

GROW SOUTH DAKOTA
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
WITH SUPPLEMENTARY INFORMATION
JUNE 30, 2025

GROW SOUTH DAKOTA

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of GROW South Dakota (a nonprofit corporation) (hereinafter referred to as the Corporation) and its subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2025, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation and its subsidiaries as of June 30, 2025, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on Summarized Comparative Information

We have previously audited the Corporation's 2024 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 30, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, 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 and 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*, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating schedule of financial position, consolidating schedule of activities, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2025, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Uhlenberg Ritzman + Co., LLC

Yankton, South Dakota
December 18, 2025

GROW SOUTH DAKOTA AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2025

WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2024

| | 2025 | | | 2024 |
|---|---|--|----------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Total |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 4,188,870 | \$ 2,237,947 | \$ 6,426,817 | \$ 4,376,917 |
| Cash and cash equivalents - held in trust | 1,144,220 | - | 1,144,220 | 2,380,279 |
| Program cash reserve | 113,680 | - | 113,680 | 112,985 |
| Accounts receivable | 15 | - | 15 | 9,410 |
| Other receivable | 4,385 | - | 4,385 | 2,343 |
| Accrued interest receivable | 51,858 | 14,963 | 66,821 | 60,823 |
| Noncancelable leases receivable | 122,246 | - | 122,246 | 106,018 |
| Finance leases receivable | 37,176,954 | - | 37,176,954 | 28,334,413 |
| Accrued interest on finance lease receivable | 317,548 | - | 317,548 | 206,018 |
| Notes receivable, less allowance for loan losses of \$928,161 in 2025 and \$801,459 in 2024 | 10,733,878 | 13,635,213 | 24,369,091 | 23,850,731 |
| Other real estate owned | - | - | - | 560 |
| Prepaid assets | 10,293 | - | 10,293 | 8,485 |
| Grants receivable | - | 616,801 | 616,801 | 867,758 |
| Beneficial interests in assets held by Community Foundation | 209,908 | - | 209,908 | 185,783 |
| Construction in progress | - | - | - | 17,009,085 |
| Property and equipment, net | 2,190,471 | - | 2,190,471 | 2,235,325 |
| Total Assets | \$ 56,264,326 | \$ 16,504,924 | \$ 72,769,250 | \$ 79,746,933 |
| LIABILITIES AND NET ASSETS | | | | |
| Accounts payable | \$ 266,490 | \$ - | \$ 266,490 | \$ 333,747 |
| Construction contracts payable | - | - | - | 328,353 |
| Security deposits | 17,598 | - | 17,598 | 17,971 |
| Accrued expenses | 223,788 | 255,846 | 479,634 | 479,606 |
| Revenue received in advance | - | 653,107 | 653,107 | 578,751 |
| Revenue received in advance - noncancelable leases | 122,246 | - | 122,246 | 106,018 |
| Beneficiary obligation | 7,972,165 | - | 7,972,165 | 7,972,165 |
| Notes payable, net of unamortized debt issuance cost of \$1,799,416 in 2025 and \$1,876,733 in 2024 | 61,468,460 | 1,792,139 | 63,260,599 | 62,260,661 |
| Total Liabilities | 70,070,747 | 2,701,092 | 72,771,839 | 72,077,272 |
| Net Assets | | | | |
| With donor restrictions | - | 13,803,832 | 13,803,832 | 13,180,011 |
| Without donor restrictions | (13,806,421) | - | (13,806,421) | (5,510,350) |
| Total Net Assets | (13,806,421) | 13,803,832 | (2,589) | 7,669,661 |
| Total Liabilities and Net Assets | \$ 56,264,326 | \$ 16,504,924 | \$ 72,769,250 | \$ 79,746,933 |

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

GROW SOUTH DAKOTA AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2025

WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2024

| | 2025 | | | 2024 |
|--|---|--|--------------------|------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Total |
| REVENUE, GAINS (LOSSES) AND OTHER SUPPORT | | | | |
| Grant income | \$ 250,747 | \$ 1,727,883 | \$ 1,978,630 | \$ 8,419,075 |
| Apartment revenue | 275,563 | - | 275,563 | 227,901 |
| Miscellaneous income | 13,368 | 1,338 | 14,706 | 19,703 |
| Gain on sale of assets held for sale | 13,750 | - | 13,750 | 6,500 |
| Gain on sale of OREO | 1,440 | - | 1,440 | 8,400 |
| Interest income on loans | 613,210 | 279,877 | 893,087 | 664,213 |
| Interest earned on deposits | 84,259 | 5,954 | 90,213 | 47,757 |
| Donations and contributions | 7,393 | - | 7,393 | 10,079 |
| Noncancelable lease fee income | 38,017 | - | 38,017 | 36,700 |
| Noncancelable lease interest income | 3,917 | - | 3,917 | 3,688 |
| Finance lease interest income | 545,894 | - | 545,894 | 354,240 |
| Endowment fund income | 20,632 | - | 20,632 | 16,630 |
| Development fees | - | - | - | 70,621 |
| Organization fees | 35,700 | - | 35,700 | 99,733 |
| | <u>1,903,890</u> | <u>2,015,052</u> | <u>3,918,942</u> | <u>9,985,240</u> |
| Total Revenue, Gains (Losses) and Other Support | | | | |
| EXPENSES | | | | |
| Program Activities: | | | | |
| Revolving loan funds | 258,293 | - | 258,293 | 576,531 |
| Vehicle lease program | 38,577 | - | 38,577 | 32,108 |
| Housing program | 1,567,230 | - | 1,567,230 | 1,397,409 |
| New market tax credit | 938,288 | - | 938,288 | 714,626 |
| Other program services | 71,846 | - | 71,846 | 57,853 |
| Support Services: | | | | |
| Management and general | 174,106 | - | 174,106 | 106,684 |
| | <u>3,048,340</u> | <u>-</u> | <u>3,048,340</u> | <u>2,885,211</u> |
| Total Expenses | | | | |
| OTHER CHANGES IN NET ASSETS | | | | |
| Loss on Sales-Type Lease | (8,542,852) | - | (8,542,852) | - |
| Reclassification of Net Assets: | | | | |
| Net assets released from restriction in satisfaction of purpose restrictions | 1,391,231 | (1,391,231) | - | - |
| | <u>(8,296,071)</u> | <u>623,821</u> | <u>(7,672,250)</u> | <u>7,100,029</u> |
| Change in Net Assets | | | | |
| Net Assets, Beginning of Year | (5,510,350) | 13,180,011 | 7,669,661 | 569,632 |
| | <u>(13,806,421)</u> | <u>13,803,832</u> | <u>(2,589)</u> | <u>7,669,661</u> |
| Net Assets, End of Year | | | | |

