

SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS AND
SINGLE AUDIT COMPLIANCE REPORTS
YEARS ENDED JUNE 30, 2020 AND 2019

**SOUTHWEST INITIATIVE FOUNDATION
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Southwest Initiative Foundation
Hutchinson, Minnesota

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Southwest Initiative Foundation (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southwest Initiative Foundation as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

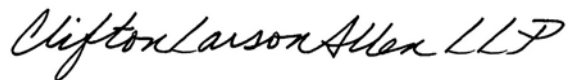
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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 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 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2020, on our consideration of Southwest Initiative Foundation'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 Southwest Initiative Foundation'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 Southwest Initiative Foundation's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

St. Cloud, Minnesota
September 24, 2020

SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Cash and Cash Equivalents	\$ 995,747	\$ 520,647
Restricted Cash	943,387	754,258
Loans Receivable, Net	7,684,059	6,457,961
Pledges Receivable	12,545	19,441
Due from McKnight Foundation	1,000,000	-
Other Receivables	134,011	206,785
Prepaid Expenses	59,073	70,679
Investments	82,753,751	81,927,533
Property and Equipment, Net	2,521,470	2,636,475
Total Assets	\$ 96,104,043	\$ 92,593,779
LIABILITIES AND NET ASSETS		
LIABILITIES		
Grants and Other Payables	\$ 2,289,939	\$ 359,838
Accrued Liabilities	1,130,908	598,352
Assets Held on Donor's Behalf	1,588,732	1,631,266
Obligations of Split-Interest Agreements	198,661	204,625
Life Estate Liability	3,541,748	3,617,226
Investment Trust Liability	467,311	506,448
Notes Payable	1,739,094	1,245,170
Bonds Payable, Net	873,395	1,084,934
Total Liabilities	11,829,788	9,247,859
NET ASSETS		
Without Donor Restrictions:		
Board Designated	20,158,999	20,135,820
Undesignated	7,438,410	7,303,351
Total Net Assets Without Donor Restrictions	27,597,409	27,439,171
With Donor Restrictions:		
Purpose and Time Restricted	17,825,726	17,781,546
Held in Perpetuity	38,851,120	38,125,203
Total Net Assets With Donor Restrictions	56,676,846	55,906,749
Total Net Assets	84,274,255	83,345,920
Total Liabilities and Net Assets	\$ 96,104,043	\$ 92,593,779

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE			
McKnight Foundation Grants	\$ 2,000,000	\$ 1,000,000	\$ 3,000,000
Other Grants	-	739,573	739,573
Contributions	-	2,996,150	2,996,150
Investment Income	728,056	555,547	1,283,603
Loan Interest Income	-	290,892	290,892
Discount on Below Market Loans	-	(501,838)	(501,838)
Rental Income	60,832	-	60,832
Change in Split Interest Agreement	-	114,615	114,615
Miscellaneous Income	21,101	213,872	234,973
Subtotal Revenue	<u>2,809,989</u>	<u>5,408,811</u>	<u>8,218,800</u>
Net Assets Released from Restrictions and Transfers	<u>4,638,714</u>	<u>(4,638,714)</u>	<u>-</u>
Total Revenue	<u>7,448,703</u>	<u>770,097</u>	<u>8,218,800</u>
EXPENSE			
Program Expenses:			
Grant Programs	1,772,700	-	1,772,700
Economic Development Programs	2,678,330	-	2,678,330
Affiliate Funds	1,426,220	-	1,426,220
Total Program Expenses	<u>5,877,250</u>	<u>-</u>	<u>5,877,250</u>
General and Administrative	875,766	-	875,766
Fund Development	537,449	-	537,449
Total Expense	<u>7,290,465</u>	<u>-</u>	<u>7,290,465</u>
CHANGE IN NET ASSETS	158,238	770,097	928,335
Net Assets - Beginning of Year	<u>27,439,171</u>	<u>55,906,749</u>	<u>83,345,920</u>
NET ASSETS - END OF YEAR	<u>\$ 27,597,409</u>	<u>\$ 56,676,846</u>	<u>\$ 84,274,255</u>

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE			
McKnight Foundation Grants	\$ 1,000,000	\$ 75,000	\$ 1,075,000
Other Grants	1,000	477,198	478,198
Contributions	4,500	2,082,625	2,087,125
Investment Income	1,807,806	1,082,607	2,890,413
Loan Interest Income	-	403,559	403,559
Rental Income	62,128	-	62,128
Change in Split Interest Agreement	-	101,366	101,366
Miscellaneous Income	19,860	39,697	59,557
Subtotal Revenue	<u>2,895,294</u>	<u>4,262,052</u>	<u>7,157,346</u>
Net Assets Released from Restrictions and Transfers	<u>2,652,987</u>	<u>(2,652,987)</u>	<u>-</u>
Total Revenue	<u>5,548,281</u>	<u>1,609,065</u>	<u>7,157,346</u>
EXPENSE			
Program Expenses:			
Grant Programs	1,461,325	-	1,461,325
Economic Development Programs	1,108,138	-	1,108,138
Affiliate Funds	1,082,450	-	1,082,450
Total Program Expenses	<u>3,651,913</u>	<u>-</u>	<u>3,651,913</u>
General and Administrative	799,494	-	799,494
Fund Development	513,564	-	513,564
Total Expense	<u>4,964,971</u>	<u>-</u>	<u>4,964,971</u>
CHANGE IN NET ASSETS	583,310	1,609,065	2,192,375
Net Assets - Beginning of Year	<u>26,855,861</u>	<u>54,297,684</u>	<u>81,153,545</u>
NET ASSETS - END OF YEAR	<u>\$ 27,439,171</u>	<u>\$ 55,906,749</u>	<u>\$ 83,345,920</u>

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	Program Expenses			General and Administrative	Fund Development	Total
	Programs	Economic Development	Affiliate Funds			
Provision for Loan Losses	\$ -	\$ 1,591,183	\$ -	\$ -	\$ -	\$ 1,591,183
Grants Made	725,325	39,025	1,395,202	-	-	2,159,552
Salaries	486,715	428,809	-	467,567	282,795	1,665,886
Payroll Taxes	33,196	29,288	-	31,885	19,315	113,684
Fringe Benefits	88,419	77,444	-	85,469	52,455	303,787
Staff Travel	38,757	41,495	-	7,156	8,302	95,710
Board Expense	8,002	5,494	-	11,472	4,400	29,368
Advisory Committee Expense	59	40	-	64	30	193
Staff and Board Development	14,732	12,363	-	3,385	8,625	39,105
Meetings	48,244	68,253	-	-	-	116,497
Contracted Services	53,082	59,489	30	72,067	35,586	220,254
Rent	407	279	-	467	211	1,364
Advertising	11,484	8,455	-	12,722	6,025	38,686
Printing	17,564	11,886	-	19,280	15,072	63,802
Telephone	13,082	9,437	-	6,284	5,655	34,458
Postage	5,417	4,107	19	6,289	4,342	20,174
Office Supplies	3,654	3,814	-	1,675	1,028	10,171
Subscriptions and Dues	13,270	20,998	-	-	5,466	39,734
Professional Fees	91,159	147,401	-	33,702	26,272	298,534
Insurance	7,067	5,102	-	8,113	3,848	24,130
Repairs and Maintenance	1,704	1,170	-	1,948	942	5,764
Depreciation	63,845	43,834	-	72,991	34,287	214,957
Public Relations	7,080	3,651	-	4,366	2,778	17,875
Strategic Planning	1,361	934	-	1,560	743	4,598
Utilities	13,092	8,989	-	5,881	7,121	35,083
Interest Expense	8,407	26,954	-	11,684	4,544	51,589
Fundraising Costs	-	-	30,969	-	3,112	34,081
Website	5,677	3,170	-	5,224	2,496	16,567
Miscellaneous Expense	11,899	25,266	-	4,515	1,999	43,679
Total Expenses	\$ 1,772,700	\$ 2,678,330	\$ 1,426,220	\$ 875,766	\$ 537,449	\$ 7,290,465

