

**NORTHEAST SOUTH DAKOTA
ECONOMIC CORPORATION
dba GROW South Dakota**

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

SEPTEMBER 30, 2024

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

Table of Contents

	Page
Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements.....	8
Supplementary Information	
Schedule of Expenditures of Federal Awards	34
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing</i> <i>Standards</i>	35
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	37
Summary Schedule of Prior Audit Findings	40
Schedule of Findings and Questioned Costs.....	41



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **Northeast South Dakota Economic Corporation dba GROW South Dakota (a nonprofit organization, hereafter referred to as "NESDEC")**, which comprise the statement of financial position as of September 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NESDEC as of September 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

MADISON OFFICE: 205 North Egan Ave. | PO Box 505 | Madison, SD 57042 | (605) 256-9165

YANKTON OFFICE: 207 Douglas Ave. | PO Box 1018 | Yankton, SD 57078 | (605) 665-4401

SIOUX FALLS OFFICE: 3600 S Westport, Suite 101 | Sioux Falls, SD 57106 | (605) 336-0372

EMAIL: wrc@wrccpa.com

TOLL FREE: 1-800-456-0889

FAX #: (605) 665-0592



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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on Summarized Comparative Information

We have previously audited NESDEC's 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 29, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2024, on our consideration of NESDEC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NESDEC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NESDEC's internal control over financial reporting and compliance.

Uhlenberg Ritzman + Co., LLC

Yankton, South Dakota
December 16, 2024

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2024
WITH SUMMARIZED COMPARATIVE TOTALS FOR SEPTEMBER 30, 2023

	2024			
	Without Donor Restrictions	With Donor Restrictions	Total	2023
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 2,656,138	\$ 4,334,168	\$ 6,990,306	\$ 7,400,430
Certificates of deposit	2,200,000	-	2,200,000	200,000
Accrued interest receivable	50,669	45,176	95,845	72,633
Other receivables	1,200	-	1,200	12,583
Due from other governments	-	109,616	109,616	33,506
Other real estate owned	-	-	-	129,850
Prepaid asset	-	-	-	1,715
Current portion of leases receivable	21,213	-	21,213	20,383
Current portion of notes receivable, net of allowance for loan losses of \$47,774 in 2024 and \$72,593 in 2023	1,292,925	1,331,440	2,624,365	3,191,456
Total current assets	<u>6,222,145</u>	<u>5,820,400</u>	<u>12,042,545</u>	<u>11,062,556</u>
LONG-TERM RECEIVABLES:				
Leases receivable	133,102	-	133,102	154,315
Notes receivable, less allowance for loan losses of \$341,606 in 2024 and \$401,989 in 2023 and less current maturities	8,823,046	9,524,161	18,347,207	17,869,425
Total long-term receivables	<u>8,956,148</u>	<u>9,524,161</u>	<u>18,480,309</u>	<u>18,023,740</u>
OTHER ASSETS:				
Investments	1,429,461	-	1,429,461	2,192,088
Property and equipment, net	643,592	-	643,592	653,819
Total other assets	<u>2,073,053</u>	<u>-</u>	<u>2,073,053</u>	<u>2,845,907</u>
TOTAL ASSETS	<u>\$ 17,251,346</u>	<u>\$ 15,344,561</u>	<u>\$ 32,595,907</u>	<u>\$ 31,932,203</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Current portion of long-term debt	\$ 1,000,000	\$ 1,243,912	\$ 2,243,912	\$ 465,571
Accounts payable	2,399	3,645	6,044	12,301
Accrued interest	17,028	31,068	48,096	51,933
Due to affiliate	43,811	45,046	88,857	101,755
Unearned lease revenue	154,316	-	154,316	174,698
Total current liabilities	<u>1,217,554</u>	<u>1,323,671</u>	<u>2,541,225</u>	<u>806,258</u>
LONG-TERM DEBT				
Notes payable, less current maturities and net of unamortized debt issuance costs of \$12,375 in 2024 and \$13,875 in 2023	<u>3,559,895</u>	<u>6,101,477</u>	<u>9,661,372</u>	<u>10,782,247</u>
TOTAL LIABILITIES	<u>4,777,449</u>	<u>7,425,148</u>	<u>12,202,597</u>	<u>11,588,505</u>
NET ASSETS				
Net assets with donor restrictions	-	7,919,413	7,919,413	7,627,422
Net assets without donor restrictions	<u>12,473,897</u>	<u>-</u>	<u>12,473,897</u>	<u>12,716,276</u>
TOTAL NET ASSETS	<u>12,473,897</u>	<u>7,919,413</u>	<u>20,393,310</u>	<u>20,343,698</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,251,346</u>	<u>\$ 15,344,561</u>	<u>\$ 32,595,907</u>	<u>\$ 31,932,203</u>