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

GROW SOUTH DAKOTA AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2025
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2024

| | 2025 | | | | | | 2024 | | |
|--|--------------------|-----------|--------------|------------|-----------|--------------|------------------------|----------------|----------------|
| | Program Activities | | | | | | Supporting Services | | |
| | Loan | Lease | Housing | NMTC | Other | Total | Management and General | Total Expenses | Total Expenses |
| Expenses by Function | | | | | | | | | |
| Interest expense including amortization of debt issuance costs | \$ 99,834 | \$ - | \$ 64,263 | \$ 888,976 | \$ - | \$ 1,053,073 | \$ - | \$ 1,053,073 | \$ 818,041 |
| Salaries and benefits | 201,698 | 10,218 | 49,421 | 13,204 | 10,175 | 284,716 | 137,842 | 422,558 | 462,913 |
| Materials | - | - | 316,485 | - | - | 316,485 | - | 316,485 | 479,584 |
| Contract labor | - | - | 280,739 | - | - | 280,739 | - | 280,739 | 421,220 |
| Bad debt expense (recovery) | (84,749) | - | 283,465 | - | - | 198,716 | - | 198,716 | (28,608) |
| Depreciation | - | 28,359 | 138,204 | - | - | 166,563 | - | 166,563 | 162,570 |
| Maintenance | 127 | - | 129,224 | - | - | 129,351 | 127 | 129,478 | 95,511 |
| Developer fees | - | - | 93,350 | - | - | 93,350 | - | 93,350 | 84,000 |
| Utilities | 205 | - | 71,510 | - | - | 71,715 | 205 | 71,920 | 65,447 |
| Grants to other organizations/individuals | - | - | - | - | 48,313 | 48,313 | - | 48,313 | 36,393 |
| Audit fees | 6,707 | - | 12,165 | 18,258 | - | 37,130 | 6,707 | 43,837 | 41,512 |
| Taxes and license | 385 | - | 38,018 | 1,024 | - | 39,427 | 385 | 39,812 | 45,759 |
| Insurance | - | - | 16,970 | - | - | 16,970 | 21,705 | 38,675 | 35,237 |
| Management | - | - | 35,908 | - | - | 35,908 | - | 35,908 | 33,195 |
| Travel and conferences | 12,123 | - | 1,123 | - | 13,335 | 26,581 | 3,468 | 30,049 | 13,461 |
| Miscellaneous | 7,086 | - | 3,693 | 6,840 | - | 17,619 | 12 | 17,631 | 26,495 |
| Onsite management | - | - | 15,040 | - | - | 15,040 | - | 15,040 | 15,000 |
| Consultant/speaker fees | - | - | 2,788 | 9,000 | - | 11,788 | - | 11,788 | 33,277 |
| Equipment/software purchase | 4,486 | - | 6,340 | 708 | - | 11,534 | - | 11,534 | 11,522 |
| Advertising | 6,659 | - | 2,342 | - | - | 9,001 | - | 9,001 | 8,343 |
| Legal fees | 1,877 | - | 2,007 | - | - | 3,884 | - | 3,884 | 11,513 |
| Service fee | 170 | - | 110 | 278 | - | 558 | 1,759 | 2,317 | 2,337 |
| Telephone | 3 | - | 2,022 | - | - | 2,025 | 3 | 2,028 | 1,778 |
| Rent | 658 | - | 658 | - | - | 1,316 | 658 | 1,974 | 600 |
| Office supplies | 374 | - | 435 | - | 23 | 832 | 344 | 1,176 | 355 |
| Dues/subscriptions | 443 | - | 186 | - | - | 629 | 443 | 1,072 | 3,671 |
| Postage | 207 | - | 207 | - | - | 414 | 207 | 621 | 561 |
| Support services | - | - | 557 | - | - | 557 | - | 557 | 3,292 |
| Board meeting | - | - | - | - | - | - | 241 | 241 | 232 |
| Total Expenses by Function | \$ 258,293 | \$ 38,577 | \$ 1,567,230 | \$ 938,288 | \$ 71,846 | \$ 2,874,234 | \$ 174,106 | \$ 3,048,340 | \$ 2,885,211 |

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

GROW SOUTH DAKOTA AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2025

WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2024

| | <u>2025</u> | <u>2024</u> |
|---|---------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ (7,672,250) | \$ 7,100,029 |
| Adjustments to reconcile change in net assets to net cash from (used for) operating activities | | |
| Interest expense attributable to amortization of debt issuance costs | 77,317 | 75,304 |
| Depreciation | 166,563 | 162,570 |
| (Gain) loss on other real estate owned | (1,440) | (8,400) |
| (Gain) loss on sale of assets | (13,750) | (6,500) |
| (Gain) loss on sales-type lease | 8,542,852 | - |
| Assets held by Community Foundation unrealized (gain) loss | (13,898) | (10,253) |
| Provision for loan loss and bad debt expense | 198,716 | (28,608) |
| Change in operating assets and liabilities | | |
| (Increase) decrease in: | | |
| Accounts receivable | 9,395 | (7,120) |
| Accrued interest receivable | (5,998) | (29,499) |
| Accrued interest on finance lease receivable | (111,530) | 179 |
| Prepaid assets | (1,808) | 5,570 |
| Other receivable | (2,042) | (319) |
| Noncancelable lease receivable | (16,228) | (1,546) |
| Grant receivable | 250,957 | (187,558) |
| Increase (decrease) in: | | |
| Accounts payable | (67,256) | (20,719) |
| Security deposits | (373) | 432 |
| Accrued expenses | 28 | 120,612 |
| Revenue received in advance | 74,356 | (1,498,272) |
| Revenue received in advance - noncancelable leases | 16,228 | 1,546 |
| Net cash provided by (used for) operating activities | <u>1,429,839</u> | <u>5,667,448</u> |
| Cash Flows From Investing Activities | | |
| Net (increase) decrease in notes receivable | (717,076) | (8,230,256) |
| Net (increase) decrease in finance lease receivable | (8,842,541) | 34,582 |
| Purchase of assets held by Community Foundation through reinvestment | (10,228) | (15,435) |
| Proceeds from sale of other real estate | 2,000 | 161,400 |
| Acquisition of other real estate | - | (560) |
| Acquisition of property - construction in progress (CIP) | (825,132) | (14,155,659) |
| Acquisition of property and equipment | (130,709) | (33,619) |
| Proceeds on sale of property and equipment | <u>8,985,762</u> | <u>-</u> |
| Net cash provided by (used in) investing activities | <u>(1,537,924)</u> | <u>(22,239,547)</u> |
| Cash Flows From Financing Activities | | |
| Proceeds from notes payables | 1,490,000 | 16,570,911 |
| Payment of debt issuance costs | - | (724,763) |
| Principal payments on notes payable | <u>(567,379)</u> | <u>(368,067)</u> |
| Net cash provided by (used in) financing activities | <u>922,621</u> | <u>15,478,081</u> |
| Net change in cash and cash equivalents | <u>814,536</u> | <u>(1,094,018)</u> |
| Cash and cash equivalents, beginning of year | <u>6,870,181</u> | <u>7,964,199</u> |
| Cash and cash equivalents, end of year | <u>\$ 7,684,717</u> | <u>\$ 6,870,181</u> |
| Cash and Cash Equivalents Consists of | | |
| Cash and cash equivalent | \$ 6,426,817 | \$ 4,376,917 |
| Cash and cash equivalent - restricted | 1,144,220 | 2,380,279 |
| Program cash reserve | <u>113,680</u> | <u>112,985</u> |
| | <u>\$ 7,684,717</u> | <u>\$ 6,870,181</u> |
| Supplemental Disclosures of Cash Flow Information | | |
| Cash paid during the year for interest | <u>\$ 976,069</u> | <u>\$ 840,416</u> |
| Schedule of Non-Cash Investing and Financing Activities | | |
| Construction in progress contributed by school district | \$ - | \$ 2,525,074 |
| Interest and debt issuance costs capitalized for property and equipment | \$ - | \$ 943,782 |

