-	3,522	-	3,522	2,837	
Depreciation	-	-	-	-	-	-	2,883	2,883	2,883	
Postage	413	169	-	859	972	2,413	400	2,813	3,219	
Bad debt expense	-	-	-	(21,358)	-	(21,358)	-	(21,358)	(11,804)	
	<u>\$ 984,301</u>	<u>\$ 236,772</u>	<u>\$ 1,746</u>	<u>\$ 829,599</u>	<u>\$ 1,889,687</u>	<u>\$ 3,942,105</u>	<u>\$ 412,571</u>	<u>\$ 4,354,676</u>	<u>\$ 3,356,505</u>	

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

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

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

	2022	2021
Cash Flows From Operating Activities		
Increase in net assets	\$ 818,597	\$ 1,096,766
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	21,999	23,436
Provision for the allowance for loan losses	(21,358)	(11,804)
Value of commodities used	(8,450)	(10,367)
Write down on investments	-	13,625
(Gain) on sale of property and equipment	(642)	(3,563)
(Gain) on loan forgiveness - principal	-	(381,000)
Value of commodities received	8,450	10,367
Changes in operating assets and liabilities		
(Increase) decrease in:		
Receivables from affiliate	(23,321)	17,972
Other receivables	9,134	3,098
Grants receivable	(302,514)	(99,468)
Accrued interest receivable	(1,511)	365
Prepaid expenses	(3,686)	(4,588)
Increase (decrease) in:		
Accounts payable	76,318	(58,593)
Accrued expenses	32,639	(3,665)
Security deposits	133	(285)
Unearned revenue	208,473	113,204
Net cash provided by (used in) operating activities	814,261	705,500
Cash Flows From Investing Activities		
Change in funded account for replacement of property	(8,742)	(8,738)
Net (increase) decrease in notes receivable	424,371	20,495
Principal recovered on charged off notes receivable	-	10,477
Purchase of property and equipment	(45,325)	-
Proceeds from the sale of property and equipment	642	3,563
Net cash provided by (used in) provided by investing activities	370,946	25,797
Cash Flows From Financing Activities		
Principal payments on notes payable	(1,008,193)	(29,069)
Net cash provided by (used in) financing activities	(1,008,193)	(29,069)
Change in cash and cash equivalents	177,014	702,228
Cash and Cash Equivalents:		
Beginning	4,829,745	4,127,517
Ending	\$ 5,006,759	\$ 4,829,745
Supplemental Disclosures		
Cash payments for:		
Interest	\$ 18,520	\$ 41,129
Reconciliation of Cash to the Balance Sheet		
Cash and cash equivalents - Without Donor Restrictions	\$ 4,924,957	\$ 4,813,513
Cash and cash equivalents - With Donor Restrictions	81,802	16,232
	\$ 5,006,759	\$ 4,829,745

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

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

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

NESDCAP formed Milbank Apartments, LLC for the purpose of acquiring a 16 unit rental housing complex in Milbank, South Dakota.

Principles of Consolidation

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

Basis of Presentation

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

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with NESDCAP's financial statements for the year ended September 30, 2021, from which the summarized information was derived.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

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

Receivables and Credit Policies

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

Interest rates charged correspond with the customary rates applicable to the low-income housing industry. NESDCAP considers these rates to be of market comparison for non-profit lenders and has not made any adjustment for imputed interest.

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

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

The carrying amount of notes receivable is reduced by an allowance for loan losses that reflects management's best estimate of the amounts that will not be collected. Management reviews all notes receivable and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revisions as more information becomes available.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

Allowance for Loan Losses, continued

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

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

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

Fair Value Measurements

Inputs to the fair value methodology include:

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

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

- 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;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means, market-corroborated inputs.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

Fair Value Measurements, continued

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

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

Property and Equipment

Property and equipment are recorded at cost. Donated property and equipment is valued at estimated fair value on the date donated and are reported as contributions without donor restrictions when placed in service unless the donor has restricted the use for the asset to a specific purpose or time period. Contributions of cash or other assets that must be used to acquire property and equipment are reported as increases in net assets with donor restrictions until the assets are acquired and placed in service as instructed by the donor, unless the donor has also required that the acquired asset be used for a specific purpose or time period. If the donor requires property and equipment to be used for a specific purpose, restrictions on net assets are released as the asset is depreciated. If the donor required property and equipment to be used for a specific time period, restrictions on net assets are released evenly over the period required.