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

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2024
WITH SUMMARIZED COMPARATIVE TOTALS FOR SEPTEMBER 30, 2023

	2024			
	Without Donor Restrictions	With Donor Restrictions	Total	2023
REVENUE AND OTHER SUPPORT				
Interest income - notes receivable	\$ 459,766	\$ 546,618	\$ 1,006,384	\$ 888,475
Federal grant income	-	343,761	343,761	120,003
Other grant income	136,000	-	136,000	167,500
Interest income - checking and CD's	45,995	10,308	56,303	26,027
Rent income	-	-	-	3,025
Lease fee income	20,383	-	20,383	18,102
Lease interest income	6,617	-	6,617	7,398
Miscellaneous income	51,395	1,668	53,063	51,455
Investment income	(539,705)	-	(539,705)	3,167
 Total revenue and other support	 180,451	 902,355	 1,082,806	 1,285,152
EXPENSES				
PROGRAM SERVICES:				
Loan programs	738,572	-	738,572	555,629
Housing programs	24,110	-	24,110	37,533
Regional programs	3,538	-	3,538	-
	766,220	-	766,220	593,162
SUPPORTING SERVICES:				
General and administrative	266,974	-	266,974	239,643
 Total Expenses	 1,033,194	 -	 1,033,194	 832,805
Reclassification of Net Assets:				
Net assets released from restriction in satisfaction of purpose restrictions	610,364	(610,364)	-	-
Change in Net Assets	(242,379)	291,991	49,612	452,347
Net Assets, Beginning of Year	12,716,276	7,627,422	20,343,698	19,324,701
Prior Period Adjustment	-	-	-	566,650
Net Assets, Beginning of Year, Restated	12,716,276	7,627,422	20,343,698	19,891,351
 Net Assets, End of Year	 \$ 12,473,897	 \$ 7,919,413	 \$ 20,393,310	 \$ 20,343,698

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

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2024
WITH SUMMARIZED COMPARATIVE TOTALS FOR SEPTEMBER 30, 2023

	Program Services						
	Loan Program	Housing Programs	Regional Programs	Program Services Total	General and Administrative	2024 Totals	2023 Totals
Salaries and taxes	\$ 251,393	\$ -	\$ 3,508	\$ 254,901	\$ 160,358	\$ 415,259	\$ 377,286
Interest expense	156,565	20,028	-	176,593	-	176,593	172,188
Retirement	88,822	-	-	88,822	31,246	120,068	105,232
Bad debt expense (recovery)	88,221	2,104	-	90,325	-	90,325	11,414
Targeted program expense	70,249	-	-	70,249	-	70,249	40,650
Professional fees	15,018	1,449	-	16,467	21,780	38,247	37,636
Employee benefits	23,928	-	30	23,958	14,255	38,213	34,245
Depreciation	-	-	-	-	23,859	23,859	23,632
Repairs and maintenance	5,930	-	-	5,930	8,317	14,247	13,937
Office supplies	12,779	-	-	12,779	419	13,198	10,331
Insurance	7,315	-	-	7,315	5,577	12,892	9,304
Travel and conferences	10,746	-	-	10,746	543	11,289	18,939
Filing fee expense	8,756	63	-	8,819	-	8,819	8,884
Marketing	6,699	-	-	6,699	-	6,699	6,521
Miscellaneous	5,163	5	-	5,168	-	5,168	5,068
Property tax	1,482	461	-	1,943	-	1,943	3,158
Education and training	656	-	-	656	620	1,276	1,103
Sale of asset	(15,150)	-	-	(15,150)	-	(15,150)	(46,723)
Total expenses	<u>\$ 738,572</u>	<u>\$ 24,110</u>	<u>\$ 3,538</u>	<u>\$ 766,220</u>	<u>\$ 266,974</u>	<u>\$ 1,033,194</u>	<u>\$ 832,805</u>