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

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

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

GROW South Dakota's wholly owned subsidiaries GROW Wolf Creek School, LLC and GROW CTE School, LLC, are nonprofit limited liability companies whose primary objective was to obtain New Market Tax Credit (NMTC) loans to build and lease schools in Oglala Lakota County to the Oglala Lakota County School District (School District). The New Market Tax Credits allocated to the investors of the program have a seven-year compliance period. It is expected that upon expiration of the seven-year compliance periods, the projects will unwind. It is anticipated the GROW Wolf Creek School, LLC New Market Tax Credits project will unwind as soon as fiscal year 2026 when the compliance period is scheduled to expire. It is anticipated the GROW CTE School, LLC New Market Tax Credits project will unwind as soon as fiscal year 2027 when the compliance period is scheduled to expire. During 2024 a second project was initiated. The Grow CTE II School, LLC New Market Tax Credits project was completed during the fiscal year ending June 30, 2025 and is expected to unwind in fiscal year 2031.

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

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

Summary of Significant Accounting Policies

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

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

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

Principles of Consolidation

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

Basis of Presentation

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

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB). The FASB requires the Corporation to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Summarized Comparative Financial Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended June 30, 2024, from which the summarized information was derived.

Cash and Cash Equivalents

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

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

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

Notes Receivable and Allowance for Loan Losses

Notes receivable are stated at the outstanding principal balance adjusted for the allowance for loan losses and are generally secured. The Corporation charges a late fee of 5% of the monthly loan payment for any payments more than 10 days late. Due to the uncertainty regarding collection, delinquency fees are recognized as income when received.

A note receivable is considered delinquent when the debtor has missed two or more payments. Loans placed on non-accrual status are determined by the Board of Directors. Interest resumes when principal on non-accrual status loans has been paid current. Management reviews the status of the past due notes and collection proceedings as management deems necessary. Payments of notes receivable are allocated first to accrued and unpaid interest with the remainder to the outstanding principal balance.

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

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

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

The Corporation will use five years of Charge offs to determine historical loss. In order to accurately project how economic factors affect the Corporation, management will evaluate certain factors that may impact repayment. The Corporation will use factors such as, but not limited to: SD Unemployment Rate, National Inflation Rate, Prime Interest Rates, Pandemics, Natural Disasters, Wars, & Political Turbulence when determining the Economic Factor. The Corporation will use the Delinquency Report, at a discounted rate, to evaluate current conditions periodically.

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

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

Notes Receivable and Allowance for Loan Losses, continued

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

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

Credit Risk – Receivables

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

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

Beneficial Interest in Assets Held by South Dakota Community Foundation

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

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

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

Beneficial Interest in Assets Held by South Dakota Community Foundation, continued

The Corporation has a designated fund separate from the agency that was established by the Foundation for the Corporation. The fund is held and invested by the Foundation for the benefit of the Corporation. The fair value of this account as of June 30, 2025, was \$29,948 and is carried on the Foundation's financial statements only and not included as an asset in the consolidated statements of financial position. Income from the designated fund is recorded to the extent distributions from the fund are received by the Corporation. There were no distributions received during the year ended June 30, 2025.

Fair Value of Financial Instruments

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

Other Real Estate Owned

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

Property and Equipment

Purchases of property and equipment in excess of \$10,000 are recorded at cost. Donated property and equipment is valued at estimated fair value on the date donated if over \$10,000. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized if over \$10,000. Expenditures for maintenance and repairs are charged to expense currently. When depreciable properties are retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in income.

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

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

Property and Equipment, continued

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

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

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. The Corporation has determined there were no indicators of asset impairment during the year ended June 30, 2025.

Noncancelable Leases Receivable

The Corporation is a lessor for noncancelable leases of vehicles. The Corporation recognizes a lease receivable and unearned lease revenue.

At the commencement of a lease, the Corporation 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 the Corporation determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The Corporation 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.

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

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

Noncancelable Leases Receivable, continued

The Corporation 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.

Finance Type Leases Receivable

The Corporation's subsidiaries, GROW Wolf Creek School, LLC and GROW CTE School, LLC, entered into finance lease agreements as the lessor with Oglala Lakota County School District (School District) for school buildings. The subsidiaries apply FASB guidance related to finance type leases receivable in these transactions. Key judgements in applying the lease standard include the determination of the lease classification, selection of discount rates, estimation of lease terms and payment amounts, and assessment of collectability. This requires the difference between the value of the transferred assets and the lease receivable to be recognized as a loss by the Corporation. The Corporation expects to see this loss reverse when the Projects unwind.

Debt Issuance Costs

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

Revenue Received in Advance

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

Revenue Received in Advance - Leases

As of June 30, 2025, the Corporation had revenue received in advance related to the leases receivable with the implementation of FASB ASU 2016-02.

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

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

Beneficiary Obligation

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

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

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

Revenue Recognition

Contributions are recognized when cash, securities or other assets are received. The Corporation's grant awards received are for specific purposes, such as cost reimbursement-type grants, and are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Revenue recognition is recognized as support to the extent of related expense(s) incurred in compliance with the specific performance requirements. Amounts received prior to incurring qualifying expenditures are reported as revenue received in advance in the consolidated statement of financial position.

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

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

Revenue Recognition, continued

At June 30, 2025, the Corporation has received cost-reimbursable grants of approximately \$4,021,081 for which amounts have not been received in advance and have not been recognized in the accompanying consolidated financial statements.

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

Salaries and Benefits

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

Functional Allocation of Expenses

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

Income Taxes

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

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

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

Income Taxes, continued

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

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

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term is the determination of the allowance for loan losses.

2. LIQUIDITY AND AVAILABILITY

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

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Corporation considers contributions restricted for programs which are ongoing, major, and central to its annual operations, as well as the conduct of services undertaken to support those activities to be general expenditures. Notes receivable made without donor restrictions are not included in the analysis as principal payments received on these loans are used to make new loans and are, therefore, not available to meet current operating needs.

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

2. LIQUIDITY AND AVAILABILITY, continued

In addition to financial assets available to meet general expenditures over the next 12 months, the Corporation anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Financial assets available for general expenditure within one year of the consolidated statement of financial position date comprise the following:

| | |
|---------------------------|---------------------|
| Cash and cash equivalents | \$ 2,804,188 |
| Accrued Interest | 66,821 |
| Accounts receivable | 15 |
| Other receivable | 4,385 |
| Grant Receivable | 616,801 |
| Lease Receivable | <u>185,891</u> |
| | <u>\$ 3,678,101</u> |

3. FAIR VALUE MEASUREMENTS AND DISCLOSURES

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

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

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

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

3. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued

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

| | SDCF Fund |
|---|-------------------|
| Balance, June 30, 2024 | \$ 185,783 |
| Total gain or losses included in change in net assets | 20,632 |
| Contributions (net of admin fees) | <u>3,493</u> |
| Balance, June 30, 2025 | <u>\$ 209,908</u> |

4. CASH AND CASH EQUIVALENTS – HELD IN TRUST

Cash and cash equivalents – held in trust consists of the following at June 30, 2025:

| | |
|------------------------|---------------------|
| Debt repayment reserve | \$ 1,116,108 |
| Audit and tax reserve | <u>28,112</u> |
| | <u>\$ 1,144,220</u> |

Cash and cash equivalents – held in trust is for the future payment of audit/tax fees related to the financing of the school buildings as well as funds restricted for the construction of the buildings and debt repayment.