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

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

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

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

Reserve for Replacements

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

Compensated Absences

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

Net Assets

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

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor or certain grantor-imposed restrictions. The governing board has designated, from net assets without donor restrictions, net assets for property and equipment replacement.
- *Net Assets With Donor Restrictions* – Net assets subject to donor or certain grantor-imposed restrictions. Some donor or grantor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor or grantor. Other donor or grantor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor or grantor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resources was restricted has been fulfilled, or both.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

Revenue and Other Support

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

Functional Allocation of Expenses

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

Estimates

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

Fund Raising Activity

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

Advertising

NESDCAP expenses the costs of advertising as incurred.

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES, continued

Income Tax Status

NESDCAP is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. NESDCAP's property management and weatherization programs have for-profit divisions which are subject to tax on unrelated business income. NESDCAP recognizes any material cash liabilities as required. In addition, NESDCAP qualifies for the charitable contribution deduction under Section 170(b)(10)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

2. LIQUIDITY AND AVAILABILITY

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

For purposes of analyzing resources available to meet general expenditures over a 12-month period, NESDCAP 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 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, NESDCAP 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 are comprised of the following:

Cash and Cash Equivalents	\$ 4,924,957
Grants Receivable	106,800
Accrued Interest Receivable	15,542
Other Receivables	107,189
	<u>\$ 5,154,488</u>

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

3. CUSTODIAL CREDIT RISK – DEPOSITS

NESDCAP maintains its bank deposits in several financial institutions. At various times during 2022, NESDCAP's deposits may have been in excess of the amount insured (up to \$250,000 per financial institution) by the Federal Deposit Insurance Corporation (FDIC). NESDCAP utilizes a sweep account relationship with one financial institution. NESDCAP utilizes a sweep account relationship with one financial institution. On a daily basis, balances in excess of \$250,000 are transferred to other financial institutions to ensure all funds are fully insured. As of September 30, 2022, all of NESDCAP's deposits were fully insured or collateralized.

4. ASSET AND LIABILITY COMPONENTS OF DONOR RESTRICTED NET ASSETS

a. *Cash and Certificates of Deposit*

Cash components are comprised of cash balances that are restricted in use under the requirements of various programs. These balances were \$81,802 and \$16,232 for years ended September 30, 2022 and 2021, respectively.

b. *Other Receivables*

Other receivables components are comprised of receivables of various programs. These balance as of September 30, 2022 and 2021 were \$2,009 and \$9,775, respectively.

c. *Grants Receivable*

Grants receivable components are comprised of balances of various programs. These balances consisted of the following as of September 30, 2022 and 2021:

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dba GROW South Dakota**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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

c. *Grants Receivable, continued*

	2022	2021
Community Service Block Grant - CARES Act	\$ 135,130	\$ 50,289
SDHDA Housing Opportunity Fund	116,878	26,669
Low-Income Energy Assistance Program	107,105	14,724
Department of Energy - Weatherization	93,569	77,427
Community Service Block Grant	58,951	69,566
Small Business Development Center	32,875	47,326
Community Development Block Grant/LISC	15,985	17,331
Other	9,843	3,204
South Dakota Housing	3,144	809
	\$ 573,480	\$ 307,345

d. *Cash, Reserve for Replacement of Property*

Cash reserve for replacement of property is comprised of the replacement reserve for the Milbank Apartments LLC. These balances as of September 30, 2022 and 2021 was \$41,712 and \$32,970, respectively.

e. *Accounts Payable*

Accounts payable components are comprised of balances of various programs. These balances as of September 30, 2022 and 2021 were \$118,873 and \$37,362, respectively.