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

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2024
WITH SUMMARIZED COMPARATIVE TOTALS FOR SEPTEMBER 30, 2023

	<u>2024</u>	<u>2023</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 49,612	\$ 452,347
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	23,859	23,632
Bad debt expense (recovery)	90,325	11,414
Unrealized (gain) loss on investment	612,627	12,015
Changes in operating assets and liabilities		
(Increase) decrease in:		
Interest receivable	(23,212)	(3,672)
Other receivables	11,383	(12,194)
Due from other governments	(76,110)	(797)
Prepaid expense	1,715	(1,471)
Leases receivable	20,383	(174,698)
Increase (decrease) in:		
Interest payable	(3,837)	10,962
Unearned lease revenue	(20,382)	174,698
Accounts payable and accrued expenses	(19,153)	36,449
Other current liabilities	<u>-</u>	<u>(27,442)</u>
Net cash provided by (used in) operating activities	<u>667,210</u>	<u>501,243</u>
Cash Flows From Investing Activities		
Net (increase) decrease in certificates of deposits	(2,000,000)	-
Proceeds from sale of investments	150,000	-
Purchase of property and equipment	(13,632)	-
Net decrease (increase) in notes receivable	(1,016)	(486,103)
Net decrease (increase) in other real estate owned	<u>129,850</u>	<u>(124,573)</u>
Net cash provided by (used in) investing activities	<u>(1,734,798)</u>	<u>(610,676)</u>
Cash Flows From Financing Activities		
Proceeds received on notes payable	1,220,000	2,353,925
Principal payments on notes payable	<u>(562,536)</u>	<u>(430,550)</u>
Net cash provided by (used in) financing activities	<u>657,464</u>	<u>1,923,375</u>
Change in cash, cash equivalents and restricted cash	(410,124)	1,813,942
Cash, cash equivalents and restricted cash		
Beginning	<u>7,400,430</u>	<u>5,586,488</u>
Ending	<u>\$ 6,990,306</u>	<u>\$ 7,400,430</u>
Supplemental Disclosures		
Cash payments for:		
Interest	<u>\$ 180,430</u>	<u>\$ 161,226</u>
Reconciliation of Cash to the Balance Sheet		
Cash and cash equivalents	\$ 2,656,138	\$ 4,229,119
Restricted cash	<u>4,334,168</u>	<u>3,171,311</u>
	<u>\$ 6,990,306</u>	<u>\$ 7,400,430</u>

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

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

1. **NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principal Business Activity

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

NESDEC operates under a Board of Directors selected from statewide service area. NESDEC's mission is to stimulate economic opportunities through loans, technical assistance and partnerships.

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

Financial Statement Presentation

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

Summarized Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with NESDEC's financial statements for the year ended September 30, 2023, from which the summarized information was derived.

Cash and Cash Equivalents

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

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

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

Receivables and Credit Policies

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

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

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

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

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

Allowance for Loan Losses

NESDEC utilizes a Current Expected Credit Losses (CECL) model to maintain an adequate methodology for estimating and maintaining allowances for credit losses to properly reflect the value of receivables on the Statement of Financial Position.

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

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

Allowance for Loan Losses, continued

The primary objective is to provide an estimate of what NESDEC expects to collect. This CECL model recognizes historical credit losses, delinquencies, and reasonable and supportable economic factors.

NESDEC uses five years of charge offs to determine historical loss. In order to accurately project how economic factors affect NESDEC, management evaluates certain factors that may impact repayment. NESDEC uses factors such as, but not limited to: SD unemployment rate, national inflation rate, prime interest rates, pandemics, natural disasters, wars, and political turbulence when determining the economic factor. NESDEC uses the Delinquency Report, at a discounted rate, to evaluate current conditions periodically.

Lease Receivable

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

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

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

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

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

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

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

Property and Equipment

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

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

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

	<u>Years</u>
Buildings	7-40
Equipment	5-7
Vehicles	5

Investments

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

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

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

Investments, continued

Inputs to the fair value methodology include:

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

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

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

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

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

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

Foreclosed Property and Other Real Estate Owned

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

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

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

Net Assets

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

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

Revenue Recognition

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

Estimates

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

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

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

Functional Allocation of Expenses

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

Fund Raising Activity

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

Salaries and Benefits

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

Advertising

NESDEC expenses the costs of advertising as incurred.

