

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

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

**SEPTEMBER 30, 2021**

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

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# Wahlenberg Ritzman & Co., LLC

*certified public accountants*

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of **Northeast South Dakota Economic Corporation dba GROW South Dakota (a nonprofit organization, hereafter referred to as NESDEC)**, which comprise the statement of financial position as of September 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NESDEC as of September 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited NESDEC's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 21, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Matters***

#### ***Other Information***

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2021, on our consideration of NESDEC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NESDEC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NESDEC's internal control over financial reporting and compliance.

*Wohlenberg Ritzman + Co., LLC*

Yankton, South Dakota  
December 23, 2021

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

STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2021  
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2020

	<b>2021</b>			<b>2020</b>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>	
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 3,835,799	\$ 3,679,247	\$ 7,515,046	\$ 4,880,704
Certificates of deposit	200,000	100,000	300,000	2,400,631
Accrued interest receivable	31,457	31,657	63,114	79,931
Other receivables	-	-	-	1,810
Due from other governments	-	56,322	56,322	27,915
Current portion of notes receivable, net of allowance for loan losses of \$184,795 in 2021 and \$188,889 in 2020	<u>1,684,413</u>	<u>1,791,863</u>	<u>3,476,276</u>	<u>3,629,065</u>
Total current assets	<u>5,751,669</u>	<u>5,659,089</u>	<u>11,410,758</u>	<u>11,020,056</u>
<b>LONG-TERM RECEIVABLES:</b>				
Loan guarantees - certificates of deposit, less allowance for loan losses of \$4,147 in 2021 and \$9,894 in 2020	39,882	-	39,882	78,254
Notes receivable, less allowance for loan losses of \$735,966 in 2021 and \$669,240 in 2020 and less current maturities	<u>5,265,663</u>	<u>8,050,949</u>	<u>13,316,612</u>	<u>12,410,435</u>
Total long-term receivables	<u>5,305,545</u>	<u>8,050,949</u>	<u>13,356,494</u>	<u>12,488,689</u>
<b>OTHER ASSETS:</b>				
Investments	2,204,103	-	2,204,103	1,875,757
Property and equipment, net	<u>701,082</u>	<u>-</u>	<u>701,082</u>	<u>724,714</u>
Total other assets	<u>2,905,185</u>	<u>-</u>	<u>2,905,185</u>	<u>2,600,471</u>
<b>TOTAL ASSETS</b>	<u>\$ 13,962,399</u>	<u>\$ 13,710,038</u>	<u>\$ 27,672,437</u>	<u>\$ 26,109,216</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES:</b>				
Current portion of long-term debt	\$ 500,000	\$ 395,006	\$ 895,006	\$ 1,094,551
Accounts payable	630	1,148	1,778	1,365
Accrued expenses	-	-	-	5,445
Accrued interest	14,828	27,275	42,103	36,236
Due to affiliate	29,322	31,452	60,774	74,690
Unearned revenue	-	500,000	500,000	-
Other current liabilities	<u>-</u>	<u>27,066</u>	<u>27,066</u>	<u>27,066</u>
Total current liabilities	<u>544,780</u>	<u>981,947</u>	<u>1,526,727</u>	<u>1,239,353</u>
<b>LONG-TERM DEBT</b>				
Notes payable, less current maturities	<u>2,872,266</u>	<u>5,861,798</u>	<u>8,734,064</u>	<u>8,762,342</u>
<b>TOTAL LIABILITIES</b>	<u>3,417,046</u>	<u>6,843,745</u>	<u>10,260,791</u>	<u>10,001,695</u>
<b>NET ASSETS</b>				
Net assets with donor restrictions	-	6,866,293	6,866,293	6,795,069
Net assets without donor restrictions	<u>10,545,353</u>	<u>-</u>	<u>10,545,353</u>	<u>9,312,452</u>
<b>TOTAL NET ASSETS</b>	<u>10,545,353</u>	<u>6,866,293</u>	<u>17,411,646</u>	<u>16,107,521</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 13,962,399</u>	<u>\$ 13,710,038</u>	<u>\$ 27,672,437</u>	<u>\$ 26,109,216</u>

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

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

STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2021  
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2020