f. *Unearned Revenue*

Unearned revenue components are comprised of balances of various programs. These balances consisted of the following as of September 30, 2022 and 2021:

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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

f. *Unearned Revenue, continued*

	2022	2021
SDHDA Emergency Rental Assistance	\$ 263,064	\$ 105,211
SDHDA - HAF	\$ 73,704	\$ -
County Commission	60,356	64,917
SDHDA - Cares Act	-	17,978
Other	55	600
	\$ 397,179	\$ 188,706

5. NOTES RECEIVABLE

The purpose of the loan fund is to provide flexible and accessible loans; primarily gap financing that will strengthen, create, or save businesses and job opportunities. A summary of notes receivable by portfolio category as of September 30, 2022 and 2021 follows:

	2022	2021
Housing Loans	\$ 3,224,476	\$ 3,648,847
Commercial Loans	1,230,000	1,230,000
Total Loans	4,454,476	4,878,847
Less allowance for loan losses	(227,338)	(248,696)
Total notes receivable, net of allowance	\$ 4,227,138	\$ 4,630,151

The activity in the allowance for loan losses for the years ended September 30, 2022 and 2021 follows:

	2022	2021
Balance, beginning of year	\$ 248,696	\$ 250,023
Provision for loan losses	(21,358)	(11,804)
Recoveries (charge-offs)	-	10,477
Balance, end of year	\$ 227,338	\$ 248,696

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

5. NOTES RECEIVABLE, continued

The following tables present the activity in the allowance for loan losses for the years ended September 30, 2022 and 2021, by portfolio category.

	2022		
	Commercial	Housing	Total
Balance, beginning of year	\$ 61,500	\$ 187,196	\$ 248,696
Provision for loan losses	-	(21,358)	(21,358)
Recoveries (charge-offs)	-	-	-
Balance, end of year	\$ 61,500	\$ 165,838	\$ 227,338
	2021		
	Commercial	Housing	Total
Balance, beginning of year	\$ 61,500	\$ 188,523	\$ 250,023
Provision for loan losses	-	(11,804)	(11,804)
Recoveries (charge-offs)	-	10,477	10,477
Balance, end of year	\$ 61,500	\$ 187,196	\$ 248,696

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

The ending balance in the allowance for loan loss is attributed to loans evaluated individually and loans evaluated collectively as follows for the years ended September 30, 2022 and 2021:

	Allowance for Loan Losses		
2022	Commercial	Housing	Total
Individually evaluated	\$ -	\$ -	\$ -
Collectively evaluated	61,500	165,838	227,338
Balance, end of year	\$ 61,500	\$ 165,838	\$ 227,338

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

5. NOTES RECEIVABLE, continued

2021	Allowance for Loan Losses		
	Commercial	Housing	Total
Individually evaluated	\$ -	\$ -	\$ -
Collectively evaluated	61,500	187,196	248,696
Balance, end of year	\$ 61,500	\$ 187,196	\$ 248,696

2022	Loans Receivable Balances		
	Commercial	Housing	Total
Individually evaluated	\$ -	\$ -	\$ -
Collectively evaluated	1,230,000	3,224,476	4,454,476
Balance, end of year	\$ 1,230,000	\$ 3,224,476	\$ 4,454,476

2021	Loans Receivable Balances		
	Commercial	Housing	Total
Individually evaluated	\$ -	\$ -	\$ -
Collectively evaluated	1,230,000	3,648,847	4,878,847
Balance, end of year	\$ 1,230,000	\$ 3,648,847	\$ 4,878,847

Credit Quality Indicators

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

Based on the most recent analysis performed, the risk category of loans by class of loans as of September 30, 2022 and 2021 was as follows:

Credit Risk Profile by Internally Assigned Grade

2022	5%	7%	Total
Commercial	\$ 1,230,000	\$ -	\$ 1,230,000
Housing	2,993,770	230,706	3,224,476
Total	\$ 4,223,770	\$ 230,706	\$ 4,454,476