Income Taxes

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

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

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

Implementation of New Accounting Standard

In February 2016, the Financial Accounting Standards Board ("FASB") issued new guidance on the measurement of current expected credit losses ("CECL") on financial instruments. The FASB has subsequently issued additional guidance amending certain aspects of the measurement of CECL. The new guidance has replaced the incurred loss methodology of recognizing credit losses on financial instruments with a methodology that estimates the expected credit loss on financial instruments and reflects the net amount expected to be collected on the financial instrument. NESDEC adopted this change in accounting principle as of the first day of the fiscal year.

2. LIQUIDITY AND AVAILABILITY

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

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

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, NESDEC anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

2. LIQUIDITY AND AVAILABILITY, continued

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

Cash and cash equivalents	\$ 2,656,138
Certificates of deposit	2,200,000
Accrued interest receivable	50,669
Other receivables	<u>1,200</u>
	<u>\$ 4,908,007</u>

3. CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, NESDEC's deposits may not be returned. NESDEC maintains cash balances at several financial institutions located in South Dakota. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In addition, certain financial institutions obtained additional bank deposit guaranty bonds to cover balances not insured by FDIC. As of September 30, 2024, NESDEC's cash balances were fully insured and collateralized and not subject to custodial credit risk.

4. ASSET AND LIABILITY COMPONENTS OF DONOR RESTRICTED NET ASSETS

a. Cash

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

Rural Development	\$ 3,427,038
Other	<u>907,130</u>
	<u>\$ 4,334,168</u>

b. Accrued Interest Receivable

Rural Development	\$ 38,332
Other	<u>6,844</u>
	<u>\$ 45,176</u>

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

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

c. Due From Other Governments

Rural Development	\$ 29,205
Other	80,411
	<u>\$ 109,616</u>

d. Notes Receivable

Rural Development	\$ 9,322,606
Other	1,825,110
Allowance for loan losses	(292,115)
	<u>\$ 10,855,601</u>

e. Current Liabilities

Rural Development	\$ 72,775
Other	6,984
	<u>\$ 79,759</u>

f. Notes Payable

Rural Development	\$ 5,492,083
Other	1,853,306
	<u>\$ 7,345,389</u>

5. NOTES RECEIVABLE

NESDEC has 275 notes receivable totaling \$21,360,952. Interest rates range from 0% to 8.25%. Each note has its own repayment schedule and interest rate. The notes permit principal repayment at any time without penalty.

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

5. NOTES RECEIVABLE, continued

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, 2024 follows:

Commercial Loans	\$ 19,670,847
Housing Loans	1,690,105
Total Loans	21,360,952
Less allowance for loan losses	(389,380)
Total Notes Receivable, net of Allowances	<u>\$ 20,971,572</u>

Allowance for Loan Losses

The following table presents the activity in the allowance for loan losses, including loan guarantees, for the year ended September 30, 2024, by portfolio segment.

	Commercial	Housing	Total
Balance, beginning of year	\$ 462,719	\$ 14,856	\$ 477,575
Provision (benefit) for loan losses	(88,221)	(2,104)	(90,325)
Net recoveries (charge offs)	2,130	-	2,130
Balance, end of year	<u>\$ 376,628</u>	<u>\$ 12,752</u>	<u>\$ 389,380</u>

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

The ending balance as of September 30, 2024 in the allowance for loan loss is attributed to loans evaluated individually and loans evaluated collectively as follows:

	Allowance for Loan Losses		
	Commercial	Housing	Total
Individually evaluated for impairment	\$ 60,216	\$ -	\$ 60,216
Collectively evaluated for impairment	316,412	12,752	329,164
Balance, end of year	<u>\$ 376,628</u>	<u>\$ 12,752</u>	<u>\$ 389,380</u>

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

5. NOTES RECEIVABLE, continued

The balance of loans as of September 30, 2024 evaluated individually and loans evaluated collectively are as follows:

	Notes Receivable Balances		
	Commercial	Housing	Total
Individually evaluated for impairment	\$ 240,312	\$ -	\$ 240,312
Collectively evaluated for impairment	19,430,535	1,690,105	21,120,640
Balance, end of year	<u>\$ 19,670,847</u>	<u>\$ 1,690,105</u>	<u>\$ 21,360,952</u>

Credit Quality Indicators

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

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

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

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

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

5. NOTES RECEIVABLE, continued

Credit Quality Indicators, continued

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

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

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

NESDEC categorizes housing loans into the satisfactory risk categories based on the type of loan.