5. LEASES

Noncancelable Leases Receivable

The corporation owns 8 vehicles that it is leasing on a long-term basis to a related party. Terms vary from two years to five years at a discount rate of 4%. The lease receivable is offset by revenue received in advance.

Noncancelable lease income at June 30, 2025, consists of the following:

| | |
|--|------------------|
| Interest income on noncancelable lease receivables | \$ 3,917 |
| Fee income on noncancelable lease receivables | <u>38,017</u> |
| | <u>\$ 41,934</u> |

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

5. LEASES, continued

Future maturities of noncancelable leases receivable at June 30, 2025 are as follows:

| June 30, | Total |
|--------------------------------------|-------------------|
| 2026 | \$ 39,600 |
| 2027 | 34,050 |
| 2028 | 34,050 |
| 2029 | 23,850 |
| Total minimum payments | \$ 131,550 |
| Less: present value discount | (9,304) |
| Total noncancelable lease receivable | <u>\$ 122,246</u> |

Finance Type Leases Receivable

The Corporation's subsidiaries, GROW Wolf Creek School, LLC and GROW CTE School, LLC, entered into finance lease agreements as the lessor with Oglala Lakota County School District (School District) for the school buildings and expansions.

The term of the GROW Wolf Creek School, LLC lease runs through November 20, 2038. There are two leases for GROW CTE School, LLC. The first lease runs through November 20, 2039, and the second runs through November 20, 2043.

Finance lease income at June 30, 2025, consists of the following:

| | |
|---|-------------------|
| Interest income on finance lease receivable | <u>\$ 545,894</u> |
|---|-------------------|

Future maturities of finance lease receivable at June 30, 2025 are as follows:

| June 30, | Total |
|--------------------------------------|----------------------|
| 2026 | \$ 610,116 |
| 2027 | 1,560,116 |
| 2028 | 2,586,116 |
| 2029 | 2,586,116 |
| 2030 | 2,586,116 |
| Thereafter | 32,967,327 |
| Total minimum payments | \$ 42,895,907 |
| Less: present value discount | (5,401,405) |
| Total finance lease receivable | <u>\$ 37,494,502</u> |
| Finance lease receivable - principal | \$ 37,176,954 |
| Accrued interest | 317,548 |
| Total finance lease receivable | <u>\$ 37,494,502</u> |

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

6. LOSS ON SALES-TYPE LEASE

Lease Arrangements

The Corporation (as lessor) entered into two sales-type lease agreements with the lessee, Oglala Lakota County School District No. 65-1, effective July 23, 2024, classified as finance leases under ASC 842.

1. GROW CTE School Expansion Lease

- Lease term: July 23, 2024 to November 20, 2043 (233 months)
- Discount rate: 3.00%
- Payment frequency: Annual
- Payments: \$162,246 per year for 6 years during the compliance period; various amounts for 14 years post compliance
- Total payments: \$8,595,063
- Present value of lease payments: \$5,997,056

2. Grow Auto Tech Lease

- Lease term: July 23, 2024 to November 20, 2043 (233 months)
- Discount rate: 0.41%
- Payment frequency: Annual
- Payments: \$58,870 per year for 6 years during the compliance period; various amounts for 14 years post compliance
- Total payments: \$3,118,681
- Present value of lease payments: \$2,965,955

Loss on Sales-Type Leases

At lease commencement, the Corporation recognized a combined loss of \$8,542,852 related to these sales-type leases. This loss represents the excess of the carrying amounts of the leased assets over the net investment in the leases, measured as the present value of lease payments, in accordance with ASC 842.

In line with ASC 842-30, upon lease commencement, the Corporation derecognized the leased assets and recognized net investments in the leases. The loss reflects the measurement difference between the carrying value of the assets and the present value of the lease payments discounted using the respective rates of 3.00% and 0.41%.

Impact on Financial Statements

The material loss is presented separately within the Statement of Activities as "Loss on Sales-Type Leases." The combined net investments in the leases are recorded on the Statement of Financial Position separately from other assets as part of the finance leases receivable.

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

7. NOTES RECEIVABLE

The purpose of the loan fund is to provide flexible and accessible loans that will strengthen, create, or save businesses and job opportunities, as well as provide homeownership assistance financing to homeowners.

A summary of notes receivable by portfolio category as of June 30, 2025, is as follows:

| | |
|--|--------------------------------|
| Commercial loans | \$ 11,596,159 |
| Housing loans | 13,699,400 |
| Consumer loans | <u>1,693</u> |
| Total Loans | 25,297,252 |
| Less allowance for loan losses | <u>(928,161)</u> |
| Total notes receivable, net of allowance | <u><u>\$24,369,091</u></u> |

Allowance for Loan Losses

The following table presents the activity in the allowance for loan losses for the year ended June 30, 2025, and the recorded investment in loans and impairment method as of June 30, 2025, by portfolio segment.

| | Commercial | Housing | Consumer | Total |
|--|----------------------|----------------------|-----------------|----------------------|
| Allowance for Loan Losses | | | | |
| Balance, beginning of year | \$ 453,215 | \$ 346,547 | \$ 1,697 | \$ 801,459 |
| Provision for (benefit from) bad debts | (84,707) | 201,736 | (827) | 116,202 |
| Net recoveries, (charge offs) | <u>-</u> | <u>10,500</u> | <u>-</u> | <u>10,500</u> |
| | <u>\$ 368,508</u> | <u>\$ 558,783</u> | <u>\$ 870</u> | <u>\$ 928,161</u> |
| Individually evaluated for impairment | \$ 368,508 | \$ - | \$ - | \$ 368,508 |
| Collectively evaluated for impairment | <u>-</u> | <u>558,783</u> | <u>870</u> | <u>559,653</u> |
| | <u>\$ 368,508</u> | <u>\$ 558,783</u> | <u>\$ 870</u> | <u>\$ 928,161</u> |
| Loans | | | | |
| Individually evaluated for impairment | \$ 11,596,159 | \$ - | \$ - | \$ 11,596,159 |
| Collectively evaluated for impairment | <u>-</u> | <u>13,699,400</u> | <u>1,693</u> | <u>13,701,093</u> |
| | <u>\$ 11,596,159</u> | <u>\$ 13,699,400</u> | <u>\$ 1,693</u> | <u>\$ 25,297,252</u> |

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

7. NOTES RECEIVABLE, continued

Credit Quality Indicators

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

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

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

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

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

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

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

7. NOTES RECEIVABLE, continued

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

The Corporation categorizes housing loans into risk categories based on the collateral position.