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

	Program Expenses			General and Administrative	Fund Development	Total
	Programs	Economic Development	Affiliate Funds			
Provision for Loan Losses	\$ -	\$ 154,411	\$ -	\$ -	\$ -	\$ 154,411
Grants Made	455,344	3,000	1,035,781	-	-	1,494,125
Salaries	418,028	390,765	-	425,403	280,463	1,514,659
Payroll Taxes	28,770	26,901	-	29,278	19,295	104,244
Fringe Benefits	83,179	77,757	-	82,443	55,848	299,227
Staff Travel	55,107	45,303	-	9,556	13,393	123,359
Board Expense	3,371	2,576	-	4,165	1,946	12,058
Advisory Committee Expense	314	319	-	389	181	1,203
Staff and Board Development	8,799	8,844	-	4,410	6,215	28,268
Meetings	148,190	37,795	-	-	-	185,985
Contracted Services	41,989	46,126	-	51,889	29,738	169,742
Rent	481	1,267	-	219	277	2,244
Advertising	12,074	14,177	-	14,506	6,776	47,533
Printing	11,265	8,609	-	16,988	10,186	47,048
Telephone	9,457	10,323	-	6,602	4,375	30,757
Postage	6,040	3,540	-	4,249	3,366	17,195
Office Supplies	3,560	11,107	-	2,779	1,359	18,805
Subscriptions and Dues	10,462	17,292	-	4,082	3,364	35,200
Professional Fees	44,991	134,699	-	10,268	9,773	199,731
Insurance	5,655	4,572	-	8,828	3,265	22,320
Repairs and Maintenance	927	708	-	-	535	1,733
Depreciation	51,049	39,013	-	75,488	29,468	195,018
Public Relations	4,373	3,512	-	5,113	2,342	15,340
Strategic Planning	6,510	4,810	-	13,837	3,633	28,790
Utilities	11,546	8,823	-	17,524	6,664	44,557
Interest Expense	13,154	27,843	-	215	7,593	48,805
Fundraising Costs	-	125	46,669	-	7,922	54,716
Website	12,851	2,786	-	5,680	2,104	23,421
Miscellaneous Expense	13,839	21,135	-	5,583	3,483	44,477
Total Expenses	\$ 1,461,325	\$ 1,108,138	\$ 1,082,450	\$ 799,494	\$ 513,564	\$ 4,964,971

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 928,335	\$ 2,192,375
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	214,957	195,018
Amortization of Discount on Bonds Payable and Issuance Costs	13,461	13,463
Loss on Sale of Fixed Assets	-	2,758
Net Unrealized Loss on Investments	1,679,562	62,241
Net Realized Loss on Sale of Investments	124,169	121,732
Loan Loss Provisions	1,915,333	185,920
Loan Charge Offs	(324,150)	(31,509)
Change in Present Value of Loans Receivable	501,838	(3,326)
Change in Value of Life Estate Liability	(120,579)	(104,536)
Contributions Restricted for Endowment Funds	(598,604)	(727,954)
(Increase) Decrease in:		
Due from McKnight Foundation	(1,000,000)	-
Pledges Receivable	6,896	17,029
Other Receivables	72,774	142,343
Prepaid Expenses	11,606	(8,730)
Increase (Decrease) in:		
Grants and Other Payables	1,938,700	106,699
Accrued Liabilities	532,556	374,930
Investment Trust Liability	(39,137)	(26,672)
Assets Held on Donor's Behalf	(42,534)	126,126
Net Cash Provided by Operating Activities	5,815,183	2,637,907
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on Loans Receivable	1,254,412	2,032,380
Issuance of Loans Receivable	(4,573,531)	(2,140,038)
Proceeds from Sale of Investments	54,278,734	27,412,591
Purchase of Investments	(56,908,683)	(29,849,739)
Purchase of Property and Equipment	(99,952)	(136,801)
Net Cash Used by Investing Activities	(6,049,020)	(2,681,607)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	920,000	50,000
Principal Payments on Long-Term Debt	(426,076)	(275,345)
Principal Payments on Bonds Payable	(225,000)	(225,000)
Principal Payments on Capital Lease	(8,599)	(7,953)
Contributions to Endowment Funds	637,741	752,309
Net Cash Provided by Financing Activities	898,066	294,011
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	664,229	250,311
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	1,274,905	1,024,594
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	\$ 1,939,134	\$ 1,274,905

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
SUPPLEMENTAL DISCLOSURES		
Cash Paid for Interest	\$ 27,207	\$ 29,428
Vehicle Trade-In	\$ -	\$ 25,000
 RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH PER THE CONSOLIDATED STATEMENTS OF CASH FLOWS TO CASH, CASH EQUIVALENTS, AND RESTRICTED CASH PER THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Cash and Cash Equivalents	\$ 995,747	\$ 520,647
Restricted Cash	943,387	754,258
Cash, Cash Equivalents, and Restricted Cash per Consolidated Statements of Cash Flows	\$ 1,939,134	\$ 1,274,905

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Foundation

Southwest Initiative Foundation (the Foundation) is a nonprofit community foundation connecting people, investing in ideas, and building communities to create a southwest Minnesota where all people thrive. Working across 18 counties and two Native Nations, the Foundation has distributed more than \$88 million through grant-making and business financing. The Foundation is supported by individuals, families, businesses, and organizations who want to keep this rural region going strong for the next generation.

Basis of Presentation

The accompanying consolidated financial statements include the accounts and operations of AWSM, LLC and SWIF Real Estate Holdings LLC. As of March 2020, AWSM, LLC has been dissolved. All significant transactions between the Foundation and these entities have been eliminated.

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

Net Assets Without Donor Restrictions – Resources over which the board of directors has discretionary control. Designated amounts represent those revenues which the board has set aside for a particular purpose.

Net Assets With Donor Restrictions – Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Foundation or passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Foundation uses the income earned, including capital appreciation on related investments, for the purpose restricted by the donor.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers highly liquid investments with an original maturity date of three months or less to be cash equivalents. Restricted cash, money market funds, and certificates of deposit included in investments are not intended to be available for current use and are not considered cash and cash equivalents for financial reporting purposes.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Money market funds held for investment purposes are considered cash and cash equivalents within investments, and are carried at deposit value. Donated real estate held for investments consist primarily of farmland and is recorded at fair value at the time of the donation. Equity and debt securities are reported at fair value based on quoted market prices in the consolidated statements of financial position. Realized and unrealized gains and losses are recognized in the period in which they occur and are included in the Change in Net Assets in the accompanying consolidated statements of activities.

Obligations of Split-Interest Agreements

The Foundation has entered into an irrevocable charitable unitrust agreement with a certain donor. Under this contract, the annuitant transfers assets to the Foundation, and the Foundation makes periodic, fixed payments to the annuitants for life. The value of the assets transferred to the Foundation along with the age of the annuitant determines the amount of the periodic payments to the annuitant.

Split interest obligations are recorded using the present value of the estimated future obligations based on mortality rates derived from ordinary life annuity tables and amounts that may be payable to third-party beneficiaries including other nonprofits.

Life Estate Liability

The Foundation holds land that is retained in donor's life estates. These are recorded at fair market value at the time of the donation. The liability is adjusted annually based on the value of the land and the life expectancy of the donor.

Investment Trust Liability

The Foundation is the beneficiary of investments held within a trust agreement with a certain donor. Under this agreement, the trust assets transfer to the Foundation upon the death of the donor. The value of the assets were recorded at the fair market value at the time of the donation. The donor receives the income and appreciation on the investments on an annual basis. The liability is adjusted annually based on the present value discount rate and the life expectancy of the donor.