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

5. NOTES RECEIVABLE, continued

Credit Risk Profile by Internally Assigned Grade, continued

<u>2021</u>	<u>5%</u>	<u>7%</u>	<u>Total</u>
Commercial	\$ 1,230,000	\$ -	\$ 1,230,000
Housing	3,411,141	237,706	3,648,847
Total	<u>\$ 4,641,141</u>	<u>\$ 237,706</u>	<u>\$ 4,878,847</u>

Credit Risk Profile by Class Based on Payment Activity

Commercial and housing loans are managed on an individual basis. Loans that are delinquent 90 days or more or are not accruing interest are considered nonperforming. The following table presents the recorded investments in loans by class based on payment activity as of September 30, 2022 and 2021:

<u>2022</u>	<u>Performing</u>	<u>Nonperforming</u>	<u>Total</u>
Commercial	\$ 1,230,000	\$ -	\$ 1,230,000
Housing	3,060,547	163,929	3,224,476
Total	<u>\$ 4,290,547</u>	<u>\$ 163,929</u>	<u>\$ 4,454,476</u>

<u>2021</u>	<u>Performing</u>	<u>Nonperforming</u>	<u>Total</u>
Commercial	\$ 1,230,000	\$ -	\$ 1,230,000
Housing	3,648,847	-	3,648,847
Total	<u>\$ 4,878,847</u>	<u>\$ -</u>	<u>\$ 4,878,847</u>

The following table summarizes the aging of the past due loans by loan class within the portfolio segments as of September 30, 2022 and 2021:

<u>2022</u>	<u>Current</u>	<u>Still Accruing</u>		<u>Nonaccrual Balance</u>
		<u>30-89 Days Past Due</u>	<u>Over 90 Days Past Due</u>	
Commercial	\$ 1,230,000	\$ -	\$ -	\$ -
Housing	3,060,547	-	163,929	-
Total	<u>\$ 4,290,547</u>	<u>\$ -</u>	<u>\$ 163,929</u>	<u>\$ -</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

5. NOTES RECEIVABLE, continued

Credit Risk Profile by Class Based on Payment Activity, continued

2021	Current	Still Accruing		Nonaccrual Balance
		30-89 Days Past Due	Over 90 Days Past Due	
Commercial	\$ 1,230,000	\$ -	\$ -	\$ -
Housing	3,648,847	-	-	-
Total	<u>\$ 4,878,847</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Impaired Loans

A loan is considered impaired when, based on currently available information, it is probable that NESDCAP will not collect all of the principal and interest contractually required by the loan agreement. Impaired loans include loans that are past due over 90 days and loans placed on nonaccrual status. All impaired loans are evaluated for an asset-specific allowance for credit losses. There were no impaired loans as of September 30, 2022 and 2021.

Loan Modifications and Troubled Debt Restructuring

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

At the time of the restructuring, the loan is evaluated for an asset-specific allowance for credit losses. NESDCAP will continue to specifically reevaluate the loan in subsequent periods, regardless of the borrower's performance under the modified terms. If the loan defaults after restructuring it is written off with Board approval. As of September 30, 2022, and 2021, NESDCAP did not have any troubled debt restructuring.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

6. INVESTMENTS

Equity Securities Without a Readily Determinable Fair Value

NESDCAP has an investment in Great Opportunities, LLC, a South Dakota Limited Liability Company, formed in 2007. Great Opportunities selectively provides seed funding for start-up companies in need of equity capital. During the year ended September 30, 2021, Great Opportunities, LLC's operations were discontinued, and final distributions were made. This investment was carried at cost, net of the valuation allowance.