	<b>2021</b>			<b>2020</b>
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>	
<b>REVENUE AND OTHER SUPPORT</b>				
Interest income - notes receivable	\$ 259,911	\$ 425,953	\$ 685,864	\$ 752,751
Grant income	1,048,004	88,646	1,136,650	122,954
Interest income - checking and CD's	28,876	12,021	40,897	45,915
Rent income	24,000	53,927	77,927	24,000
Miscellaneous income	42,204	1,521	43,725	49,302
Investment income	251,404	-	251,404	10,000
	<u>1,654,399</u>	<u>582,068</u>	<u>2,236,467</u>	<u>1,004,922</u>
<b>EXPENSES</b>				
<b>PROGRAM SERVICES:</b>				
Loan programs	661,309	-	661,309	418,720
Regional programs	113	-	113	23
Housing programs	39,790	-	39,790	43,896
	<u>701,212</u>	<u>-</u>	<u>701,212</u>	<u>462,639</u>
<b>SUPPORTING SERVICES:</b>				
General and administrative	231,130	-	231,130	267,703
	<u>231,130</u>	<u>-</u>	<u>231,130</u>	<u>267,703</u>
<b>Total Expenses</b>	<u>932,342</u>	<u>-</u>	<u>932,342</u>	<u>730,342</u>
<b>Reclassification of Net Assets:</b>				
Net assets released from restriction in satisfaction of purpose restrictions	510,844	(510,844)	-	-
	<u>510,844</u>	<u>(510,844)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	1,232,901	71,224	1,304,125	274,580
Net Assets, Beginning of Year	<u>9,312,452</u>	<u>6,795,069</u>	<u>16,107,521</u>	<u>15,832,941</u>
Net Assets, End of Year	<u>\$ 10,545,353</u>	<u>\$ 6,866,293</u>	<u>\$ 17,411,646</u>	<u>\$ 16,107,521</u>

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of these financial statements.

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

STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED SEPTEMBER 30, 2021  
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2020

	<b>Program Services</b>				<b>General and Administrative</b>	<b>2021 Totals</b>	<b>2020 Totals</b>
	<b>Loan Program</b>	<b>Regional Programs</b>	<b>Housing Programs</b>	<b>Program Services Total</b>			
Salaries and taxes	\$ 199,544	\$ -	\$ -	\$ 199,544	\$ 143,773	\$ 343,317	\$ 379,933
Interest expense	115,644	-	19,997	135,641	-	135,641	156,146
Sale of asset	111,476	-	-	111,476	-	111,476	-
Retirement	62,236	-	-	62,236	22,087	84,323	60,595
Bad debt expense (recovery)	34,298	-	19,793	54,091	-	54,091	(40,398)
Repairs and maintenance	41,307	-	-	41,307	39	41,346	3,842
Employee benefits	18,607	-	-	18,607	12,312	30,919	29,988
Professional fees	9,780	-	-	9,780	19,780	29,560	34,250
Depreciation	-	-	-	-	23,632	23,632	23,632
Travel and conferences	10,723	-	-	10,723	3,801	14,524	19,419
Property tax	13,297	-	-	13,297	-	13,297	-
Office supplies	11,066	113	-	11,179	522	11,701	7,608
Insurance	4,033	-	-	4,033	5,034	9,067	7,120
Marketing	8,787	-	-	8,787	-	8,787	5,735
Filing fee expense	7,070	-	-	7,070	-	7,070	7,370
Targeted program expense	6,000	-	-	6,000	-	6,000	27,750
Education and training	4,805	-	-	4,805	150	4,955	3,167
Miscellaneous	2,636	-	-	2,636	-	2,636	4,185
Total expenses	<u>\$ 661,309</u>	<u>\$ 113</u>	<u>\$ 39,790</u>	<u>\$ 701,212</u>	<u>\$ 231,130</u>	<u>\$ 932,342</u>	<u>\$ 730,342</u>

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

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

STATEMENT OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 2021  
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2020

	<b>2021</b>	<b>2020</b>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 1,304,125	\$ 274,580
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	23,632	23,632
Bad Debt Expense (Recovery)	54,091	(40,398)
Unrealized (gain) loss on investment	(228,772)	-
Changes in operating assets and liabilities		
(Increase) decrease in:		
Interest receivable	16,817	(14,118)
Other receivables	1,810	(1,810)
Due from other governments	(28,407)	(4,195)
Increase (decrease) in:		
Interest payable	5,867	(1,040)
Unearned revenue	500,000	(24,500)
Accounts payable and accrued expenses	(18,948)	7,163
Net cash provided by operating activities	<u>1,630,215</u>	<u>219,314</u>
<b>Cash Flows From Investing Activities</b>		
Net (increase) decrease in certificates of deposits	2,100,631	(39)
Net decrease (increase) in notes receivable	(807,482)	514,251
Purchase of investments	(99,575)	-
Net decrease in loan guarantee - certificates of deposit	38,372	25,866
Net cash provided by (used in) investing activities	<u>1,231,946</u>	<u>540,078</u>
<b>Cash Flows From Financing Activities</b>		
Proceeds received on notes payable	875,000	1,340,000
Principal payments on notes payable	(1,102,820)	(922,869)
Net cash provided by (used in) financing activities	<u>(227,820)</u>	<u>417,131</u>
Change in cash, cash equivalents and restricted cash	2,634,341	1,176,523
Cash, Cash Equivalents and Restricted Cash		
Beginning	<u>4,880,704</u>	<u>3,704,181</u>
Ending	<u>\$ 7,515,045</u>	<u>\$ 4,880,704</u>
<b>Supplemental Disclosures</b>		
Cash payments for:		
Interest	<u>\$ 129,774</u>	<u>\$ 157,186</u>
<b>Reconciliation of Cash to the Balance Sheet</b>		
Cash and cash equivalents	\$ 3,835,799	\$ 2,313,008
Restricted cash	3,679,247	2,567,696
	<u>\$ 7,515,046</u>	<u>\$ 4,880,704</u>