Loans

The Foundation makes loans through two programs; the Business Finance Program and the Microenterprise Loan Program. Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses. The Foundation has determined accounting for nonrefundable fees and costs associated with originating or acquiring loans 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. Interest income is accrued on the unpaid principal balance.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans (Continued)

The accrual of interest on loans is discontinued when a significant lapse in payment is identified, typically at the time the loan is 90 days past due unless staff believes the credit is well secured and is reasonably sure that all or part of the loan will be paid during the process of collection. Loans are typically charged off at 120 days past due, but are reviewed and charged off on individual circumstances. Past due status is based on contractual terms of the loan. Loans are generally placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual is reversed against interest income if the loan is charged off. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses (allowance) is an estimate of loan losses inherent in the Foundation's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after loan losses and loan growth. Loan losses are charged off against the allowance when the Foundation determines the loan balance proves to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to charged off loans.

The allowance calculation consists of five levels for the Business Finance Program and three levels for the Microenterprise Loan Program and individual loan reserves are adjusted periodically for economic factors based on the risks present for each loan. These economic factors include consideration of the following: changes in the lending policies and underwriting practices, national and local economic conditions, changes in portfolio volume, changes in staff experience, changes in past due and nonaccrual loans, changes in credit quality, change in payment history, changes in loan review and oversight, impact and effects of concentrations, and impact of competition. These factors are inherently subjective and are driven by the repayment risk associated with each loan.

Based on current information and events, a loan is considered impaired when it is probable that the Foundation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. When a loan is impaired, the Foundation measures impairment based on an observable market price or the fair value of the collateral if collateral dependent. A loan is collateral dependent if the repayment is expected to be provided solely by the underlying collateral. When a loan does become uncollectible, it will be charged directly to the allowance in the current year.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The risk ratings can be grouped into the following categories for Business Finance and Microenterprise loans, respectively:

Business Finance Program:

Risk Classification (Reserve Level 6% of Principal Balance)

The loan is current. There are no violations of loan covenants. The borrower's financial condition is exceptional or strong. There are no liens against the company.

Risk Classification (Reserve Level 8% of Principal Balance)

The loan is current. The borrower's financial condition is adequate and all items of the Risk Classification apply.

Risk Classification (Reserve Level 10% of Principal Balance)

The loan is current. Either the borrower's financial condition is marginal or the financial condition is adequate or strong and there are liens against the company; or the borrower has violated a loan covenant. Staff will meet to discuss the status of the loan and additional servicing attention is needed.

Risk Classification (Reserve Level 25% of Principal Balance)

The loan is current, but payments are spotty. Financial condition of the company is substandard. There are violations of loan covenants.

Risk Classification (Reserve Level 100% of Principal Balance)

The loan is 30 days or more past due. The financial condition is Liquidate. There are violations of loan covenants. The Foundation has a secured interest in the company.

Microenterprise Loan Program:

Risk Classification (Reserve Levels 5% and 10% of Principal Balance)

The loan is current. Borrower's financial condition is adequate for the business. There are no violations of the loan covenants. Technical Assistance is accepted by client and working well. Two columns are represented due to the USDA RMAP micro-lending program requiring a 5% loan loss reserve for these conditions, where SBA micro-lending program requires a 15% loan loss reserve.

Risk Classification (Reserve Level 25% of Principal Balance)

The loan is current, but payments may have been missed in the past. Borrower's financial condition is weakened. Borrower's personal or business capacity/capability has deteriorated. There are minor violations of loan covenants. Technical Assistance is accepted, but client does not always follow through. Foundation's collateral position is still adequate.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Microenterprise Loan Program (Continued):

Risk Classification (Reserve Levels 75% and 100% of Principal Balance)

Loan is 30 days or more past due, with little chance of becoming current. Borrower's financial condition is seriously deteriorated; cannot currently meet financial obligations to lenders or vendors. Borrower's personal or business capacity is inadequate to handle the needs of the business. There are violations of loan covenants. Technical Assistance directives are not adequately being followed through. Foundation's collateral position is weak.

Recognizing that economic trends in the industry as well as specific indicators are closely correlated to the credit quality of the loans, the Foundation factors this in and maintains a separate general valuation allowance for various portfolio segments. These portfolio segments are described as follows:

Agriculture: The Agriculture portfolio consists of 19 loans split between Business Finance (16) and Microenterprise (3) lending scheduled to be amortized over various lengths of time.

Childcare Providers: The Childcare Providers segment consists of 7 loans split between Business Finance (2) and Microenterprise (5) lending scheduled to be amortized over various lengths of time.

Construction: The Construction segment consists of 1 loan in Business Finance (1) lending scheduled to be amortized over a certain length of time.

Consulting: The Consulting segment consists of 2 loans in Business Finance (2) lending scheduled to be amortized over a certain length of time.

Healthcare: The Healthcare portfolio consists of 4 loans split between Business Finance (1) and Microenterprise (3) lending scheduled to be amortized over various lengths of time.

Hospitality: The Hospitality portfolio consists of 8 loans split between Business Finance (7) and Microenterprise (1) lending scheduled to be amortized over various lengths of time.

Manufacturing: The Manufacturing portfolio consists of 24 loans split between Business Finance (14) and Microenterprise (10) lending scheduled to be amortized over various lengths of time.

Media: The Media segment consists of -0- loans at this time.

Nonprofit: The Nonprofit segment consists of 1 loan in Business Finance (1) lending scheduled to be amortized over a certain length of time.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Real Estate: The Real Estate portfolio consists of 7 loans in Business Finance (7) lending scheduled to be amortized over various lengths of time.

Retail: The Retail portfolio consists of 43 loans split between Business Finance (24) and Microenterprise (19) lending scheduled to be amortized over various lengths of time.

Service: The Service portfolio consists of 139 loans split between Business Finance (106) and Microenterprise (33) lending scheduled to be amortized over various lengths of time.

Technology: The Technology segment consists of -0- loans at this time.

Utilities: The Utilities portfolio consists of 2 loans in Business Finance (2) lending scheduled to be amortized over various lengths of time.

Although management believes the allowance to be adequate, losses may vary from its estimates.

Pledges Receivable

Pledges to give are recorded at their net realizable value. Conditional pledges are not included as support until such time as the conditions are substantially met. At June 30, 2020 and 2019, the Foundation has not recorded a reserve for uncollectible pledges.

Due from McKnight Foundation

McKnight Foundation has granted \$3,000,000 to support the general operations of the Foundation. As of June 30, 2020, \$1,000,000 is outstanding and is expected to be received in December 2021.

Contributions

The Foundation records contributions in accordance with applicable accounting standards, which require unconditional promises to give (pledges) be recorded as receivables and revenues and requires the organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Revenue Recognition

Grant revenue is recognized in the period the grant was awarded, provided it is unconditional, and is recorded as with or without donor restrictions, depending on the grantor's intent. Grant amounts awarded, but not received, are reported as grants receivable. Grant revenue for which donor restrictions are met in the year the revenue is received, is considered without donor restrictions.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

A portion of the Organization's revenue is derived from cost-reimbursable contracts and grants. Amounts received are recognized as earned and are reported as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received but not yet earned are reported as deferred revenue in the consolidated statements of financial position. Conditional promises to give amount to \$778,505 and \$300,000 as of June 30, 2020 and 2019, respectively. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Conditions are met when the qualifying expenses based on specific criteria are incurred. The Organization was awarded cost-reimbursable grants of \$39,002, for which qualifying expenditures have not yet been incurred and therefore have not been recognized. Unconditional promises to give due in subsequent years are recorded at their net realizable value.

Investment earnings on contributions and grants are recorded in with or without donor restrictive net assets when earned.