At September 30, 2022 and 2021, equity securities consisted of the following:

	2022	2021
Great Opportunities, LLC - cost	\$ -	\$ 21,075
Valuation allowance	-	(21,075)
	\$ -	\$ -

Investment return is summarized as follows:

	2022	2021
Dividends and distributions	\$ -	\$ 15,088
Change in valuation allowance	-	(13,625)
	\$ -	\$ 1,463

7. PROPERTY AND EQUIPMENT

At September 30, 2022 and 2021, property and equipment is as follows:

	2022	2021
Land - Milbank	\$ 6,040	\$ 6,040
Office equipment	29,988	29,988
Equipment	150,869	105,544
Buildings and equipment - Milbank	632,102	632,102
Vehicles	9,110	9,110
	828,109	782,784
Less: Accumulated depreciation	(639,131)	(617,132)
	\$ 188,978	\$ 165,652

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

7. PROPERTY AND EQUIPMENT, continued

Depreciation expense for the year ended September 30, 2022 and 2021 is as follows:

	2022	2021
NESDCAP	\$ 2,883	\$ 2,883
Milbank Apartments	19,116	20,553
	\$ 21,999	\$ 23,436

8. NOTES PAYABLE

At September 30, 2022 and 2021, notes payable consisted of the following:

	2022	2021
Rural Development, secured by Milbank 16-Plex property; 3.125% interest; monthly installments of \$901; final payment due February 1, 2062	\$ 380,398	\$ 385,210
NESDCAP, loan to and secured by Milbank 16-Plex property; 1.5% interest; secured; monthly installment of \$414.64; final payment due December 15, 2022	104,517	107,898
Rural Electric Economic Development, Inc., 3.25% interest; quarterly interest payments of \$8,125; due on November 25, 2024	-	1,000,000
Total Notes Payable	484,915	1,493,108
Less: Current portion	(109,482)	(8,192)
Notes Payable: Long-Term portion	\$ 375,433	\$ 1,484,916

**NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

8. NOTES PAYABLE, continued

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

<u>Years ending September 30</u>	
2023	\$ 109,482
2024	5,122
2025	5,284
2026	5,452
2027	5,624
Thereafter	<u>353,951</u>
	<u>\$ 484,915</u>

9. LEASES

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

<u>Years ending September 30</u>	
2023	\$ 45,214
2024	11,504
2025	11,904
2026	11,904
2027	<u>11,904</u>
	<u>\$ 92,430</u>

Lease expense under these lease obligations for the year ended September 30, 2022 and 2021 was \$63,940 and \$42,830, respectively.

10. RELATED PARTY TRANSACTIONS

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

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

10. RELATED PARTY TRANSACTIONS, continued

GROW South Dakota is a not-for-profit corporation formed to promote and foster economic, housing, and educational development in distressed communities and underserved markets in South Dakota and to purposefully serve low to moderate income individuals and communities. A minority of GROW South Dakota board members also serve on the NESDCAP board.

NESDEC and GROW South Dakota employees are also employed by NESDCAP. NESDEC and GROW South Dakota reimburse NESDCAP for salaries, employee benefits and various program and administrative costs. NESDEC paid \$560,059 and \$485,559 for the years ended September 30, 2022 and 2021, respectively, and GROW South Dakota paid \$455,953 and \$284,737 for the years ended September 30, 2022 and 2021, respectively.

NESDCAP leases office and storage space from NESDEC on annual leases. Total lease payments under these leases during the year ended September 30, 2022 and 2021, were \$24,000 and \$24,000, respectively.

NESDCAP leases vehicles and equipment under operating leases of various terms from GROW South Dakota. Total lease payments under these leases during the years ended September 30, 2022 and 2021, were \$52,845 and \$32,630, respectively.

NESDCAP has advanced GROW South Dakota funds under a continuing loan agreement. This loan carries a balance of \$1,230,000 and \$1,230,000 as of September 30, 2022 and 2021, respectively. Interest earned on this loan during the years ended September 30, 2022 and 2021, was \$35,482 and \$37,405, respectively.

11. COMMITMENTS AND CONTINGENT LIABILITIES

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

11. COMMITMENTS AND CONTINGENT LIABILITIES, continued

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

12. RETIREMENT PLAN

NESDCAP maintains a defined contribution Simplified Employee Pension Plan. Substantially, all employees meeting certain eligibility requirements are covered by this plan. NESDCAP may contribute up to 15% of total employee compensation to the plan. However, the board has set the percentage at 10%. Total employer contributions to this plan were \$153,025 and \$144,166 for the years ended September 30, 2022 and 2021, respectively. Of these totals, NESDEC paid \$88,074 and \$84,332 for the years ended September 30, 2022 and 2021, respectively, and Grow South Dakota paid \$7,906 and \$5,706 for the years ended September 30, 2022 and 2021, respectively.