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

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

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principal Business Activity**

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

NESDEC operates under a Board of Directors selected from a twenty-two county geographical area. NESDEC's mission is to stimulate economic opportunities through loans, technical assistance and partnerships.

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

**Financial Statement Presentation**

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

**Comparative Financial Information**

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with NESDEC's financial statements for the year ended September 30, 2020, from which the summarized information was derived.

**Cash and Cash Equivalents**

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

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

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

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

**Receivables and Credit Policies**

Notes receivable are stated at principal amounts plus accrued interest and are collateralized. Payments on notes receivable that are received after a 10-day grace period are assessed a delinquency fee between \$7.50 and 10% of the loan payment. Due to the uncertainty regarding collection, delinquency fees are recognized as income when received.

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

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

**Allowance for Loan Losses**

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the un-collectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance. The Department of Agriculture requires a reserve for loan loss of 5% on the outstanding Rural Microentrepreneur Assistance Program (RMAP) loan balances. The Small Business Administration requires a reserve for loan loss of 15% of microloan loan balances.

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

**Loan Guarantees - Certificates of Deposit**

NESDEC pledges certificates of deposit to lending institutions as security for loans to individuals and businesses who otherwise would not acquire the loans due to their financial condition. When the loans are fully paid back, the lending institution releases the certificates of deposit back to NESDEC. Interest earned on the certificates of deposit is not part of the security agreement and is paid to NESDEC.

**Property and Equipment**

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

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

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

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

**Property and Equipment, continued**

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

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

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

**Investments**

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

Inputs to the fair value methodology include:

- Level 1            Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date
- Level 2            Inputs other than quoted prices included within Level 1 that are observable for the asset either directly or indirectly. Level 2 Inputs include the following:
- Quoted prices for similar Assets or Liabilities in active markets;
  - Quoted prices for similar Assets or Liabilities in markets that are not active;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs)
- If the asset or liability has a specified (or contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability
- Level 3            Inputs are unobservable inputs for the asset or liability.

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

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

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

**Investments, continued**

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

**Foreclosed Property and Other Real Estate Owned**

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

**Net Assets**

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

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

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

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

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

**Revenue Recognition**

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

**Estimates**

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

**Functional Allocation of Expenses**

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

**Fund Raising Activity**

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

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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

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

**Salaries and Benefits**

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

**Advertising**

NESDEC expenses the costs of advertising as incurred.

**Income Taxes**

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

**Adoption of Accounting Standards and Pronouncements**

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

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

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2. LIQUIDITY AND AVAILABILITY

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

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

Note Receivables made without donor restrictions are not included in the analysis as principal on these loans are used to make new loans and are, therefore, not available to meet current operating needs.

In addition to financial assets available to meet general expenditures over the next 12 months, NESDEC anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	<u>2021</u>
Cash and cash equivalents	\$ 3,835,799
Certificates of deposit	200,000
Accrued interest receivable	<u>31,457</u>
	<u>\$ 4,067,256</u>

3. CUSTODIAL CREDIT RISK - DEPOSITS

NESDEC maintains cash balances at several financial institutions located in South Dakota. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In addition, certain financial institutions obtained additional bank deposit guaranty bonds to cover balances not insured by FDIC. As of September 30, 2021, NESDEC cash balances were fully insured and collateralized and not subject to custodial credit risk.

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NOTES TO FINANCIAL STATEMENTS  
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4. ASSET AND LIABILITY COMPONENTS OF DONOR RESTRICTED NET ASSETS

a. Cash

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

	2021	2020
Rural Development	\$ 2,482,495	\$ 1,851,106
Other	1,196,752	716,590
	\$ 3,679,247	\$ 2,567,696

b. Certificates of deposits

	2021	2020
Rural Development	\$ 100,000	\$ 757,500
Other	-	-
	\$ 100,000	\$ 757,500

c. Accrued Interest Receivable

	2021	2020
Rural Development	\$ 26,316	\$ 33,320
Other	5,341	5,208
	\$ 31,657	\$ 38,528

d. Due From Other Governments

	2021	2020
Rural Development	\$ 3,931	\$ 9,288
Other	52,391	18,627
	\$ 56,322	\$ 27,915

**NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION**  
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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

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

e. Notes Receivable

	2021	2020
Rural Development	\$ 8,703,792	\$ 8,284,587
Other	1,775,051	1,572,429
Allowance for loan losses	(636,031)	(624,947)
	\$ 9,842,812	\$ 9,232,069

f. Current Liabilities (excluding current portion of long-term debt)

	2021	2020
Rural Development	\$ 81,007	\$ 86,955
Other	505,934	7,059
	\$ 586,941	\$ 94,014

g. Notes Payable

	2021	2020
Rural Development	\$ 4,544,044	\$ 4,191,610
Other	1,712,760	1,543,015
	\$ 6,256,804	\$ 5,734,625

5. NOTES RECEIVABLE

NESDEC has 246 notes receivable totaling \$17,713,649. Interest rates range from 0% to 8.25%. Each note has its own repayment schedule and interest rate. The notes permit principal repayment at any time without penalty. Approximately 90% of the notes receivable portfolio serves as collateral for debt (See Note 9).

**NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION**  
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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

5. NOTES RECEIVABLE, continued

The purpose of the loan fund is to provide flexible and accessible loans, primarily gap financing, that will strengthen, create, or save businesses and job opportunities. A summary of notes receivable by portfolio category as of September 30, 2021 and 2020 follows:

	2021	2020
Commercial Loans	\$ 15,760,111	\$ 15,339,954
Housing Loans	1,953,538	1,557,675
Total Loans	17,713,649	16,897,629
Less allowance for loan losses	(920,761)	(858,129)
 Total Notes Receivable, net of Allowances	 \$ 16,792,888	 \$ 16,039,500

**Allowance for Loan Losses**

The following table presents the activity in the allowance for loan losses, including loan guarantees, for the year ended September 30, 2021, by portfolio segment.

Allowance for Loan Losses:	Commercial	Housing	Total
Balance, beginning of year	\$ 790,139	\$ 77,884	\$ 868,023
Provision (benefit) for loan losses	34,298	19,793	54,091
Net recoveries (charge offs)	2,793	-	2,793
Balance, end of year	\$ 827,230	\$ 97,677	\$ 924,907

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

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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

5. NOTES RECEIVABLE, continued

**Allowance for Loan Losses, continued**

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

	Allowance for Loan Losses		
	Commercial	Housing	Total
Individually evaluated for impairment	\$ 131,166	\$ 264	\$ 131,430
Collectively evaluated for impairment	696,064	97,413	793,477
Balance, end of year	\$ 827,230	\$ 97,677	\$ 924,907

The balance of loans as of September 30, 2021 evaluated individually and loans evaluated collectively are as follows:

	Notes Receivable Balances		
	Commercial	Housing	Total
Individually evaluated for impairment	\$ 504,696	\$ 5,277	\$ 509,973
Collectively evaluated for impairment	15,255,415	1,948,261	17,203,676
Balance, end of year	\$ 15,760,111	\$ 1,953,538	\$ 17,713,649

**Credit Quality Indicators**

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

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

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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

5. NOTES RECEIVABLE, continued

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

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

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

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

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

NESDEC categorizes housing loans into the satisfactory risk category because of the first mortgage collateral position on residential loans. Satisfactory rated loans require the minimum 5% reserve.

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

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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

5. NOTES RECEIVABLE, continued

**Credit Risk Profile by Internally Assigned Grade**

	<u>Commercial</u>	<u>Housing</u>	<u>Total</u>
Prime	\$ 2,761,753	\$ -	\$ 2,761,753
Desirable	6,516,841	-	6,516,841
Satisfactory	4,798,318	1,953,538	6,751,856
Watch	1,481,971	-	1,481,971
Doubtful	201,228	-	201,228
Projected Loss	-	-	-
Total	<u>\$ 15,760,111</u>	<u>\$ 1,953,538</u>	<u>\$ 17,713,649</u>

**Credit Risk Profile by Class Based on Payment Activity**

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

	<u>Performing</u>	<u>Nonperforming</u>	<u>Total</u>
Commercial	\$ 15,676,522	\$ 83,589	\$ 15,760,111
Housing	1,948,261	5,277	1,953,538
Total	<u>\$ 17,624,783</u>	<u>\$ 88,866</u>	<u>\$ 17,713,649</u>

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

	<u>Current</u>	<u>Still Accruing</u>		<u>Nonaccrual Balance</u>
		<u>30-89 Days Past Due</u>	<u>Over 90 Days Past Due</u>	
Commercial	\$ 15,310,927	\$ 365,595	\$ 31,529	\$ 52,060
Housing	1,948,259	-	5,277	-
Total	<u>\$ 17,259,186</u>	<u>\$ 365,595</u>	<u>\$ 36,806</u>	<u>\$ 52,060</u>

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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

5. NOTES RECEIVABLE, continued

Impaired loans are loans assigned to a risk category of “doubtful” or “projected loss”. The following table summarizes individually impaired loans by class of loans as of September 30, 2021:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With an allowance recorded:				
Commercial	\$ 201,228	\$ 201,228	\$ 105,584	\$ 60,170
Housing	-	-	-	-
Total	<u>\$ 201,228</u>	<u>\$ 201,228</u>	<u>\$ 105,584</u>	<u>\$ 60,170</u>

There are no impaired loans without an allowance recorded.