Property and Equipment

Property and equipment are stated at cost. Donated property is stated at fair value at the time of the donation. Major renewals and improvements are charged to the property and equipment accounts, while replacements, maintenance, and repairs, which do not improve or extend the lives of the assets, are expensed currently. Depreciation of physical plant and equipment has been recorded using the straight-line method over estimated useful lives ranging from 3 to 40 years. It is the Foundation's policy to capitalize property and equipment that has a unit cost equal to or greater than \$1,000.

Annuities Payable

Annuities payable consists of two gift annuity agreements, which provide for payments to the grantors for life. Assets received under these agreements are recorded at fair value. A liability related to future payments under these agreements has been recorded at the present value at June 30, 2020 and 2019, using discount rates of 4.4% in both years. Contribution income is recognized for the difference between the initial contributed asset and related liability.

The liability related to split-interest agreements is recalculated annually, with the amortization of discounts and adjustments for changes to life expectancies recognized as actuarial liability adjustments on the consolidated statements of activities. Annuities Payable is combined with Grants and Other Payables on the consolidated statements of financial position.

Assets Held on Donor's Behalf

Assets held on donor's behalf at June 30, 2020 and 2019 consist of 21 and 23 funds, respectively, for both the years then ended, in which the beneficiaries were designated by the donor at the time the funds were established. Therefore, the Foundation is obligated to specific beneficiaries with regard to the distribution of these funds.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expense

Salaries and related expenses are allocated based on the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated based on the best estimates of management and follow a pre-established allocation plan based on job descriptions of each employee.

Fair Value Measurements

The Foundation categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Foundation may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis.

The Foundation has not elected to measure any existing financial instruments at fair value. However, it may elect to measure newly acquired financial instruments at fair value in the future.

Program Grants

Program grants are recorded as expense when approved and the conditions on which they depend are substantially met. Cancellations of grants occur when the grantees do not meet the grant terms or when grant program needs are less than the appropriated amount.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax-Exempt Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws. The Foundation is a nonprivate foundation and contributions to the organization qualify as a charitable tax deduction by the contributor. AWSM, LLC and SWIF Real Estate Holdings LLC are 100% owned LLC's and as such are considered disregarded entities for tax purposes. It is the policy of the Foundation, in accordance with GAAP, to assess any uncertain tax provisions and, if necessary, record a tax asset or liability, and the related income tax expense, for any uncertain tax provisions. The Foundation does not have any uncertain tax positions or unrelated business income.

The Foundation follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The Foundation's tax returns are subject to review and examination by federal and state authorities.

Change in Accounting Principles

In June 2018, FASB issued Accounting Standards (ASU) 2018-08, *Accounting Guidance for Contributions Made*. This ASU was issued to clarify accounting guidance for contributions made. The amendments to this ASU assists 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 an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Our consolidated financial statements reflect the application of this portion of ASU 2018-08 beginning July 1, 2019. The new guidance does not require prior period results to be restated. In addition, the Foundation adopted the other portion of ASU 2018-08, *Accounting Guidance for Contributions Received* beginning July 1, 2018.

For the year ended June 30, 2020, the Foundation adopted FASB Accounting Standards (ASU) 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. This ASU was issued to clarify guidance on the classification and presentation of restricted cash in the statement of cash flows and reduce diversity in practice. The amendments to this ASU require that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and restricted cash or restricted cash equivalents. Therefore, restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The financial statements reflect the application of ASU 2016-18 using a retrospective approach to each period presented.

Subsequent Events

In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 24, 2020, the date the consolidated financial statements were available to be issued.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 2 RISKS AND UNCERTAINTIES

The World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Foundation, COVID-19 may impact various parts of its 2020 operations and financial results, including restrictions on the foundation by the governor, additional costs to the Foundation, investment performance, and potential loss of revenue due to reduction in certain revenue streams. Management believes the Foundation is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

In response to COVID-19, on April 17, 2020, the Foundation received a loan in the amount of \$340,000 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the "PPP Loan"). The original loan agreement was written prior to the PPP Flexibility Act of 2020 (June 5) and was due over twenty-four months deferred for six months. Subsequent to this, the law changed the loan deferral terms retroactively. The PPP Flexibility Act and subsequent regulations supersede the loan agreement. The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the foundation fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. To the extent that all or part of the PPP Loan is not forgiven, the Foundation will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and commencing in October 2020, principal and interest payments will be required through the maturity date in April 2022.

NOTE 3 CONCENTRATIONS

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of cash, receivables, and investments in marketable securities.

Cash on deposit with financial institutions in excess of \$250,000 is collateralized by the depository, to mitigate any losses.

The Foundation's fundraising efforts and economic loan activity exists primarily in the 18 counties of southwest Minnesota. In the event of any economic downturns, it could have an impact on the organization.

The grants from the McKnight Foundation are considered a significant source of operating revenue. The McKnight Foundation giving consists of 37% and 15% of total operating revenue at June 30, 2020 and 2019, respectively.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 INVESTMENTS

The carrying value of investments is comprised of the following at June 30:

	2020		2019	
	Amount	Percent	Amount	Percent
Cash and Cash Equivalents	\$ 7,390,896	9 %	\$ 6,550,452	8 %
US Government Obligations	2,723,127	3	2,655,197	3
Corporate Bonds	6,962,228	8	6,253,339	8
Stock Mutual Funds	31,049,900	37	39,709,241	48
Equity Securities	545,817	1	511,858	1
Taxable Bond Mutual Funds	9,658,817	12	10,750,282	13
Foreign Bonds, Notes, and Debentures	1,907	-	-	-
Alternative Investments	14,483,822	18	5,553,963	7
Charitable Remainder				
Trust Investments	198,661	-	204,625	-
Donated Real Estate Held as Investments	8,009,085	10	8,009,085	10
Investment Held in Trust	1,729,491	2	1,729,491	2
Totals	<u>\$ 82,753,751</u>	<u>100 %</u>	<u>\$ 81,927,533</u>	<u>100 %</u>

The composition of investment income is as follows for the years ended June 30:

	2020	2019
Interest and Dividends on Investments	\$ 3,382,086	\$ 3,361,116
Realized Loss on Investments	(124,169)	(121,732)
Unrealized Loss on Investments	(1,679,562)	(62,241)
Investment Fees	(294,752)	(286,730)
Total	<u>\$ 1,283,603</u>	<u>\$ 2,890,413</u>

Donated Real Estate Held as Investments

The Foundation holds contributed land as investment at the lower of fair value when land was received and current net realizable value. The carrying amount is \$8,009,085 as of both June 30, 2020 and 2019. The Foundation obtains rental income from the parcels without life estate beneficiaries and does not plan to sell the land.

Investment Held in Trust

The Foundation is the beneficiary in a trust administered by another trustee. A fund has been created to follow donor intent and a receivable was recorded at the fair market value of the assets invested and held by the trustee. The Foundation will receive the funds upon the death of the donor.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 5 LOANS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

Low interest loans are discounted at a current market rate at the date of inception and recorded at their net present value.

Interest income is recognized on loans receivable at the rate stated in each loan agreement and is accrued through each period. Interest rates range from 0% - 7.5% for 2020 and 2019. The Foundation has commitments on loans approved but not disbursed as of June 30, 2020 and 2019 of \$321,300 and \$671,200, respectively. A loan is considered past due once a payment date has been missed. As of June 30, 2020 and 2019, five and six loans, respectively, were greater than 90 days past due. Any loans greater than 90 days past due may start the process of being added to nonaccrual. Once a loan is determined to be nonaccrual, it is removed from the greater than 90-day category and maintained separately as a non-accrual loan. Southwest Initiative Foundation has \$250,724 and \$522,981 on nonaccrual at June 30, 2020 and 2019, respectively.