13. POSTEMPLOYMENT BENEFIT OBLIGATIONS

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

14. SUBSEQUENT EVENTS

Events occurring after September 30, 2022 were evaluated by management through December 27, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

14. SUBSEQUENT EVENTS, continued

The Milbank Apartments note payable to NESDCAP that came due in December 2022, was renewed for an additional 5 year term at 1.50% interest, calling for monthly payments of \$415.

SUPPLEMENTARY INFORMATION

NORTHEAST SOUTH DAKOTA COMMUNITY ACTION PROGRAM, INC.
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SUPPLEMENTARY FINANCIAL INFORMATION
 SEPTEMBER 30, 2022
 WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2021

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

	2022			2021	
	NESDCAP (Parent)	Milbank 16-Plex (Subsidiary)	Eliminating Entries	Total	Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 4,955,306	\$ 51,453	\$ -	\$ 5,006,759	\$ 4,829,745
Receivable from affiliate	103,441	-	-	103,441	80,120
Other receivables	2,557	3,200	-	5,757	14,891
Current portion of notes receivable, net of allowance for loan losses of \$11,901 in 2022 and \$24,028 in 2021	226,125	-	-	226,125	456,534
Grant receivable	680,280	-	-	680,280	377,766
Accrued interest receivable	15,542	-	-	15,542	14,031
Prepaid insurance	21,939	-	-	21,939	18,253
Total current assets	<u>6,005,190</u>	<u>54,653</u>	<u>-</u>	<u>6,059,843</u>	<u>5,791,340</u>
LONG-TERM RECEIVABLES:					
Notes receivable, less allowance for loan losses of \$215,437 in 2022 and \$224,668 in 2021, and current maturities	4,001,013	-	-	4,001,013	4,173,617
Total long-term receivables	<u>4,001,013</u>	<u>-</u>	<u>-</u>	<u>4,001,013</u>	<u>4,173,617</u>
OTHER ASSETS:					
Property and equipment, net	46,882	142,096	-	188,978	165,652
Cash, reserve for replacement of property	-	41,712	-	41,712	32,970
Total other assets	<u>46,882</u>	<u>183,808</u>	<u>-</u>	<u>230,690</u>	<u>198,622</u>
Total Assets	<u>\$ 10,053,085</u>	<u>\$ 238,461</u>	<u>\$ -</u>	<u>\$ 10,291,546</u>	<u>\$ 10,163,579</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	\$ 124,707	\$ 3,609	\$ -	\$ 128,316	\$ 51,998
Accrued expenses	342,208	7,567	-	349,775	317,136
Security deposits	-	7,040	-	7,040	6,907
Unearned revenue	397,179	-	-	397,179	188,706
Current portion of notes payable	-	109,482	-	109,482	8,192
Total current liabilities	<u>864,094</u>	<u>127,698</u>	<u>-</u>	<u>991,792</u>	<u>572,939</u>
LONG-TERM LIABILITIES					
Investment in Milbank 16 Plex	264,670	-	(264,670)	-	-
Notes payable, less current maturities	-	375,433	-	375,433	1,484,916
Total long-term liabilities	<u>264,670</u>	<u>375,433</u>	<u>(264,670)</u>	<u>375,433</u>	<u>1,484,916</u>
Total Liabilities	<u>1,128,764</u>	<u>503,131</u>	<u>(264,670)</u>	<u>1,367,225</u>	<u>2,057,855</u>
NET ASSETS					
With donor restrictions	141,239	41,712	-	182,951	140,254
Without donor restrictions	8,783,082	(306,382)	264,670	8,741,370	7,965,470
Total Net Assets	<u>8,924,321</u>	<u>(264,670)</u>	<u>264,670</u>	<u>8,924,321</u>	<u>8,105,724</u>
Total Liabilities and Net Assets	<u>\$ 10,053,085</u>	<u>\$ 238,461</u>	<u>\$ -</u>	<u>\$ 10,291,546</u>	<u>\$ 10,163,579</u>