Credit Risk Profile by Internally Assigned Grade

Based on the most recent analysis performed, the risk category of loans by class of loans as of September 30, 2024 is as follows:

	Commercial	Housing	Total
Prime	\$ 2,502,462	\$ -	\$ 2,502,462
Desirable	8,667,204	-	8,667,204
Satisfactory	6,105,061	1,690,105	7,795,166
Watch	2,155,808	-	2,155,808
Doubtful	240,312	-	240,312
Projected Loss	-	-	-
Total	<u>\$ 19,670,847</u>	<u>\$ 1,690,105</u>	<u>\$ 21,360,952</u>

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

5. NOTES RECEIVABLE, continued

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, 2024:

	Performing	Nonperforming	Total
Commercial	\$ 19,477,104	\$ 193,743	\$ 19,670,847
Housing	1,690,105	-	1,690,105
Total	<u>\$ 21,167,209</u>	<u>\$ 193,743</u>	<u>\$ 21,360,952</u>

The following table summarizes the aging of the past due loans by loan class within the portfolio segments as of September 30, 2024:

		Still Accruing		Nonaccrual
	Current	30-89 Days Past Due	Over 90 Days Past Due	Balance
Commercial	\$ 19,367,324	\$ 109,780	\$ 80,023	\$ 113,720
Housing	1,690,105	-	-	-
Total	<u>\$ 21,057,429</u>	<u>\$ 109,780</u>	<u>\$ 80,023</u>	<u>\$ 113,720</u>

Impaired loans are loans assigned to a risk category of “doubtful” or “projected loss”. The following table summarizes individually impaired loans by class of loans as of September 30, 2024:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With an allowance recorded:				
Commercial	\$ 240,312	\$ 240,312	\$ 60,216	\$ 5,999
Housing	-	-	-	-
Total	<u>\$ 240,312</u>	<u>\$ 240,312</u>	<u>\$ 60,216</u>	<u>\$ 5,999</u>

There are no impaired loans without an allowance recorded.

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

5. NOTES RECEIVABLE, continued

The following table presents NESDEC's impaired and nonaccrual loans as of September 30, 2024:

Impaired loans with a valuation allowance	\$ 240,312
Total impaired loans	240,312
Valuation allowance related to impaired loans	60,216
Total nonaccrual loans	113,720
Total loans 90 days or more past due and still accruing	80,023
Total loans 30-89 days past due and still accruing	109,780
Average investment in impaired loans	120,156
Interest income recognized on impaired loans	5,999

Loan Modifications and Troubled Debt Restructuring

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

The following table represents the effects of the troubled debt restructuring during the year ended September 30, 2024:

	Number of Contracts	Outstanding Recorded Investment	
		Pre-Modification	Post-Modification
Troubled debt restructurings:			
Commercial	19	\$ 240,312	\$ 240,312
Housing	-	-	-
 Troubled debt restructurings that subsequently defaulted:			
Commercial	16	573,471	573,471
Housing	-	-	-

During the year ended September 30, 2024, the concessions granted to certain borrowers included extending the payment due dates and lowering the contractual interest rate and did not include reducing accrued interest or reducing the debt's face or maturity amount.

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

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

6. LEASES

Lease Receivable

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

For the year ended September 30, 2024, lease income consists of the following:

Interest income on lease receivable	\$	6,617
Fee income on lease receivable		20,383
	\$	<u>27,000</u>

Future maturities of noncancelable lease receivable at September 30, 2024 are as follows:

2025	\$	21,213
2026		22,078
2027		22,977
2028		23,913
2029		24,888
Thereafter		<u>39,246</u>
	\$	<u>154,315</u>

7. PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2024 is as follows:

Buildings	\$	850,049
Land		<u>142,506</u>
		992,555
Less: accumulated depreciation		<u>(348,963)</u>
	\$	<u>643,592</u>

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

8. INVESTMENTS

Securities With Readily Determinable Fair Value

Fair value of investments measured on a recurring basis at September 30, 2024, are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value Balance at 9/30/2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
CDC Bancshares, Inc.	\$ 1,429,461	\$ -	\$ 1,429,461	\$ -
	<u>\$ 1,429,461</u>	<u>\$ -</u>	<u>\$ 1,429,461</u>	<u>\$ -</u>

NESDEC owns an interest in CDC Bancshares, Inc. at a total cost of \$1,402,670. The entity is a bank holding company organized under the laws of the state of Minnesota. The holding company owns Community Development Bank. As of September 30, 2024, CDC Bancshares, Inc. is valued as follows:

CDC Bancshares, Inc.	\$ 1,402,670
Cumulative unrealized gain (loss)	639,418
Valuation write-down	(612,627)
	<u>\$ 1,429,461</u>

An appraisal of fair value, with a measurement date of June 30, 2021, was used to establish the unrealized gain. On September 20, 2024, Community Development Bank was sold. Proceeds from the sale will roll up into CDC Bancshares, Inc. It is estimated, after expenses and operating costs, NESDEC will realize 70% of the September 30, 2023, value. This reduction is reflected in the \$612,627 valuation write-down to \$1,429,461 at September 30, 2024. It may take up to 12-18 months for CDC Bancshares, Inc. to dissolve and NESDEC to see the cash proceeds.

Investment return for the year ended September 30, 2024, is as follows:

Dividends/Distributions	\$ 2,987
Unrealized gain	-
Realized gain	69,935
Valuation allowance	(612,627)
	<u>\$ (539,705)</u>

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

8. INVESTMENTS, continued

Securities Without Readily Determinable Fair Value

NESDEC held an investment in Hancock Holdings LLC, a Limited Liability Company, formed in 2010. Hancock Holding LLC owns real estate leased to the Hancock branch of Community Development Bank. This investment was sold in June 2024. The cash distribution from the dissolving of Hancock Holdings LLC was \$219,935, resulting in a \$69,935 realized gain.

	Hancock Holdings	Total
Cost	\$ 150,000	\$ 150,000
Sale of investment	(150,000)	(150,000)
	<u>\$ -</u>	<u>\$ -</u>

9. NOTES PAYABLE

Notes payable as of September 30, 2024 consisted of the following:

Dakota Resources, quarterly interest only payments, 3.5% interest, principal due on December 1, 2032, uncollateralized.	\$ 1,500,000
---	--------------

Community Development Financial Institutions, Financial Assistance, semi-annual interest only payments, 1.95% interest, principal due in three annual payments beginning on December 31, 2025, with final payment due April 16, 2028.	1,389,975
---	-----------

Northwest Area Foundation, annual interest only payments, 1% interest, final interest payment and principal due March 31, 2025.	1,000,000
---	-----------

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

9. NOTES PAYABLE, continued

Rural Development, collateralized by security interest in loans made with proceeds of this loan (interest payments only for first three years), 1% interest, final payment due on April 5, 2052	909,885
Wells Fargo Community Development Corporation, subordinated loan, quarterly interest payments only, 2.0% interest, principal due November 18, 2024, uncollateralized.	750,000
Rural Development, collateralized by security interest in loans made with proceeds of this loan (interest payments only for first three years), 1% interest, final payment due on April 14, 2053	627,482
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of \$23,555, 1% interest, final payment due on May 1, 2049.	518,688
SBA, collateralized by security interest in loans made with the proceeds of this loan, monthly installments of \$5,287, 2.875% interest, final payment due April 11, 2033.	479,584
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of \$31,838, 1% interest, final payment due on June 25, 2040.	468,482
Rural Development, Rural Microentrepreneur Assistance Program (RMAP), collateralized by security interest in loans made with the proceeds of this loan, monthly principal and interest payments of \$2,536, 1% interest, final payment due July 31, 2040.	445,320

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

9. NOTES PAYABLE, continued

Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of \$31,838, 1% interest, final payment due October 10, 2038.	441,331
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of \$31,838, 1% interest, final payment due on March 14, 2037.	386,205
Community Development Financial Institutions, Financial Assistance, semi-annual interest only payments, 2.24% interest, principal due in six semi-annual payments beginning on June 30, 2029, with final payment due April 4, 2032.	332,293
Rural Development, collateralized by security interest in loans made with the proceeds of this loan, annual installments of \$31,838, 1% interest, final payment due June 7, 2035.	330,348
SBA, collateralized by security interest in loans made with the proceeds of this loan, monthly installments of \$4,659, 0.125% interest, final payment due April 20, 2030.	310,831
Venture Communications Cooperative, annual interest only payments, 1% interest, due February 1st, principal due on February 1, 2034.	300,000