The following table presents NESDEC’s impaired and nonaccrual loans as of September 30, 2021 and 2020:

	2021	2020
Impaired loans with a valuation allowance	\$ 201,228	\$ 226,047
Total impaired loans	201,228	226,047
Valuation allowance related to impaired loans	105,584	118,610
Total nonaccrual loans	52,060	64,655
Total loans 90 days or more past due and still accruing	36,806	46,422
Total loans 30-89 days past due and still accruing	365,595	217,026
Average investment in impaired loans	42,234	47,444
Interest income recognized on impaired loans	60,170	10,102

**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.

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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

5. NOTES RECEIVABLE, continued

The following table represents the effects of the troubled debt restructuring during the year ended September 30, 2021:

	Number of Contracts	Outstanding Recorded Investment	
		Pre-Modification	Post-Modification
Troubled debt restructurings:			
Commercial	23	\$ 509,973	\$ 509,973
Housing	-	-	-
Troubled debt restructurings that subsequently defaulted:			
Commercial	11	267,609	267,609
Housing	-	-	-

During the year ended September 30, 2021, the concessions granted to certain borrowers included extending the payment due dates and lowering the contractual interest rate and did not include reducing accrued interest or reducing the debt's face or maturity amount.

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

6. LOAN GUARANTEES – CERTIFICATES OF DEPOSIT

NESDEC pledges certificates of deposit to lending institutions as security for loans to individuals and businesses who otherwise would not acquire the loans due to their financial condition. When the loans are fully paid back, the lending institution releases the certificates of deposit back to NESDEC. Interest earned on the certificates of deposit is not part of the security agreement and is paid to NESDEC.

CD pledge guarantees as of September 30, 2021 and 2020, is as follows:

	2021	2020
CD pledge guarantees	\$ 44,028	\$ 88,148
Allowance for loan losses	(4,147)	(9,894)
	<u>\$ 39,881</u>	<u>\$ 78,254</u>

**NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION**  
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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

6. LOAN GUARANTEES – CERTIFICATES OF DEPOSIT, continued

Changes in the allowance for loan losses are as follows:

	2021	2020
Balance, beginning of the year	\$ 9,894	\$ 13,480
Provision (benefit) for loan losses	(5,747)	(3,586)
	\$ 4,147	\$ 9,894

7. PROPERTY AND EQUIPMENT

Property and equipment is as follows:

	2021	2020
Buildings	\$ 836,416	\$ 836,416
Land	142,506	142,506
Office equipment	22,771	22,771
	1,001,693	1,001,693
Less: accumulated depreciation	(300,611)	(276,979)
	\$ 701,082	\$ 724,714

8. INVESTMENTS

**Securities With Readily Determinable Fair Value**

Fair value of investments measured on a recurring basis at September 30, 2021, are as follows:

	Fair Value Balance at 9/30/2020	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
CDC Bancshares, Inc.	\$ 2,042,088	\$ -	\$ 2,042,088	\$ -
	\$ 2,042,088	\$ -	\$ 2,042,088	\$ -

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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

8. INVESTMENTS, continued

**Securities With Readily Determinable Fair Value, continued**

NESDEC owns an interest in CDC Bancshares, Inc. at a total cost of \$1,402,670. The entity is a bank holding company organized under the laws of the state of Minnesota. The holding company owns Community Development Bank. As of September 30, 2021 and 2020, CDC Bancshares, Inc. is valued as follows:

	2021	2020
CDC Bancshares, Inc.	\$ 1,402,670	\$ 1,303,095
Cumulative unrealized gain (loss)	639,418	383,834
	\$ 2,042,088	\$ 1,686,929

An additional purchase of stock totaling \$99,575 was made during the year ended September 30, 2021. An appraisal of fair value, with a measurement date of June 30, 2021, was used to establish the value at September 30, 2021.

Investment return for the years ended September 30, 2021 and 2020 is as follows:

	2021	2020
CDC Bancshares, Inc.	\$ 1,402,670	\$ 1,303,095
Cumulative unrealized gain (loss)	639,418	383,834
	\$ 2,042,088	\$ 1,686,929

**Securities Without Readily Determinable Fair Value**

NESDEC has an investment in Great Opportunities, LLC, a South Dakota Limited Liability Company, formed in 2007. Great Opportunities selectively provides seed funding for start-up companies in need of equity capital. In 2021, the LLC was dissolved and the investment was exited. This investment is carried at cost, net of the valuation allowance, which is now zero.