Based on the most recent analysis performed, the risk category of loans by class of loans as of June 30, 2025 was as follows:

Credit Risk Profile by Internally Assigned Grade

| | Commercial | Housing | Consumer | Total |
|--------------|----------------------|----------------------|-----------------|----------------------|
| Prime | \$ 611,448 | \$ - | \$ - | \$ 611,448 |
| Desirable | 5,981,330 | - | - | 5,981,330 |
| Satisfactory | 3,452,000 | 13,699,400 | - | 17,151,400 |
| Watch | 1,490,369 | - | 1,094 | 1,491,463 |
| Doubtful | <u>61,012</u> | <u>-</u> | <u>599</u> | <u>61,611</u> |
| | <u>\$ 11,596,159</u> | <u>\$ 13,699,400</u> | <u>\$ 1,693</u> | <u>\$ 25,297,252</u> |

Credit Risk Profile by Class Based on Payment Activity

Loans are managed on an individual basis. Loans that are delinquent 90 days or more and are not accruing interest are considered nonperforming. The following table presents the recorded investments in loans by class based on payment activity as of June 30, 2025:

| | Performing | Nonperforming | Total |
|------------|----------------------|---------------|----------------------|
| Commercial | \$ 11,596,159 | \$ - | \$ 11,596,159 |
| Housing | 13,699,400 | - | 13,699,400 |
| Consumer | <u>1,693</u> | <u>-</u> | <u>1,693</u> |
| Total | <u>\$ 25,297,252</u> | <u>\$ -</u> | <u>\$ 25,297,252</u> |

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

7. NOTES RECEIVABLE, continued

The following table summarizes the aging of the past due loans by loan class within the portfolio segments as of June 30, 2025:

| | Current | Still Accruing | | Nonaccrual Balance |
|------------|---------------------|------------------------|--------------------------|-----------------------|
| | | 30-90 Days Past Due | Over 90 Days Past Due | |
| Commercial | \$ 11,196,079 | \$ 360,516 | \$ 39,564 | \$ - |
| Housing | 13,342,204 | 357,196 | - | - |
| Consumer | - | 1,094 | 599 | - |
| Total | <u>\$24,538,283</u> | <u>\$ 718,806</u> | <u>\$ 40,163</u> | <u>\$ -</u> |

There were no impaired or nonaccrual loans as of June 30, 2025.

Loan Modifications and Troubled Debt Restructuring

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

During the year ended June 30, 2025, there were no loan modifications resulting in troubled debt restructurings.

If a loan is determined to have undergone a troubled debt restructuring, the loan is evaluated for an asset-specific allowance for credit losses. The Corporation continues to specifically reevaluate the loan in subsequent periods, regardless of the borrower's performance under the modified terms. If the loan defaults after restructuring, it may be written off.

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

8. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2025, is as follows:

| | Cost | Accumulated Depreciation | Net |
|-----------------------|---------------------|-----------------------------|---------------------|
| Buildings | \$ 3,645,112 | \$ (1,727,211) | \$ 1,917,901 |
| Vehicles | 273,064 | (109,707) | 163,357 |
| Land | 96,000 | - | 96,000 |
| Furnishings | 83,745 | (76,019) | 7,726 |
| Maintenance Equipment | <u>27,865</u> | <u>(22,378)</u> | <u>5,487</u> |
| | <u>\$ 4,125,786</u> | <u>\$ (1,935,315)</u> | <u>\$ 2,190,471</u> |

9. NOTES PAYABLE

The proceeds from notes payable, plus earnings and principal received from loan collections, are used to fund loans to area businesses and industry, school construction, building, land, and rehabilitation of an apartment complex. The terms of the notes payable at June 30, 2025, are as follows:

| | |
|---|--------------|
| 3% note payable to Northeast South Dakota Economic Development Corporation, due in quarterly installments of interest only payments until maturity on January 1, 2026, when all principal plus accrued interest shall be due and payable. | \$ 1,000,000 |
| 3% note payable to Northeast South Dakota Community Action Program, due in quarterly installments of interest only payments until maturity on June 1, 2026, when all principal plus accrued interest shall be due and payable. | 1,230,000 |
| 1% note payable to US Small Business Administration, due in quarterly installments of principal and interest payments of \$15,362, beginning October 7, 2012, with the last payment due on August 22, 2031. A 5% cash reserve on outstanding SBA loan balance is to be set aside in a separate account. | 369,352 |
| 1% note payable to Rural Development, due in annual installments of principal and interest payments of \$6,835 (interest only payments for first three years) beginning August 26, 2015 with the last payment due on August 26, 2041. | 106,334 |

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

9. NOTES PAYABLE, continued

| | |
|--|---------|
| 1% note payable to Rural Development, interest only payments for first three years, annual installments of principal and interest of \$42,096 beginning July 9, 2019, with last payment due on July 9, 2045. | 785,026 |
| 1% note payable to Rural Development, interest only payments for first three years, annual installments of principal and interest will begin on October 1, 2028, and will be calculated based on the current balance with last payment due on October 1, 2054. | 240,000 |
| 2% note payable to Rural Development, Rural Microentrepreneurs Assistance Program (RMAP), due in monthly installments of principal and interest payments (deferred for first two years) of \$2,832 beginning December 31, 2016, with last payment due on December 9, 2034. | 291,427 |
| Variable rate (never greater than 4% or less than 2%) note payable to 1st Financial Bank USA, due in quarterly installments of interest only payments beginning January 1, 2016 until October 1, 2025, when all principal plus accrued interest shall be due and payable. | 249,985 |
| 3.5% note payable to 1st Financial Bank USA, due in monthly installments of principal and interest payments of \$4,556 with last payment due on November 1, 2029. | 223,119 |
| 1% note payable to the Bush Foundation, annual interest only payments with principal due at maturity on December 31, 2030 | 500,000 |
| 2.56% note payable, due on demand, to First Bank & Trust. If no demand, due in annual installments of interest only payments beginning September 28, 2017 until September 28, 2026, when all principal plus accrued interest shall be due and payable. | 100,000 |
| 2.5% note payable to MMCDC, due in monthly installments of interest only payments beginning November 1, 2019 until April 1, 2021, then monthly installments of principal and interest of \$10,909 beginning May 1, 2021, with last payment due on October 1, 2029. | 536,733 |

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

9. NOTES PAYABLE, continued

| | |
|---|------------|
| 3% note payable to Opportunity Finance Network due in quarterly interest only payments until February 18, 2030 when principal and interest payments of \$267,666 will be due annually for three years with the remaining outstanding principal amount due and payable on February 18, 2032. | 800,000 |
| 1% note payable to Northwest Area Foundation, annual interest only payments of \$10,000 with principal due at maturity on March 30, 2030. | 1,000,000 |
| 5% note payable to South Dakota Housing Development Authority, due in monthly installments of \$12,493 beginning November 1, 2011 until May 1, 2026, when all unpaid principal plus accrued interest shall be due and payable. | 145,932 |
| 0% note payable to South Dakota Housing Authority due in monthly principal payments of \$11,108, beginning June 1, 2026 until May 1, 2038, when all principal shall be due and payable. | 1,599,500 |
| 0% note payable to Northeast South Dakota Community Action Program, due in annually payments beginning June 1, 2026 until June 1, 2038, when all principal shall be due and payable. | 107,162 |
| 0% note payable to South Dakota Housing Development Authority, payments due based on surplus cash maturing June 26, 2032. | 100,445 |
| 1.5165% note payable to Dakotas XXVII, LLC effective rate of 2.04% net of unamortized debt issuance costs of \$345,833, monthly interest only payments until December 2026, then monthly installments of \$659,450, including interest, with last payment due December 2043, secured by a leasehold mortgage on the property leased to the School. | 10,320,000 |
| 1.5165% note payable to Dakotas XXVII, LLC, effective rate of 2.04% net of unamortized debt issuance costs of \$136,725, monthly interest only payments until December 2026, then monthly installments of \$260,713, including interest, with last payment due December 2043, secured by a leasehold mortgage on the property leased to the School. | 4,080,000 |