For the years 2020 and 2019, \$763,649 and \$742,517, respectively, of loans receivable were pledged as security to the underlying notes payable.

Loans receivable maturities, and related discounts and allowances consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Loans Receivable Maturities:		
Current	\$ 1,545,608	\$ 1,259,109
Long-Term	9,417,254	6,714,261
Total Loans Receivable Maturities	<u>10,962,862</u>	<u>7,973,370</u>
Discount for Below Market Interest Rates	(533,359)	(31,521)
Allowance for Uncollectible Loan	(2,632,497)	(1,365,464)
Loan Participation	(112,947)	(118,424)
Net Loans Receivable	<u>\$ 7,684,059</u>	<u>\$ 6,457,961</u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 5 LOANS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS
(CONTINUED)

Loans receivable and the allowance for loan losses accounts at June 30 consist of the following:

	<u>2020</u>	<u>2019</u>
Agriculture	\$ 1,471,087	\$ 882,968
Childcare Providers	112,062	81,788
Construction	24,487	44,024
Consulting	33,595	37,977
Healthcare	246,447	304,403
Hospitality	600,884	447,386
Manufacturing	2,579,667	2,580,375
Nonprofit	149,172	1,404
Real Estate	821,217	868,639
Retail	1,411,897	1,475,101
Service	3,462,347	1,199,305
Utilities	50,000	50,000
Less: Allowance, Discount, and Participation	<u>(3,278,803)</u>	<u>(1,515,409)</u>
Net Loans Receivable	<u><u>\$ 7,684,059</u></u>	<u><u>\$ 6,457,961</u></u>

Transactions in the allowance for loan losses during the years ended June 30 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Balance at Beginning of Year	\$ 1,365,464	\$ 1,242,561
Provision	1,591,183	131,232
Loans Charged Off	(324,150)	(31,509)
Loans Recovered	-	23,180
Balance at End of Year	<u><u>\$ 2,632,497</u></u>	<u><u>\$ 1,365,464</u></u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 5 LOANS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS (CONTINUED)

The allowance for loan losses and recorded investment in loans at June 30, 2020 is as follows:

	Business Finance Change in Loan Loss Reserve					Micro Loan Change in Loan Loss Reserve					Total
	06/30/19	Provision	Charged Off	Recovered	06/30/20	06/30/19	Provision	Charged Off	Recovered	06/30/20	
Agriculture	\$ 128,619	\$ 219,502	\$ -	\$ -	\$ 348,121	\$ 15,053	\$ 19,596	\$ -	\$ -	\$ 34,649	\$ 382,770
Childcare	7,500	53,402	-	-	60,902	1,018	6,290	-	-	7,308	68,210
Construction	3,940	(1,491)	-	-	2,449	462	(462)	-	-	-	2,449
Consulting	5,041	11,756	-	-	16,797	107	(107)	-	-	-	16,797
Healthcare	64,709	(5,951)	(34,848)	-	23,910	1,334	2,340	-	-	3,674	27,584
Hospitality	48,553	46,908	-	-	95,461	787	(711)	-	-	76	95,537
Manufacturing	518,427	250,057	(289,302)	-	479,182	29,445	6,298	-	-	35,743	514,925
Media	-	-	-	-	-	-	-	-	-	-	-
Nonprofit	84	74,502	-	-	74,586	-	-	-	-	-	74,586
Real Estate	77,269	148,556	-	-	225,825	-	-	-	-	-	225,825
Retail	232,592	287,086	-	-	519,678	83,789	(13,691)	-	-	70,098	589,776
Service	113,369	388,590	-	-	501,959	33,366	98,713	-	-	132,079	634,038
Technology	-	-	-	-	-	-	-	-	-	-	-
Total	<u>\$ 1,200,103</u>	<u>\$ 1,472,917</u>	<u>\$ (324,150)</u>	<u>\$ -</u>	<u>\$ 2,348,870</u>	<u>\$ 165,361</u>	<u>\$ 118,266</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 283,627</u>	<u>\$ 2,632,497</u>

The allowance for loan losses and recorded investment in loans at June 30, 2019 is as follows:

	Business Finance Change in Loan Loss Reserve					Micro Loan Change in Loan Loss Reserve					Total
	06/30/18	Provision	Charged Off	Recovered	06/30/19	06/30/18	Provision	Charged Off	Recovered	06/30/19	
Agriculture	\$ 97,834	\$ 30,785	\$ -	\$ -	\$ 128,619	\$ 4,190	\$ 10,863	\$ -	\$ -	\$ 15,053	\$ 143,672
Childcare	-	7,500	-	-	7,500	2,677	(1,659)	-	-	1,018	8,518
Construction	8,042	(4,102)	-	-	3,940	1,640	(1,178)	-	-	462	4,402
Consulting	-	5,041	-	-	5,041	216	(109)	-	-	107	5,148
Healthcare	51,187	13,522	-	-	64,709	1,914	(580)	-	-	1,334	66,043
Hospitality	59,280	(10,727)	-	-	48,553	1,448	(661)	-	-	787	49,340
Manufacturing	482,021	36,406	-	-	518,427	14,695	14,750	-	-	29,445	547,872
Media	-	-	-	-	-	2,750	(2,750)	-	-	-	-
Nonprofit	194	(110)	-	-	84	-	-	-	-	-	84
Real Estate	63,108	14,161	-	-	77,269	-	-	-	-	-	77,269
Retail	192,643	39,949	-	-	232,592	81,920	(21,311)	-	23,180	83,789	316,381
Service	102,988	10,381	-	-	113,369	33,814	31,061	(31,509)	-	33,366	146,735
Technology	40,000	(40,000)	-	-	-	-	-	-	-	-	-
Total	<u>\$ 1,097,297</u>	<u>\$ 102,806</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,200,103</u>	<u>\$ 145,264</u>	<u>\$ 28,426</u>	<u>\$ (31,509)</u>	<u>\$ 23,180</u>	<u>\$ 165,361</u>	<u>\$ 1,365,464</u>

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 5 LOANS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS (CONTINUED)

The following table shows the loans at June 30, 2020 allocated by management's internal risk ratings:

<i>Risk Rate % Range</i>	Business Finance Loans					Total Loans Receivable	Microenterprise Loans				Total Loans Receivable	
	6.0%	8.0%	10.0%	25.0%	100.0%		5.0%	10.0%	25.0%	100.0%		
FY20 Loans Receivable												
Credit Risk Profile by Risk Rating:												
Agriculture	\$ -	\$ -	\$ 948,961	\$ -	\$ 452,827	\$ 1,401,788	\$ -	\$ -	\$ -	\$ 69,299	\$ 69,299	
Childcare Providers	-	-	-	-	81,202	81,202	-	-	26,395	4,465	30,860	
Construction	-	-	24,487	-	-	24,487	-	-	-	-	-	
Consulting	-	-	-	-	33,595	33,595	-	-	-	-	-	
Healthcare	-	-	239,100	-	-	239,100	-	-	-	7,347	7,347	
Hospitality	-	-	429,731	132,049	38,952	600,732	-	-	-	152	152	
Manufacturing	-	-	1,528,811	588,322	358,441	2,475,574	-	7,933	56,615	39,545	104,093	
Nonprofit	-	-	-	-	149,172	149,172	-	-	-	-	-	
Real Estate	-	93,448	363,840	-	363,929	821,217	-	-	-	-	-	
Retail	-	-	367,122	76,641	705,414	1,149,177	-	-	191,539	71,181	262,720	
Service	76,088	41,292	2,252,612	539,114	216,347	3,125,453	1,092	5,946	145,154	184,702	336,894	
Utilities	50,000	-	-	-	-	50,000	-	-	-	-	-	
Total	\$ 126,088	\$ 134,740	\$ 6,154,664	\$ 1,336,126	\$ 2,399,879	\$ 10,151,497	\$ 1,092	\$ 13,879	\$ 419,703	\$ 376,691	\$ 811,365	