NESDEC has an investment in Prairie Gold Fund I LP, a Limited Partnership, formed in 2003. Prairie Gold selectively provides seed funding for startup companies in need of equity capital. This investment is carried at cost, net of the valuation allowance.

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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

8. INVESTMENTS, continued

**Securities Without Readily Determinable Fair Value , continued**

NESDEC has an investment in Hancock Holdings LLC, a Limited Liability Company, formed in 2010. Hancock Holding LLC owns real estate leased to the Hancock branch of Community Development Bank. This investment is carried at cost, net of the valuation allowance.

At September 30, 2021 and 2020, securities without readily determinable fair value consisted of the following:

2021	Great Opportunities	Hancock Holdings	Prairie Gold	Total
Cost	\$ 75,000	\$ 150,000	\$ 104,718	\$ 329,718
Valuation allowance	(75,000)	-	(92,703)	(167,703)
	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ 12,015</u>	<u>\$ 162,015</u>
2020	Great Opportunities	Hancock Holdings	Prairie Gold	Total
Cost	\$ 75,000	\$ 150,000	\$ 104,718	\$ 329,718
Valuation allowance	(48,187)	-	(92,703)	(140,890)
	<u>\$ 26,813</u>	<u>\$ 150,000</u>	<u>\$ 12,015</u>	<u>\$ 188,828</u>

Investment return is summarized as follows:

2021	Great Opportunities	Hancock Holdings	Prairie Gold	Total
Dividends/Distributions	\$ 22,633	\$ -	\$ -	\$ 22,633
Allowance provision	(26,813)	-	-	(26,813)
	<u>\$ (4,180)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,180)</u>
2020	Great Opportunities	Hancock Holdings	Prairie Gold	Total
Dividends/Distributions	\$ -	\$ 10,000	\$ -	\$ 10,000
Allowance provision	-	-	-	-
	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ 10,000</u>

**NORTHEAST SOUTH DAKOTA ECONOMIC CORPORATION**  
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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

9. NOTES PAYABLE

Notes payable as of September 30, 2021 and 2020 consisted of the following:

	2021	2020
Community Development Financial Institutions, Financial Assistance, semi-annual interest only payments, 1.95% interest, principal due in three annual payments beginning on December 31, 2025, with final payment due April 16, 2028.	\$ 1,389,975	\$ 1,389,975
Northwest Area Foundation, annual interest only payments, 1% interest, final interest payment and principal due March 31, 2025	1,000,000	1,000,000
Wells Fargo Community Development Corporation - subordinated loan, quarterly interest payments only, 2.0% interest, principal due July 8, 2024, uncollateralized	750,000	750,000
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of \$31,838, (interest payments only for first three years), 1% interest, final payment due on June 25, 2040	548,339	574,434
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual interest payment to October 10, 2011, annual installments of \$31,838 start October 10, 2012, 1% interest, final payment due October 10, 2039	521,986	548,341
Bank of America, unsecured, quarterly interest only payments, 3% interest, annual principal payments begin in 2020 with final payment due September 20, 2022	500,000	1,000,000

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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

9. NOTES PAYABLE, continued

	2021	2020
SBA, collateralized by security interest in loans made with the proceeds of this loan, monthly installments of \$4,630, 0.125% interest, final payment due April 7, 2030	\$ 476,957	\$ 250,000
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of \$31,838, (interest payments only for first three years), 1% interest, final payment due on March 14, 2037	468,482	495,366
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of \$31,838 (interest payments only for the first three years), 1% interest, final payment due on May 1, 2049	464,964	90,000
Rural Development, collateralized by security interest in loans made with the proceeds of this loan, annual installments of \$31,838, (interest payments only for first three years), 1% interest, final payment due June 7, 2035	414,268	441,689
Rural Development, collateralized by security interest in loans made with the proceeds of this loan, annual installments of \$31,838 (interest payments only for first three years), 1% interest, final payment due August 14, 2033	358,230	386,206
Rural Development, collateralized by security interest in loans made with the proceeds of this loan, annual installments of \$42,450, (interest payments only for first three years), 1% interest, final payment due October 8, 2028	324,684	363,499

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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