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

9. NOTES PAYABLE, continued

Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of \$16,980, 1% interest, final payment due on October 1, 2042.	292,350
Rural Development, collateralized by security interest in loans made with the proceeds of this loan, annual installments of \$31,838, 1% interest, final payment due August 14, 2033.	272,613
Wells Fargo Community Investments Holdings, subordinated loan, quarterly interest payments, 2% interest, principal due November 13, 2027, uncollateralized.	250,000
Rural Development, collateralized by security interest in loans made with the proceeds of this loan, annual installments of \$31,838, 1% interest, final payment due February 15, 2031.	214,087
Rural Development, collateralized by security interest in loans made with the proceeds of this loan, annual installments of \$42,450, 1% interest, final payment due October 8, 2028.	205,895
Rural Development, Rural Microentrepreneur Assistance Program (RMAP), collateralized by security interest in loans made with the proceeds of this loan, monthly principal and interest payments of \$2,842, 2% interest, final payment due December 20, 2030.	194,995
Rural Development, collateralized by security interest in loans made with the proceeds of this loan, annual installments of \$31,838, 1% interest, final payment due February 10, 2030.	184,403

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

9. NOTES PAYABLE, continued

SBA, collateralized by security interest in loans made with the proceeds of this loan, monthly installments of \$4,854, 0.375% interest, final payment due October 14, 2025	62,892
Dacotah Bank, annual interest only payments, 2% interest, due June 7th, principal due on June 7, 2028, uncollateralized.	<u>50,000</u>
Total	11,917,659
Less: Current portion	(2,243,912)
Less: Unamortized debt issuance costs	<u>(12,375)</u>
	<u><u>\$ 9,661,372</u></u>

Interest expense for the year ending September 30, 2024, respectively, was \$176,593.

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

2025	\$ 2,243,912
2026	1,023,585
2027	1,139,931
2028	1,002,185
2029	513,318
Thereafter	<u>5,994,728</u>
Less: unamortized debt issuance costs	<u>(12,375)</u>
	<u><u>\$ 11,905,284</u></u>

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

10. COMMITMENTS, CONTINGENT LIABILITIES AND CONCENTRATION OF CREDIT RISK

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

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

11. RELATED PARTY TRANSACTIONS

Northeast South Dakota Community Action Program (NESDCAP) is a nonprofit organization that promotes health, education and social and economic welfare to low-income, minority and disadvantage persons. NESDEC employees are also employed by NESDCAP. NESDEC reimburses NESDCAP for salaries, employee benefits and various administrative and program costs which amounted to approximately \$630,430 for the year ended September 30, 2024.

NESDCAP leases office and storage space from NESDEC on annual leases. Total lease payments under these leases during the year ended September 30, 2024, was \$27,000.

Grow South Dakota is a not-for-profit corporation formed to promote and foster economic, housing, and educational development in distressed communities and underserved markets in South Dakota and to purposefully serve low to moderate income individuals and communities. A minority of Grow South Dakota board members also serve on the NESDEC board. NESDEC reimburses Grow South Dakota for various administrative costs. During the year ended September 30, 2024, NESDEC paid \$-0- to Grow South Dakota for these administrative costs.

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

11. RELATED PARTY TRANSACTIONS, continued

NESDEC has a direct loan receivable totaling \$834 with a board member. The lending expertise of the board members is utilized in assessing NESDEC's loan portfolio.

NESDEC has a direct loan receivable totaling \$1,000,000 with Grow South Dakota, an affiliate. Interest earned on this loan during the year ended September 30, 2024, was \$30,082.

12. RETIREMENT PLAN

NESDCAP, an affiliate of NESDEC, maintains a defined contribution Simplified Employee Pension Plan. Substantially, all employees meeting certain eligibility requirements are covered by this plan. NESDCAP may contribute up to 15% of total employee compensation to the plan; however, the Board has set the percentage at 10%. Total employer contributions to this plan were \$208,366 for the fiscal year ended September 30, 2024, of which NESDEC paid \$120,068.

13. PRIOR PERIOD ADJUSTMENT

During the fiscal year ended September 30, 2024, NESDEC adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (commonly referred to as CECL). This new standard replaces the incurred loss methodology for determining the allowance for doubtful accounts with a current expected credit loss model. The CECL model requires the consideration of reasonable and supportable forecasts to estimate lifetime expected credit losses.

As a result of adopting the CECL standard, NESDEC reevaluated its allowance for doubtful accounts and determined a reduction of \$575,962 in the allowance was necessary. This adjustment also resulted in a decrease in bad debt expense of \$9,312 for the prior period and an increase of \$566,650 to the opening balance of equity as of September 30, 2023. These changes are reflected in the accompanying financial statements.