The following table shows the loans at June 30, 2019 allocated by management's internal risk ratings:

<i>Risk Rate % Range</i>	Business Finance Loans					Total Loans Receivable	Microenterprise Loans				Total Loans Receivable	
	6.0%	8.0%	10.0%	25.0%	100.0%		5.0%	10.0%	25.0%	100.0%		
FY19 Loans Receivable												
Credit Risk Profile by Risk Rating:												
Agriculture	\$ -	\$ -	\$ 759,417	\$ -	\$ 52,677	\$ 812,094	\$ -	\$ -	\$ 70,874	\$ -	\$ 70,874	
Childcare Providers	-	-	75,000	-	-	75,000	-	-	6,788	-	6,788	
Construction	-	-	39,404	-	-	39,404	-	4,620	-	-	4,620	
Consulting	-	-	10,961	26,300	-	37,261	-	-	716	-	716	
Healthcare	-	-	247,745	-	44,849	292,594	-	8,739	3,070	-	11,809	
Hospitality	160,731	-	215,742	69,338	-	445,811	-	-	-	1,575	1,575	
Manufacturing	-	54,579	2,033,479	83,059	325,874	2,496,991	-	17,293	38,082	28,009	83,384	
Nonprofit	1,404	-	-	-	-	1,404	-	-	-	-	-	
Real Estate	177,114	125,535	565,990	-	-	868,639	-	-	-	-	-	
Retail	-	89,561	709,275	104,294	168,638	1,071,768	-	4,000	371,218	28,115	403,333	
Service	80,275	99,304	733,007	109,228	-	1,021,814	13,000	8,192	144,560	11,739	177,491	
Utilities	50,000	-	-	-	-	50,000	-	-	-	-	-	
Total	\$ 469,524	\$ 368,979	\$ 5,390,020	\$ 392,219	\$ 592,038	\$ 7,212,780	\$ 13,000	\$ 42,844	\$ 635,308	\$ 69,438	\$ 760,590	

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 5 LOANS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS (CONTINUED)

The following table shows an aging at June 30, 2020 analysis of loan portfolio by time past due:

	Business Finance Loans					Microenterprise Loans				
	Accruing Interest				Total Loans Receivable	Accruing Interest				Total Loans Receivable
	Current Balance	30-89 Days Past Due	More Than 90 Days Past Due	Total on Nonaccrual		Current Balance	30-89 Days Past Due	More Than 90 Days Past Due	Total on Nonaccrual	
FY20 Loans Receivable										
Agriculture	\$ 1,401,788	\$ -	\$ -	\$ -	\$ 1,401,788	\$ 69,299	\$ -	\$ -	\$ -	\$ 69,299
Childcare Providers	81,202	-	-	-	81,202	30,860	-	-	-	30,860
Construction	22,679	-	1,808	-	24,487	-	-	-	-	-
Consulting	33,595	-	-	-	33,595	-	-	-	-	-
Healthcare	239,100	-	-	-	239,100	7,347	-	-	-	7,347
Hospitality	600,732	-	-	-	600,732	152	-	-	-	152
Manufacturing	2,475,033	541	-	-	2,475,574	104,093	-	-	-	104,093
Nonprofit	149,172	-	-	-	149,172	-	-	-	-	-
Real Estate	697,377	-	123,840	-	821,217	-	-	-	-	-
Retail	1,148,065	-	1,112	240,007	1,149,177	262,720	-	-	5,799	262,720
Service	3,124,661	-	792	-	3,125,453	336,894	-	-	4,919	336,894
Utilities	50,000	-	-	-	50,000	-	-	-	-	-
Total	\$ 10,023,404	\$ 541	\$ 127,552	\$ 240,007	\$ 10,151,497	\$ 811,365	\$ -	\$ -	\$ 10,718	\$ 811,365

The following table shows an aging at June 30, 2019 analysis of loan portfolio by time past due:

	Business Finance Loans					Microenterprise Loans				
	Accruing Interest				Total Loans Receivable	Accruing Interest				Total Loans Receivable
	Current Balance	30-89 Days Past Due	More Than 90 Days Past Due	Total on Nonaccrual		Current Balance	30-89 Days Past Due	More Than 90 Days Past Due	Total on Nonaccrual	
FY19 Loans Receivable										
Agriculture	\$ 759,417	\$ -	\$ 52,677	\$ 52,677	\$ 812,094	\$ 70,874	\$ -	\$ -	\$ -	\$ 70,874
Childcare Providers	75,000	-	-	-	75,000	6,788	-	-	-	6,788
Construction	39,404	-	-	-	39,404	4,620	-	-	-	4,620
Consulting	37,261	-	-	-	37,261	716	-	-	-	716
Healthcare	247,746	-	44,848	44,848	292,594	11,809	-	-	-	11,809
Hospitality	445,811	-	-	-	445,811	1,575	-	-	-	1,575
Manufacturing	2,171,117	325,874	-	325,874	2,496,991	83,384	-	-	-	83,384
Nonprofit	1,404	-	-	-	1,404	-	-	-	-	-
Real Estate	868,639	-	-	-	868,639	-	-	-	-	-
Retail	972,186	-	99,582	99,582	1,071,768	403,333	-	-	-	403,333
Service	1,021,814	-	-	-	1,021,814	177,491	-	-	-	177,491
Utilities	50,000	-	-	-	50,000	-	-	-	-	-
Total	\$ 6,689,799	\$ 325,874	\$ 197,107	\$ 522,981	\$ 7,212,780	\$ 760,590	\$ -	\$ -	\$ -	\$ 760,590

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

**NOTE 5 LOANS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS
(CONTINUED)**

Interest income foregone on nonaccrual loans approximated \$16,376 and \$11,041 for the years ended June 30, 2020 and 2019, respectively.

There were five impaired loans with a loan loss reserve of 100% in the amount of \$193,460 as of June 30, 2020, and three impaired loans with a loan loss reserve of 100% in the amount of \$277,082 as of June 30, 2019.

The Foundation does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are on nonaccrual.

NOTE 6 PLEDGES RECEIVABLE

Pledges receivable are due to be collected as follows:

	<u>2020</u>	<u>2019</u>
Pledges Expected to be Collected in:		
Less than One Year	\$ 7,545	\$ 8,441
One to Five Years	5,000	11,000
Total	<u>\$ 12,545</u>	<u>\$ 19,441</u>

All pledges receivable are considered collectible and there is no allowance for uncollectible amounts.

NOTE 7 PROPERTY AND EQUIPMENT

The Foundation's property, furniture, and equipment is as follows:

	<u>2020</u>	<u>2019</u>
Land and Land Improvements	\$ 1,227,467	\$ 1,227,467
Buildings	1,655,624	1,655,624
Furniture and Equipment	1,045,680	1,052,093
Subtotal	<u>3,928,771</u>	<u>3,935,184</u>
Accumulated Depreciation	(1,407,301)	(1,298,709)
Net Investment in Property and Equipment	<u>\$ 2,521,470</u>	<u>\$ 2,636,475</u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 8 CAPITAL LEASE

During the year ended June 30, 2018, the Foundation entered into a capital lease for office equipment upon termination of the prior lease. At both June 30, 2020 and 2019, the gross cost of equipment under the capital lease is \$44,400, and the corresponding accumulated depreciation is \$23,680 and \$14,800, respectively. Depreciation on the office equipment under capital lease is included in depreciation expense. The capital lease is included in Grants and Other Payables on the consolidated statements of financial position.