9. NOTES PAYABLE, continued

	2021	2020
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of \$31,838, (interest payments only for first three years), 1% interest, final payment due on October 1, 2042	\$ 333,690	\$ 347,198
Community Development Financial Institutions, Financial Assistance, semi-annual interest only payments, 2.24% interest, principal due in six semi-annual payments beginning on June 30, 2030, with final payment due April 4, 2032.	332,293	332,293
Rural Development, collateralized by security interest in loans made with the proceeds of this loan, annual installments of \$31,838, (interest payments only for first three years), 1% interest, final payment due February 15, 2031	301,425	329,964
Rural Development, Rural Microentrepreneur Assistance Program (RMAP), collateralized by security interest in loans made with the proceeds of this loan, monthly principal and interest payments of \$2,842, 2% interest, final payment due December 20, 2030	285,359	313,476
Rural Development, collateralized by security interest in loans made with proceeds of this loan, annual installments of \$31,838, (interest payments only for first three years), 1% interest, final payment due on February 10, 2030	272,614	301,438
Wells Fargo Community Investment Holdings - Subordinated loan, quarterly interest payments only 2.0% interest, principal due July 27, 2022, uncollateralized	250,000	250,000

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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

9. NOTES PAYABLE, continued

	<u>2021</u>	<u>2020</u>
Rural Development, Rural Microentrepreneur Assistance Program (RMAP), collateralized by security interest in loans made with the proceeds of this loan, 2% interest, P&I payments begin July 31, 2022 with final payment due July 31, 2040	\$ 250,000	\$ -
SBA, collateralized by security interest in loans made with the proceeds of this loan, monthly installments begin in month 13 and are calculated based on current balance, 0.375%, final payment due October 14, 2025	235,804	293,014
Venture Communications Cooperative, annual interest only payments, 1% interest, due February 1st; principal due at maturity on February 1, 2026.	100,000	100,000
Dacotah Bank, annual interest only payments, 2% interest, due June 7th; principal due at maturity on June 7, 2028, uncollateralized	50,000	50,000
U.S. Bankcorp Community Development Corporation, Subordinated equity-equivalent investment structured as a loan, quarterly interest payments, 3.0% interest, principal due June 19, 2021, uncollateralized	-	250,000
Total	9,629,070	9,856,893
Less: Current portion	(895,006)	(1,094,551)
	<u>\$ 8,734,064</u>	<u>\$ 8,762,342</u>

Interest expense for the year ending September 30, 2021 and 2020, respectively, was \$135,641 and \$156,146

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

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

9. NOTES PAYABLE, continued

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

2022	\$ 895,006
2023	436,857
2024	440,678
2025	2,194,546
2026	1,208,607
Thereafter	<u>4,453,376</u>
	<u>\$9,629,070</u>

10. COMMITMENTS, CONTINGENT LIABILITIES AND CONCENTRATION OF CREDIT RISK

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

NESDEC pledges certificates of deposit as security to guarantee loans of others (see Note 6). The amount of the certificates pledged approximate NESDEC's exposure to liability in the event of loan defaults. The carrying amount of NESDEC's liability obligations under the guarantees is zero. As of September 30, 2021, the terms of the CD pledge guarantees range from one year renewable guarantees to ten years, with the average term being approximately six years. Should any of the parties default on their loan, NESDEC would be responsible for any shortfall after liquidation of all collateral, limited to the amount of the CD pledged. NESDEC requires assignment of bank security and collateral to support financial instruments subject to credit risk.

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

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

10. COMMITMENTS, CONTINGENT LIABILITIES AND CONCENTRATION OF CREDIT RISK, continued

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

Other current liabilities is a Loan Loss Reserve that was transferred to NESDEC by USDA Rural Development when NESDEC acquired another intermediary's loans. The liability will remain for the term of the loans acquired. If no losses occur, funds will be returned to Rural Development. If a loss occurs, NESDEC will reduce the amount of the liability.

11. RELATED PARTY TRANSACTIONS

Northeast South Dakota Community Action Program (NESDCAP) is a nonprofit organization that promotes health, education and social and economic welfare to low-income, minority and disadvantage persons. NESDEC employees are also employed by NESDCAP. NESDEC reimburses NESDCAP for salaries, employee benefits and various administrative and program costs which amounted to approximately \$485,559 and \$500,475 for the years ended September 30, 2021 and 2020, respectively.

NESDCAP leases office and storage space from NESDEC on annual leases. Total lease payments under these leases during the year ended September 30, 2021 and 2020, were \$24,000 and \$24,000, respectively.

Grow South Dakota is a not-for-profit corporation formed to promote and foster economic, housing, and educational development in distressed communities and underserved markets in South Dakota and to purposefully serve low to moderate income individuals and communities. A minority of Grow South Dakota board members also serve on the NESDEC board. NESDEC reimburses Grow South Dakota for various administrative costs which amounted to approximately \$990 and \$990 for the years ended September 30, 2021 and 2020, respectively.

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

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

11. RELATED PARTY TRANSACTIONS, continued

NESDEC has deposits with banks that employ some of the members of the Board of Directors. The lending expertise of these board members is utilized in assessing NESDEC's loan portfolio. NESDEC has deposits totaling \$718,132 at financial institutions employing NESDEC board members. NESDEC also has a direct loan receivable totaling \$10,161 with a board member.