See Independent Auditor's Report

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

SUPPLEMENTARY FINANCIAL INFORMATION
YEAR ENDED SEPTEMBER 30, 2022
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2021

CONSOLIDATING SCHEDULE OF ACTIVITIES

	<u>2022</u>			<u>2021</u>	
	<u>NESDCAP (Parent)</u>	<u>Milbank 16-Plex (Subsidiary)</u>	<u>Eliminating Entries</u>	<u>Total</u>	<u>Total</u>
REVENUE, GAINS (LOSSES) AND OTHER SUPPORT					
Grant and contract income	\$ 4,659,772	\$ -	\$ -	\$ 4,659,772	\$ 3,617,862
Interest income	187,443	22	-	187,465	204,681
Rent income	-	101,741	-	101,741	104,192
Housing fee income	105,518	-	-	105,518	57,628
Miscellaneous income	118,135	-	-	118,135	81,051
Investment return:					
Dividends and distributions	-	-	-	-	15,088
Write down on investments	-	-	-	-	(13,625)
Gain (loss) on the disposal of surplus items	642	-	-	642	3,563
Gain (loss) on loan forgiveness	-	-	-	-	382,831
Gain on Milbank 16 Plex	11,948	-	(11,948)	-	-
	<u>5,083,458</u>	<u>101,763</u>	<u>(11,948)</u>	<u>5,173,273</u>	<u>4,453,271</u>
Total Revenue, Gains (Losses) and Other Support					
EXPENSES					
PROGRAM SERVICES:					
Weatherization	984,301	-	-	984,301	679,056
Business development	236,772	-	-	236,772	208,967
Self sufficiency	1,746	-	-	1,746	1,407
Housing improvement	739,784	89,815	-	829,599	763,581
Emergency assistance	1,889,687	-	-	1,889,687	1,324,697
	<u>3,852,290</u>	<u>89,815</u>	<u>-</u>	<u>3,942,105</u>	<u>2,977,708</u>
SUPPORTING SERVICES:					
Management and general	412,571	-	-	412,571	378,797
	<u>412,571</u>	<u>-</u>	<u>-</u>	<u>412,571</u>	<u>378,797</u>
Total Expenses	<u>4,264,861</u>	<u>89,815</u>	<u>-</u>	<u>4,354,676</u>	<u>3,356,505</u>
Change in Net Assets	818,597	11,948	(11,948)	818,597	1,096,766
Net Assets, Beginning of Year	<u>8,105,724</u>	<u>(276,618)</u>	<u>276,618</u>	<u>8,105,724</u>	<u>7,008,958</u>
Net Assets, End of Year	<u>\$ 8,924,321</u>	<u>\$ (264,670)</u>	<u>\$ 264,670</u>	<u>\$ 8,924,321</u>	<u>\$ 8,105,724</u>