<u>Description</u>	<u>2020</u>	<u>2019</u>
Capital Lease Payable - Office Equipment; Interest at 7.84%; Monthly Installments of \$1,329, Matures 2023.	\$ 22,881	\$ 31,480
Less: Current Maturities of Capital Lease Payable	<u>(9,298)</u>	<u>(8,599)</u>
Capital Lease Payable, Net of Current Maturities	<u>\$ 13,583</u>	<u>\$ 22,881</u>

Future capital lease payments, including interest, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2021	\$ 10,763
2022	10,763
2023	<u>3,587</u>
Total Minimum Lease Payments	25,113
Less: Amount Representing Interest on Capital Lease Payable	<u>(2,232)</u>
Net Minimum Capital Lease Payments	<u>\$ 22,881</u>

NOTE 9 LONG-TERM DEBT

The Foundation's long-term debt at June 30 consists of the following:

<u>Description</u>	<u>2020</u>	<u>2019</u>
<u>Note Payable - U.S. Small Business Administration</u> Face Amount \$1,250,000, Interest at -0%, Due May 2023, Monthly Interest and Principal Payments, Secured by the Foundation's Microenterprise Loan Program.	\$ 450,984	\$ 605,608
<u>Note Payable - U.S. Small Business Administration</u> Face Amount \$337,000, Bears interest at -0%, Due October 2022, Monthly Interest and Principal Payments, Secured by the Foundation's Microenterprise Loan Program.	87,370	124,815

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 9 LONG-TERM DEBT (CONTINUED)

<u>Description</u>	<u>2020</u>	<u>2019</u>
<u>Note Payable - U.S. Small Business Administration</u> Face Amount \$500,000, Bears Interest at 2.25% for the first 12 months and Decreases to 0.125% for the remainder of the Loan, Due 2021, No Payments Required First 12 Months, Monthly Principal and Interest Payments Starting in June 2012, Secured by the Foundation's Microenterprise Loan Program.	\$ 53,097	\$ 110,463
<u>Note Payable - U.S. Department of Agriculture</u> Face Amount \$500,000, Bears Interest at 2.0%, Due 2031, Annual Interest and Principal Payments Required Starting July 2013, Secured by the Foundation's Business Finance Program, Including a Portfolio of Investments from the Proceeds of this Loan Award, Along with Real and Personal Property, and Other Rights and Interests the USDA may require.	327,643	354,284
<u>Bonds Payable - Commercial Development Revenue Bonds</u> Face Amount \$1,830,000, Original Discount \$18,300, Interest at 0.48% to 1.58%, Due March 1, 2024, Annual Principal Payments of \$225,000 to \$235,000, Secured by Foundation's Revenues.	925,000	1,150,000
<u>Note Payable - Southwest Minnesota Housing Partnership</u> Face Amount \$50,000, Bears no Interest, The Loan Will be Used to Fund the Loan Loss Reserve. The Loan Will be Forgiven, Unless Not Able to Use for the Loan Loss Reserve. Unsecured by the Foundation's Microenterprise Loan Program.	50,000	50,000
<u>Note Payable - Paycheck Protection Program Loan</u> Face Amount \$340,000, Interest at 1.0%, and will be Due April 17, 2022, Unsecured. See Note 2 for Details.	340,000	-
<u>Note Payable - U.S. Small Business Administration</u> Face Amount \$580,000, Bears interest at 1.25%, Due June 2029, Monthly Interest and Principal Payments, Secured by the Foundation's Microenterprise Loan Program.	430,000	-
Unamortized Discount	(8,769)	(11,056)
Unamortized Bond Issuance Costs	(42,836)	(54,010)
Total	2,612,489	2,330,104
Less: Current Maturities	502,043	500,984
Long-Term Debt, Net of Current Maturities	<u>\$ 2,110,446</u>	<u>\$ 1,829,120</u>

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 9 LONG-TERM DEBT (CONTINUED)

Maturity requirements for the next five years on long-term debt are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2021	\$ 502,043
2022	663,042
2023	717,593
2024	465,229
2025	312,165
Thereafter	4,022
Total	<u>\$ 2,664,094</u>

Federal Microlending Agreements and Restricted Cash

Under the Foundation's Small Business Administration (SBA) and U.S. Department of Agriculture Rural Microentrepreneur Assistance Program (USDA-RMAP) loan agreements, the Foundation is required to keep all cash in separate accounts to be used for administrative costs, debt service, and re-lending. Restricted cash under the SBA and USDA loan agreements amounted to \$943,387 and \$754,258 at June 30, 2020 and 2019, respectively.

NOTE 10 NET ASSETS

Net assets without donor restrictions that are designated by the board of directors consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Endowment Funds	\$ 16,298,419	\$ 16,377,457
Affiliate Funds	847,064	821,007
Component Funds	2,088,104	2,205,155
Economic Development	36,082	57,594
Grants Program	889,330	674,607
Total	<u>\$ 20,158,999</u>	<u>\$ 20,135,820</u>

Net assets with donor restrictions for specific purposes or time restrictions consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Affiliate Funds	\$ 1,111,532	\$ 1,146,560
Component Funds	2,730,079	1,660,817
Subject to UPMIFA Appropriations	2,648,257	3,228,982
Economic Development	9,944,326	11,723,129
Programs	391,532	22,058
Total Purpose Restricted	<u>16,825,726</u>	<u>17,781,546</u>
Operating	1,000,000	-
Total Time Restricted	<u>1,000,000</u>	<u>-</u>
Total Donor Restricted Net Assets	<u>\$ 17,825,726</u>	<u>\$ 17,781,546</u>

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 10 NET ASSETS (CONTINUED)

Net assets with donor restrictions to be held in perpetuity consisted of the following at June 30:

	2020	2019
Endowment Funds	\$ 21,663,714	\$ 21,503,477
Affiliate Funds Endowed	4,488,984	4,190,450
Component Funds Endowed	9,992,469	9,795,554
Farmland Giving Program	2,705,953	2,635,722
Total	\$ 38,851,120	\$ 38,125,203

With donor restricted net assets were released from donor restrictions during 2020 and 2019 by incurring expenses satisfying the restrictions.

	2020	2019
Purpose Restrictions Accomplished	\$ 4,638,714	\$ 2,652,987
Total Net Assets Released	\$ 4,638,714	\$ 2,652,987

Endowment funds reflected as with donor restricted represent donations received by the Foundation. Endowment funds which receive a match from the Foundation's Board are represented as board designated in the respective fund.

Affiliate Funds and Component Funds reflected as with donor restricted represent contributions restricted by the donors. Investment earnings on these funds are with donor restricted unless an endowed fund is in a deficit position. Aging Trust Funds are a significant part of the component funds and the portion that is reflected as with donor restricted represents contributions restricted by the donors and investment income restricted until the balance reached \$1,000,000. Having reached this level, investment income on contributions is reflected in with or without donor restricted Aging Trust Funds. The without donor restricted portion of the Aging Trust Fund represents investment income earned and satisfaction of usage restrictions on the with donor restricted dollars. The with or without donor restricted dollars are for projects that promote productive aging in the region.

The Keep it GrowingSM Farmland Giving Program reflects donations of farmland to the Foundation as with or without donor restricted net assets. Donations may be accompanied with a life estate. Once any life estate liability is removed, the earnings on endowed parcels are represented as with donor restricted for the purpose chosen by the donor and earnings on parcels remain without donor restricted.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 10 NET ASSETS (CONTINUED)

Economic Development is made up of Joint Powers Area Community Fund (JPAC), Revolving Loan Fund (RLF), United States Small Business Administration (SBA) Microloan Funds, Rural Energy Development Initiative (REDI), Microenterprise Loan Fund, Minnesota Department of Employment and Economic Development Grant, Minnesota Department of Employment and Economic Development Emerging Entrepreneurs Loans Program (ELP), United States Department of Agriculture (RMAP) Fund, and several Childcare Initiative funds. These funds are reflected as with donor restricted that consist of grant dollars or loan dollars received and some investment income restricted by the grantor for loans. Other funds income is without donor restricted within the Economic Development umbrella and used to fund administration. Some of these funds with loan dollars must be repaid.