NESDEC has a direct loan receivable totaling \$1,000,000 with Grow South Dakota, an affiliate. Interest earned on this loan during the years ended September 30, 2021 and 2020, was \$30,000 and \$30,082, respectively.

NESDEC has entered into transactions with certain directors, executive officers, and their affiliates. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregated amount of such loans due to related parties as of September 30, 2021 was \$100,000.

12. RETIREMENT PLAN

NESDCAP, an affiliate of NESDEC, maintains a defined contribution Simplified Employee Pension Plan. Substantially, all employees meeting certain eligibility requirements are covered by this plan. NESDCAP may contribute up to 15% of total employee compensation to the plan; however, the Board has set the percentage at 10%. Total employer contributions to this plan were \$144,166 for the fiscal year ended September 30, 2021, of which NESDEC paid \$84,324.

13. SUBSEQUENT EVENTS

Events occurring after September 30, 2021, were evaluated by management on December 23, 2021, the date the financial statements were available to be issued, to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There are no significant subsequent events needing disclosure.

SUPPLEMENTARY INFORMATION

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2021

<u>Federal Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Disbursements/ Expenditures</u>
U.S. Department of Treasury		
Direct Funding:		
Community Development Financial Institution Program - Financial Assistance	21.020	\$ 520,000
Total U.S. Department of Health & Human Services		<u>520,000</u>
U.S. SMALL BUSINESS ADMINISTRATION		
Direct Funding:		
Microloan Program - Project Grant	59.046	<u>74,867</u>
Total U.S. Small Business Administration		<u>74,867</u>
U.S. DEPARTMENT OF AGRICULTURE - RURAL DEVELOPMENT		
Direct Funding:		
Intermediary Relending Program - Note 3	10.767	4,495,129
Rural Microentrepreneur Assistance Program - Project Grant	10.870	<u>12,778</u>
Total U.S. Department of Agriculture - Rural Development		<u>4,507,907</u>
Total Federal Funding		<u>\$ 5,102,774</u>

**Note 1: Basis of Presentation**

This accompanying Schedule of Expenditures of Federal Awards (the schedule) includes the federal award activity of the Northeast South Dakota Economic Corporation under programs of the federal government for the year ended September 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Northeast South Dakota Economic Corporation, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of the organization.

**Note 2: Significant Accounting Policies**

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

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

**Note 3: Federal Loan Programs**

The outstanding balances of federal loans at September 30, 2020 were as follows:

	<u>Federal CFDA Number</u>	<u>Outstanding Balance</u>
U.S. Department of Agriculture - Intermediary Relending Program	10.767	\$ 4,008,684
U.S. Department of Agriculture - Rural Microentrepreneur Assistance Program	10.870	535,359
U.S. Department of Treasury - Community Development Financial Institutions Program	21.020	1,722,268
U.S. Small Business Administration	59.046	<u>712,761</u>
		<u>\$ 6,979,072</u>

See Independent Auditor's Report

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northeast South Dakota Economic Corporation dba GROW South Dakota (a nonprofit organization, hereafter referred to as NESDEC), which comprise the statement of financial position as of September 30, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 23, 2021.

**Internal Control Over Financial Reporting**

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

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<b>Sioux Falls Office</b>	507 West 10 <sup>th</sup> Street	PO Box 876	Sioux Falls, SD 57101	605.336.0372

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



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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

*Wohlschlag Ritzman + Co., LLC*

Yankton, South Dakota  
December 23, 2021

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

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

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

**Report on Compliance for Each Major Federal Program**

We have audited Northeast South Dakota Economic Corporation dba GROW South Dakota's (a nonprofit organization, hereafter referred to as NESDEC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of NESDEC's major federal programs for the year ended September 30, 2021. NESDEC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of NESDEC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NESDEC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of NESDEC's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, NESDEC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

### ***Report on Internal Control Over Compliance***

Management of NESDEC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NESDEC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NESDEC's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

*Wohlberg Ritzman + Co., LLC*

Yankton, South Dakota  
December 23, 2021

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

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
SEPTEMBER 30, 2021**

**SECTION II – FINANCIAL STATEMENT AUDIT**

There were no prior audit financial statement audit findings reported.

**SECTION III – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

There were no prior major federal award program findings reported.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2021**

**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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.767	Intermediary Relending Program
21.020	Community Development Financial Institutions

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

Auditee qualified as low-risk auditee? \_\_\_\_\_ X \_\_\_\_\_ yes \_\_\_\_\_ no

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – continued  
YEAR ENDED SEPTEMBER 30, 2021

**SECTION II – FINANCIAL STATEMENT AUDIT**

There are no financial statement audit findings to report.

**SECTION III – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

There are no federal award program findings to report.