See Independent Auditor's Report

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number		Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
477 Cluster:				
Passed Through South Dakota Department of Social Services:				
Community Services Block Grant	93.569	22-0821-610	\$ 270,132	
		23-0821-610	179,725	
		21-0821-645	397,063	\$ 846,920
Passed Through the South Dakota Community Action Partnership:				
Community Service Block Grant (OCS)	93.569	90ET0473-01-01		10,319
Total 477 Cluster				857,239
Passed Through South Dakota Department of Social Services:				
Low-Income Home Energy Assistance	93.568	22-0821-606	276,974	
		23-0821-606	137,490	
		23-0821-618	5,386	419,850
Total U.S. Department of Health and Human Services				1,277,089
U.S. DEPARTMENT OF ENERGY				
Passed Through the South Dakota Department of Social Services:				
Weatherization Assistance for Low-Income Persons	81.042	22-0821-602	489,177	
		23-0821-602	189,878	
Passed Through the Western Community Action Program - XRF's:				
		23-0821-661	45,325	724,380
Total U.S. Department of Energy				724,380
U.S. DEPARTMENT OF AGRICULTURE				
Food Distribution Cluster:				
Passed Through Feeding South Dakota				
Commodity Supplemental Food Program - Administrative Costs	10.565	**	8	
Commodity Supplemental Food Program - Food Commodities	10.565	**	8,426	8,434
Total Food Distributions Cluster				8,434
Total U.S. Department of Agriculture				8,434
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed Through the South Dakota Housing Development Authority:				
Housing Counseling Assistance Program	14.169	HC200841003		2,536
Passed Through the Local Initiatives Support Corporation:				
Continuum of Care Program	14.267	**		1,746
Passed Through the Local Initiatives Support Corporation:				
Section 4 Capacity Building for Community Development and				
Affordable Housing	14.252	41204-0071	10,866	
		41204-0072	16,253	
		41204-0073	7,422	34,541
Total U.S. Department of Housing and Urban Development				38,823
SMALL BUSINESS ADMINISTRATION				
Passed Through the USD Small Business Development Center:				
Small Business Development Center	59.037	A00-0322-S024	20,326	
		A00-0322-S029	66,751	87,077
Total Small Business Administration				87,077
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed through Second Harvest in Sioux Falls:				
Emergency Food and Shelter National Board Program	97.024	**	-	6,462
Total Department of Homeland Security				6,462

See Independent Auditor's Report

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

<u>Federal Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF TREASURY			
Passed Through Neighborhood Reinvestment Corporation: Expandable Grants	21.U01	**	768,000
Passed Through South Dakota Housing Redevelopment Authority: Corona Relief Fund - COVID19	21.019	CARES	43,401
Emergency Rental Assistance Program - COVID19	21.023	ERA1 ERA2	493,532 <u>935,089</u>
			<u>1,428,621</u>
Total U.S. Department of Treasury			<u>2,240,022</u>
Total Federal Funding			<u>\$ 4,382,287</u>

** Pass-through entity identifying number not available

Note 1: Basis of Presentation

This accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the Northeast South Dakota Community Action Program under programs of the federal government for the year ended September 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Northeast South Dakota Community Action Program, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of the organization.

Note 2: Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

See Independent Auditor's Report

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

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

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

We have audited, in accordance with 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 Northeast South Dakota Community Action Program, Inc. dba GROW South Dakota (a nonprofit organization, hereafter referred to as "NESDCAP") and its subsidiaries, which comprise the consolidated statement of financial position as of September 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 December 27, 2022.

Report on Internal Control Over Financial Reporting

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

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



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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether NESDCAP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of 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.

Uhlenberg Ritzman + Co., LLC

Yankton, South Dakota
December 27, 2022

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

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Northeast South Dakota Community Action Program, Inc. dba GROW South Dakota's (a nonprofit organization, hereafter referred to as "NESDCAP") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on NESDCAP's major federal programs for the year ended September 30, 2022. NESDCAP'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, NESDCAP complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended September 30, 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 NESDCAP 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 NESDCAP'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 NESDCAP'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 NESDCAP'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 NESDCAP'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 NESDCAP'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 NESDCAP'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 NESDCAP'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.

Wohlberg Ritzman + Co., LLC

Yankton, South Dakota
December 27, 2022

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
SEPTEMBER 30, 2022**

A. FINANCIAL STATEMENT AUDIT

There were no prior financial statement audit findings reported.

B. MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no prior major federal award program findings reported.

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

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

A. 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 deficiencies 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 deficiencies identified? _____ yes X none reported

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

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

Identification of major programs:

<u>Assistance Listing Number</u> 21.023	<u>Name of Federal Program or Cluster</u> Emergency Rental Assistance Program
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Dollar Threshold used to distinguish between Type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
YEAR ENDED SEPTEMBER 30, 2022**

B. FINANCIAL STATEMENT AUDIT

There are no financial statement audit findings reported.

C. MAJOR FEDERAL AWARD PROGRAMS AUDIT

There are no major federal award program findings reported.