The adoption of the CECL standard did not have an impact on previously reported net income or cash flows beyond the adjustments described above.

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

14. SUBSEQUENT EVENTS

Events occurring after September 30, 2024, were evaluated by management on December 16, 2024, the date the financial statements were available to be issued, to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There are no significant subsequent events needing disclosure.

SUPPLEMENTARY INFORMATION

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2024

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Assistance Listing Number	Disbursements/ Expenditures
U.S. SMALL BUSINESS ADMINISTRATION		
Direct Funding:		
Microloan Program - Project Grant (SBAOCAML230508-01-00)	59.046	\$ 87,339
Microloan Program - Project Grant (SBAOCAML240571-01-00)	59.046	17,817
Microloan Program - Direct Loans - Note 3	59.046	<u>987,017</u>
Total U.S. Small Business Administration		<u>1,092,173</u>
U.S. DEPARTMENT OF AGRICULTURE - RURAL DEVELOPMENT		
Direct Funding:		
Intermediary Relending Program - Note 3	10.767	5,121,788
Rural Business Enterprise Grant - Direct Loans	10.769	200,000
Rural Microentrepreneur Assistance Program - Project Grant	10.870	38,606
Rural Microentrepreneur Assistance Program - Direct Loans - Note 3	10.870	<u>700,620</u>
Total U.S. Department of Agriculture - Rural Development		<u>6,061,014</u>
Total Federal Funding		<u>\$ 7,153,187</u>

Note 1: Basis of Presentation

This accompanying Schedule of Expenditures of Federal Awards (the schedule) includes the federal award activity of the Northeast South Dakota Economic Corporation under programs of the federal government for the year ended September 30, 2024. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Northeast South Dakota Economic Corporation, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of the organization.

Note 2: Significant Accounting Policies

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

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

Note 3: Federal Loan Programs	Assistance Listing Number	Outstanding Balance
The outstanding balances of federal loans at September 30, 2024 were as follows:		
U.S. Department of Agriculture - Intermediary Relending Program	10.767	\$ 4,851,768
U.S. Department of Agriculture - Rural Microentrepreneur Assistance Program	10.870	640,314
U.S. Department of Treasury - Community Development Financial Institutions Program	21.020	1,722,268
U.S. Small Business Administration	59.046	<u>853,306</u>
		<u>\$ 8,067,656</u>

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Northeast South Dakota Economic Corporation dba GROW South Dakota (a nonprofit organization, hereafter referred to as "NESDEC"), which comprise the statement of financial position as of September 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NESDEC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NESDEC's internal control. Accordingly, we do not express an opinion on the effectiveness of NESDEC's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
December 16, 2024

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Northeast South Dakota Economic Corporation dba GROW South Dakota's (a nonprofit organization, hereafter referred to as "NESDEC") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on NESDEC's major federal programs for the year ended September 30, 2024. NESDEC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, NESDEC complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended September 30, 2024.

Basis for Opinion on Each Major Federal Program

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

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

MADISON OFFICE: 205 North Egan Ave. | PO Box 505 | Madison, SD 57042 | (605) 256-9165

YANKTON OFFICE: 207 Douglas Ave. | PO Box 1018 | Yankton, SD 57078 | (605) 665-4401

SIOUX FALLS OFFICE: 3600 S Westport, Suite 101 | Sioux Falls, SD 57106 | (605) 336-0372

EMAIL: wrc@wrccpa.com

TOLL FREE: 1-800-456-0889

FAX #: (605) 665-0592



Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

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

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

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

Uhlenberg Ritzman + Co., LLC

Yankton, South Dakota
December 16, 2024

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
SEPTEMBER 30, 2024

SECTION II – FINANCIAL STATEMENT AUDIT

There were no prior financial statement audit findings reported.

SECTION III – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no prior major federal award program findings reported.

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2024

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

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

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

Identification of major programs:

Assistance Listing Number(s)

Name of Federal Program or Cluster

10.767

Intermediary Relending Program

10.769

Rural Business Enterprise Grant

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

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

NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION
dba GROW South Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued
YEAR ENDED SEPTEMBER 30, 2024

SECTION II – FINANCIAL STATEMENT AUDIT

There are no financial statement audit findings reported.

SECTION III – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There are no major federal award program findings reported.