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

9. NOTES PAYABLE, continued

| | |
|---|------------|
| 1.5165% note payable to USBCDE SUB-CDE 177, LLC, effective rate of 2.04% net of unamortized debt issuance costs of \$51,640, monthly interest only payments until December 2026, then monthly installments of \$98,470, including interest, with last payment due December 2043, secured by a leasehold mortgage on the property leased to the School. | 1,541,000 |
| 1.5165% note payable to USBCDE SUB-CDE 177, LLC, effective rate of 2.04%, net of unamortized debt issuance costs of \$22,084, monthly interest only payments until December 2026, then monthly installments of \$42,110, including interest, with last payment due December 2043, secured by a leasehold mortgage on the property leased to the School. | 659,000 |
| 1.4294% note payable to Dakotas XXXIII, LLC, effective rate of 1.707%, net of unamortized debt issuance costs of \$338,930, annual interest only payments until December 2026, then annual installments of \$698,204, including interest, with last payment due December 2049, secured by a leasehold mortgage on the property leased to the School. | 13,604,000 |
| 1.4294% note payable to Dakotas XXXIII, LLC, effective rate of 1.707%, net of unamortized debt issuance costs of \$139,419, annual interest only payments until December 2026, then annual installments of \$287,206, including interest, with last payment due December 2049, secured by a leasehold mortgage on the property leased to the School. | 5,596,000 |
| 1.4294% note payable to USBCDE SUB-CDE 197, LLC, effective rate of 1.707%, net of unamortized debt issuance costs of \$61,191, annual interest only payments until December 2026, then annual installments of \$126,055, including interest, with last payment due December 2049, secured by a leasehold mortgage on the property leased to the School. | 2,456,100 |
| 1.4294% note payable to USBCDE SUB-CDE 197, LLC, effective rate of 1.707%, net of unamortized debt issuance costs of \$25,136, annual interest only payments until December 2026, then annual installments of \$51,780, including interest, with last payment due December 2049, secured by a leasehold mortgage on the property leased to the School. | 1,008,900 |

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

9. NOTES PAYABLE, continued

1.4516% note payable to Dakotas XXXVI, LLC,
net of unamortized debt issuance costs of \$400,485, annual interest only
payments until August 2030, then annual installments of \$381,773
including interest, with last payment due August 2053, secured by a
leasehold mortgage on the property to the School. 9,686,600

1.4516% note payable to Dakotas XXXVI, LLC,
net of unamortized debt issuance costs of \$155,181, annual interest only
payments until August 2030, then annual installments of \$147,93
including interest, with last payment due August 2053, secured by a
leasehold mortgage on the property to the School. 3,753,400

1.4516% note payable to USBCDE Sub-CDE 252, LLC,
net of unamortized debt issuance costs of \$88,299, annual interest only
payments until August 2030, then annual installments of \$84,173
including interest, with last payment due August 2053, secured by a
leasehold mortgage on the property to the School. 2,135,700

1.4516% note payable to USBCDE Sub-CDE 252, LLC,
net of unamortized debt issuance costs of \$34,493, annual interest only
payment until August 2030, then annual installments of \$32,882
including interest with last payment due August 2053, secured by a
leasehold mortgage on the property to the School. 834,300

| | |
|---------------------------------------|----------------------|
| Total: | 65,060,015 |
| Less: Unamortized Debt Issuance Costs | <u>(1,799,416)</u> |
| | <u>\$ 63,260,599</u> |

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

9. NOTES PAYABLE, continued

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

| <u>Year Ending June 30,</u> | |
|---------------------------------------|----------------------|
| 2026 | \$ 3,042,721 |
| 2027 | 1,254,289 |
| 2028 | 2,112,238 |
| 2029 | 2,151,111 |
| 2030 | 2,062,765 |
| Thereafter | 54,436,891 |
| Less: unamortized debt issuance costs | <u>(1,799,416)</u> |
| | <u>\$ 63,260,599</u> |

Interest expense on long-term debt (including amortization of debt issuance costs) for the year ended June 30, 2025, was \$1,053,073

10. LINES OF CREDIT

At June 30, 2025, the Corporation had access to two unsecured lines of credit with 1st Financial Bank, each with a borrowing capacity of up to \$125,000. Both lines bear interest at a rate of 3.5% and are set to expire on October 1, 2025. There were no outstanding balances on either line as of June 30, 2025.

11. NET ASSETS WITH DONOR RESTRICTIONS

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

| | |
|---|----------------------|
| Subject to Expenditure for Specified Purpose: | |
| Loan Programs | \$ 6,102,188 |
| Housing Programs | <u>7,701,644</u> |
| | <u>\$ 13,803,832</u> |

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

11. NET ASSETS WITH DONOR RESTRICTIONS, continued

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows for the year ended June 30, 2025:

| | |
|--|---------------------|
| Satisfaction of purpose restrictions : | |
| Loan Programs | \$ 170,282 |
| Housing Programs | <u>1,220,949</u> |
| | <u>\$ 1,391,231</u> |

12. BENEFICIAL INTERESTS IN ASSETS HELD BY COMMUNITY FOUNDATION

At June 30, 2025, investments held by the South Dakota Community Foundation consisted of the following:

| | |
|---|-------------------|
| | 2025 |
| Beginning Balance | \$ 185,783 |
| Net contributions - net of admin expenses | 3,493 |
| Interest and dividend income | 6,734 |
| Net realized and unrealized gain | <u>13,898</u> |
| | <u>\$ 209,908</u> |

13. DEPOSITS AND INVESTMENTS – RISK CONCENTRATIONS

The Corporation deposits and maintains its cash balances and savings accounts at financial institutions. The cash balances are held in institutions insured by the Federal Deposit Insurance Corporation (FDIC.) In addition, certain financial institutions obtained additional bank deposit guaranty bonds to cover balances not insured by FDIC. The Corporation believes it is not exposed to any significant credit risk on cash and cash equivalents and has not experienced any loss in such accounts during 2025. As a loan requirement for GROW Wolf Creek School, LLC and GROW CTE School, LLC, checking and savings accounts are required to be held at one financial institution; therefore, as of June 30, 2025, the Corporation had \$795,234 in uninsured cash balances related to the subsidiaries, GROW Wolf Creek School, LLC and GROW CTE School, LLC.

GROW SOUTH DAKOTA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2025

14. RELATED PARTY TRANSACTIONS

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

The Corporation reimburses NESDCAP/NESDEC for salaries, employee benefits, and various administrative/program costs which amounted to \$551,638 for the year ended June 30, 2025 and related accounts payable to NESDCAP was \$15,958 as of June 30, 2025. The Corporation leases vehicles to NESDCAP. All vehicle leases are considered financing leases because NESDCAP has the option to terminate leases upon thirty-day notice. Vehicle and equipment lease income was \$41,934 for the year ended June 30, 2025. The Corporation also obtained long-term notes payable from NESDCAP/NESDEC to fund its loan fund. Total related party loan balance including accrued interest, was \$2,239,178 as of June 30, 2025, and total interest expense paid was \$66,900 for the year ended June 30, 2025.

15. COMMITMENTS AND CONTINGENCIES

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

16. SUBSEQUENT EVENTS

Events occurring after June 30, 2025, were evaluated by management on December 18, 2025, the date the financial statements were available to be issued, to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There are no significant subsequent events needing disclosure.

SUPPLEMENTARY INFORMATION

GROW SOUTH DAKOTA AND SUBSIDIARIES

SUPPLEMENTARY FINANCIAL INFORMATION
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2025
WITH SUMMARIZED COMPARATIVE TOTALS FOR JUNE 30, 2024

| | 2025 | | | | | 2024 | |
|--|----------------------|--------------------------------|-------------------------|-----------------------------------|--------------|---------------|---------------|
| | Parent | Subsidiary | Subsidiary | Subsidiary | | Consolidated | Total |
| | GROW South Dakota | GROW Wolf Creek School, LLC | Grow CTE School, LLC | Pheasant Valley Courtyard, LLC | Elimination | Total | |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 5,939,935 | \$ 87,260 | \$ 30,573 | \$ 369,049 | \$ - | \$ 6,426,817 | \$ 4,376,917 |
| Cash and cash equivalents - restricted | - | 129,560 | 1,014,660 | - | - | 1,144,220 | 2,380,279 |
| Program cash reserve | 113,680 | - | - | - | - | 113,680 | 112,985 |
| Accounts receivable | 15 | - | - | - | - | 15 | 9,410 |
| Other receivable | - | - | - | 4,385 | - | 4,385 | 2,343 |
| Accrued interest receivable | 66,821 | - | - | - | - | 66,821 | 60,823 |
| Noncancelable lease receivable | 122,246 | - | - | - | - | 122,246 | 106,018 |
| Finance lease receivable | - | 13,225,928 | 23,951,026 | - | - | 37,176,954 | 28,334,413 |
| Accrued interest on finance lease receivable | - | 111,499 | 206,049 | - | - | 317,548 | 206,018 |
| Notes receivable, less allowance for loan losses of \$928,161 in 2025 and \$801,459 in 2024 | 24,369,091 | - | - | - | - | 24,369,091 | 23,850,731 |
| Other real estate owned | - | - | - | - | - | - | 560 |
| Prepaid assets | - | - | - | 10,293 | - | 10,293 | 8,485 |
| Grants receivable | 616,801 | - | - | - | - | 616,801 | 867,758 |
| Beneficial interests in assets held by Community Foundation | 209,908 | - | - | - | - | 209,908 | 185,783 |
| Investment in GROW Wolf Creek School, LLC | 21,000 | - | - | - | (21,000) | - | - |
| Investment in GROW CTE School, LLC | 21,000 | - | - | - | (21,000) | - | - |
| Construction in progress | - | - | - | - | - | - | 17,009,085 |
| Property and equipment, net | 166,027 | - | - | 2,115,112 | (90,668) | 2,190,471 | 2,235,325 |
| Total Assets | \$ 31,646,524 | \$ 13,554,247 | \$ 25,202,308 | \$ 2,498,839 | \$ (132,668) | \$ 72,769,250 | \$ 79,746,933 |
| LIABILITIES AND NET ASSETS | | | | | | | |
| Accounts payable | \$ 257,100 | \$ - | \$ - | \$ 25,386 | \$ (15,996) | \$ 266,490 | \$ 333,747 |
| Construction contracts payable | - | - | - | - | - | - | 328,353 |
| Security deposits | - | - | - | 17,598 | - | 17,598 | 17,971 |
| Accrued expenses | 35,157 | 126,569 | 282,652 | 35,256 | - | 479,634 | 479,606 |
| Revenue received in advance | 653,107 | - | - | - | - | 653,107 | 578,751 |
| Revenue received in advance - noncancelable leases | 122,246 | - | - | - | - | 122,246 | 106,018 |
| Beneficiary obligation | - | 1,911,275 | 6,060,890 | - | - | 7,972,165 | 7,972,165 |
| Notes payable, net of unamortized debt issuance costs of \$1,799,416 in 2025 and \$1,876,733 in 2024 | 7,431,976 | 16,043,719 | 37,831,865 | 1,953,039 | - | 63,260,599 | 62,260,661 |
| Total Liabilities | 8,499,586 | 18,081,563 | 44,175,407 | 2,031,279 | (15,996) | 72,771,839 | 72,077,272 |
| Net Assets | | | | | | | |
| With donor restrictions | 13,803,832 | - | - | - | - | 13,803,832 | 13,180,011 |
| Without donor restrictions | 9,343,106 | (4,527,316) | (18,973,099) | 467,560 | (116,672) | (13,806,421) | (5,510,350) |
| Total Net Assets | 23,146,938 | (4,527,316) | (18,973,099) | 467,560 | (116,672) | (2,589) | 7,669,661 |
| Total Liabilities and Net Assets | \$ 31,646,524 | \$ 13,554,247 | \$ 25,202,308 | \$ 2,498,839 | \$ (132,668) | \$ 72,769,250 | \$ 79,746,933 |

See Independent Auditor's Report

GROW SOUTH DAKOTA AND SUBSIDIARIES

SUPPLEMENTARY FINANCIAL INFORMATION
CONSOLIDATING SCHEDULE OF ACTIVITIES
YEAR ENDED JUNE 30, 2025

WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2024

| | 2025 | | | | | 2024 | |
|--|----------------------|------------------------|------------------------|------------------------|---------------------|---------------------|---------------------|
| | <u>Parent</u> | <u>Subsidiary</u> | <u>Subsidiary</u> | <u>Subsidiary</u> | | <u>Consolidated</u> | |
| | <u>GROW</u> | <u>GROW Wolf Creek</u> | <u>GROW CTE</u> | <u>Pheasant Valley</u> | | <u>Total</u> | <u>Total</u> |
| | <u>South Dakota</u> | <u>School, LLC</u> | <u>School, LLC</u> | <u>Courtyard, LLC</u> | <u>Eliminations</u> | | |
| REVENUE, GAINS (LOSSES) AND OTHER SUPPORT | | | | | | | |
| Grant income | \$ 1,738,803 | \$ - | \$ - | \$ 239,827 | \$ - | \$ 1,978,630 | \$ 8,419,075 |
| Apartment revenue | - | - | - | 275,563 | - | 275,563 | 227,901 |
| Miscellaneous income | 10,705 | - | - | 4,001 | - | 14,706 | 19,703 |
| Gain on sale of assets held for sale | 13,750 | - | - | - | - | 13,750 | 6,500 |
| Gain on sale of OREO | 1,440 | - | - | - | - | 1,440 | 8,400 |
| Interest income on loans | 893,087 | - | - | - | - | 893,087 | 664,213 |
| Interest earned on deposits | 75,841 | - | - | 14,372 | - | 90,213 | 47,757 |
| Donations and contributions | 7,393 | - | - | - | - | 7,393 | 10,079 |
| Noncancelable lease fee income | 38,017 | - | - | - | - | 38,017 | 36,700 |
| Noncancelable lease interest income | 3,917 | - | - | - | - | 3,917 | 3,688 |
| Finance lease interest income | - | 191,615 | 354,279 | - | - | 545,894 | 354,240 |
| Endowment fund income | 20,632 | - | - | - | - | 20,632 | 16,630 |
| Management fees | 22,500 | - | - | - | (22,500) | - | - |
| Development fees | - | - | - | - | - | - | 70,621 |
| Return on investment in subsidiaries | 109,008 | - | - | - | (109,008) | - | - |
| Origination fees | 35,700 | - | - | - | - | 35,700 | 99,733 |
| Total Revenue, Gains (Losses) and Other Support | <u>2,970,793</u> | <u>191,615</u> | <u>354,279</u> | <u>533,763</u> | <u>(131,508)</u> | <u>3,918,942</u> | <u>9,985,240</u> |
| EXPENSES | | | | | | | |
| Program Activities: | | | | | | | |
| Revolving loan funds | 258,293 | - | - | - | - | 258,293 | 576,531 |
| Vehicle lease program | 38,577 | - | - | - | - | 38,577 | 32,108 |
| Housing program | 1,089,645 | - | - | 485,585 | (8,000) | 1,567,230 | 1,397,409 |
| New market tax credit | 43,205 | 293,180 | 624,403 | - | (22,500) | 938,288 | 714,626 |
| Other program services | 71,846 | - | - | - | - | 71,846 | 57,853 |
| Support Services: | | | | | | | |
| General and administrative | 174,106 | - | - | - | - | 174,106 | 106,684 |
| Total Expenses | <u>1,675,672</u> | <u>293,180</u> | <u>624,403</u> | <u>485,585</u> | <u>(30,500)</u> | <u>3,048,340</u> | <u>2,885,211</u> |
| OTHER CHANGES IN NET ASSETS | | | | | | | |
| Loss on Sales-Type Lease | - | - | (8,542,852) | - | - | (8,542,852) | - |
| Change in Net Assets | 1,295,121 | (101,565) | (8,812,976) | 48,178 | (101,008) | (7,672,250) | 7,100,029 |
| Distribution to GROW South Dakota | - | (24,290) | (63,855) | (20,477) | 108,622 | - | - |
| Net Assets, Beginning of Year | <u>21,851,817</u> | <u>(4,401,461)</u> | <u>(10,096,268)</u> | <u>439,859</u> | <u>(124,286)</u> | <u>7,669,661</u> | <u>569,632</u> |
| Net Assets, End of Year | <u>\$ 23,146,938</u> | <u>\$ (4,527,316)</u> | <u>\$ (18,973,099)</u> | <u>\$ 467,560</u> | <u>\$ (116,672)</u> | <u>\$ (2,589)</u> | <u>\$ 7,669,661</u> |

See Independent Auditor's Report

GROW SOUTH DAKOTA AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2025

| Federal Grantor/Pass-Through Grantor Program or Cluster Title | Assistance Listing Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---------------------------------|--|-------------------------|
| <u>U.S. Department of Agriculture - Rural Development</u> | | | |
| Direct Funding: | | | |
| Intermediary Relending Program - Note 4 | 10.767 | | \$ 1,170,982 |
| Rural Microentrepreneur Program - Direct Loan - Note 4 | 10.870 | | 319,288 |
| Rural Microentrepreneur Program - Project Grant | 10.870 | | 23,246 |
| Meat and Poultry Intermediary Lending Program | 10.382 | | 69,231 |
| Total U.S. Department of Agriculture - Rural Development | | | 1,582,747 |
| <u>U.S. Small Business Administration</u> | | | |
| Direct Funding: | | | |
| Intermediary Lending Program - Note 4 | 59.062 | | 426,758 |
| Total U.S. Small Business Administration | | | 426,758 |
| <u>U.S. Department of Treasury</u> | | | |
| Direct Funding: | | | |
| Community Development Financial Institution Program - FA Program | 21.020 | | 246,894 |
| Community Development Financial Institution Program - Capital Magnet Fund | 21.011 | | 481,593 |
| Total U.S. Department of Treasury | | | 728,487 |
| Total Federal Finance Assistance | | | \$ 2,737,992 |

*** Pass-Through Identifying Number not available

Note 1 - Basis of Presentation

The accompanying consolidated schedule of expenditures of federal awards (the schedule) includes the federal award activity of GROW South Dakota and its subsidiaries, under programs of the federal government for the year ended June 30, 2025. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of GROW South Dakota, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of GROW South Dakota.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

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

Note 4 - Federal Loan Programs

The federal loan programs listed below are administered directly by GROW South Dakota and balances and transactions related to these programs are included in GROW South Dakota's consolidated financial statements. Expenditures reported in this schedule consist of the beginning of the year loan balance plus additional loan advances during the year. The balances of loans outstanding at June 30, 2025, under those federal loan programs are as follows:

| | Assistance Listing Number | Outstanding Balance at June 30, 2025 |
|---|---------------------------------|--|
| U.S. Small Business Administration (ILP) | 59.062 | \$ 369,352 |
| U.S. Department of Agriculture (IRP I, IRP II, IRP III) | 10.767 | \$ 1,131,360 |
| U.S. Department of Agriculture (RMAP) | 10.870 | \$ 291,427 |

See Independent Auditor's Report

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

The Board of Directors
GROW South Dakota
Sisseton, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of GROW South Dakota and its subsidiaries (the Corporation), which comprise the consolidated statement of financial position as of June 30, 2025, 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 18, 2025.

Report on Internal Control Over Financial Reporting

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

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 were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

Wohlberg Ritzman + Co., LLC

Yankton, South Dakota
December 18, 2025

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

The Board of Directors
GROW South Dakota
Sisseton, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited GROW South Dakota's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on GROW South Dakota and its subsidiaries (the Corporation) major federal program for the year ended June 30, 2025. The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on its major federal program for the year ended June 30, 2025.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

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

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

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

Uhlenberg Ritzman + Co., LLC

Yankton, South Dakota
December 18, 2025

GROW SOUTH DAKOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2025

Financial Statement Findings

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

Federal Award Findings

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

GROW SOUTH DAKOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2025

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
10.767

Name of Federal Program of Cluster
Intermediary Relending Program (IRP)

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

\$750,000

Auditee qualified as low-risk auditee?

X Yes _____

No

GROW SOUTH DAKOTA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2025**

SECTION II – FINANCIAL STATEMENT AUDIT

There are no financial statement audit findings to report.

SECTION III – MAJOR FEDERAL AWARDS PROGRAMS AUDIT

There are no federal award program findings to report.