Program funds reflected as with donor restricted consist of grants and donations received which have been restricted by the grantor/donor for the Foundation to deliver programs and make grants.

NOTE 11 FAIR VALUE MEASUREMENTS

The Foundation uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how the Foundation measures fair value, refer to Note 1 – Summary of Significant Accounting Policies. The following table presents the fair value hierarchy for the balances of the assets of the Foundation measured at fair value on a recurring basis as of June 30, 2020:

	2020			Total
	Level 1	Level 2	Level 3	
Investments:				
US Government Obligations	\$ 2,723,127	\$ -	\$ -	\$ 2,723,127
Corporate Bonds	-	6,962,228	-	6,962,228
Stock Mutual Funds	31,049,900	-	-	31,049,900
Equity Securities	-	-	545,817	545,817
Taxable Bond Mutual Funds	9,658,817	-	-	9,658,817
Foreign Bonds, Notes, and Debenture	-	1,907	-	1,907
Charitable Remainder Trust Investments	-	-	198,661	198,661
Investment Held in Trust	-	-	1,729,491	1,729,491
*Alternative Investments - NAV	-	-	-	14,483,822
Total	<u>\$ 43,431,844</u>	<u>\$ 6,964,135</u>	<u>\$ 2,473,969</u>	<u>\$ 67,353,770</u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the fair value hierarchy for the balances of the assets of the Foundation measured at fair value on a recurring basis as of June 30, 2019:

	2019			Total
	Level 1	Level 2	Level 3	
Investments:				
US Government Obligations	\$ 2,655,197	\$ -	\$ -	2,655,197
Corporate Bonds	-	6,253,339	-	6,253,339
Stock Mutual Funds	39,709,241	-	-	39,709,241
Equity Securities	-	-	511,858	511,858
Taxable Bond Mutual Funds	10,750,282	-	-	10,750,282
Charitable Remainder				
Trust Investments	-	-	204,625	204,625
*Alternative Investments - NAV	-	-	-	5,553,963
Investment Held in Trust	-	-	1,729,491	1,729,491
Total	<u>\$ 53,114,720</u>	<u>\$ 6,253,339</u>	<u>\$ 2,445,974</u>	<u>\$ 67,367,996</u>

*In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy, but are included under the total column. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

Level 3 Assets

The following table provides a summary of changes in fair value of the organization's Level 3 financial assets for the years ended June 30:

	2020	2019
Beginning Balance	\$ 2,445,974	\$ 2,058,038
Losses	(5,963)	(3,170)
Purchase of Investments	33,958	391,106
Ending Balance	<u>\$ 2,473,969</u>	<u>\$ 2,445,974</u>

From time to time, the Foundation may be required to record at fair value other assets and liabilities on a nonrecurring basis in accordance with guidance in the broad transactions standard regarding fair value measurements and disclosures. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets. Nonfinancial assets measured at fair value on a nonrecurring basis would include other real estate owned and other intangible assets measured at fair value for impairment assessment.

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

For both the years ended June 30, 2020 and 2019, there were no losses related to nonrecurring fair value measurements.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)

As a part of the Foundation's Investment Policy Statement (IPS), Level 2 assets are utilized. These Corporate Bonds and U.S. Government Obligations invest in United States government securities, sponsored agencies and corporate securities. The fair value of the investments in this category is based on quoted market prices for the underlying investment.

The Foundation values certain investment holdings at fair value using their net asset value and has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date. Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2020:

<u>Investment Category</u>	<u>NAV</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge Funds:				
Hirtle Callaghan Total Return Offshore Fund II Limited	\$ 5,446,573	\$ -	Monthly	60 Days
Hirtle Callaghan Total Return Select Equity Fund LP	7,655,165	-	Monthly	60 Days
Hirtle Callaghan Total Return Alt Credit Opp Offshore	1,382,084	-	Monthly	60 Days
Total	<u>\$ 14,483,822</u>	<u>\$ -</u>		

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2019:

<u>Investment Category</u>	<u>NAV</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge Funds:				
Hirtle Callaghan Total Return Offshore Fund II Limited	<u>\$ 5,553,963</u>	<u>\$ -</u>	Monthly	60 Days

Hirtle Callaghan Total Return Offshore Fund II Limited, Hirtle Callaghan Total Return Select Equity Fund LP, and Hirtle Callaghan Total Return Alternative Credit Opportunity Offshore all include investments in hedge funds. The fair value of the investments in this category is based on the fund's audited net asset value per share multiplied by the Foundation's units owned as of June 30, 2020 and 2019.

NOTE 12 ENDOWMENT

At June 30, 2020 and 2019, the Foundation's endowment consisted of 135 and 127 funds, respectively, which were established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 12 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity the original value of the gifts to the endowment and the value of subsequent gifts to the endowment. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Endowment composition by type and changes in endowment net assets for the year ended June 30, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets, July 1, 2019	\$ 17,149,612	\$ 38,732,303	\$ 55,881,915
Investment Return:			
Interest, Dividends and Realized Gains	1,764,406	856,860	2,621,266
Unrealized Losses	<u>(1,163,972)</u>	<u>(537,012)</u>	<u>(1,700,984)</u>
Total Investment Return	600,434	319,848	920,282
Contributions	-	598,604	598,604
Appropriations of Endowment Assets for Expenditure	(645,985)	-	(645,985)
Transfers	<u>(1,151,682)</u>	<u>(857,748)</u>	<u>(2,009,430)</u>
Endowment Net Assets, June 30, 2020	<u>\$ 15,952,379</u>	<u>\$ 38,793,007</u>	<u>\$ 54,745,386</u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 12 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

Endowment composition by type and changes in endowment net assets for the year ended June 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets, July 1, 2018	\$ 17,306,092	\$ 37,945,423	\$ 55,251,515
Investment Return:			
Interest, Dividends and Realized Gains	1,809,164	807,096	2,616,260
Unrealized Losses	<u>(172,533)</u>	<u>(51,218)</u>	<u>(223,751)</u>
Total Investment Return	1,636,631	755,878	2,392,509
Contributions	-	752,309	752,309
Appropriations of Endowment Assets for Expenditure	(575,575)	-	(575,575)
Transfers	<u>(1,217,536)</u>	<u>(721,307)</u>	<u>(1,938,843)</u>
Endowment Net Assets, June 30, 2019	<u>\$ 17,149,612</u>	<u>\$ 38,732,303</u>	<u>\$ 55,881,915</u>

The following is a summary of endowment funds composition for the years ended June 30:

2020	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 38,793,007	\$ 38,793,007
Board-Designated Endowment Funds	15,952,379	-	15,952,379
Total Funds	<u>\$ 15,952,379</u>	<u>\$ 38,793,007</u>	<u>\$ 54,745,386</u>
2019	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 38,732,303	\$ 38,732,303
Board-Designated Endowment Funds	17,149,612	-	17,149,612
Total Funds	<u>\$ 17,149,612</u>	<u>\$ 38,732,303</u>	<u>\$ 55,881,915</u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 12 ENDOWMENT (CONTINUED)

Investment Objectives and Strategies

The Foundation has adopted an investment policy to provide guidelines for investing endowment assets. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to maintain the purchasing power of the current assets and all future contributions, maximize return within reasonable and prudent levels of risk, and maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy. To achieve these objectives, the Foundation follows an asset diversification plan, sets performance benchmarks for investment managers, and has established various asset quality and limitations thresholds. The Foundation expects its endowment funds, over time, to provide an average rate of return of 7%. Actual returns in any given year may vary from this amount.

Spending Policy

The Foundation has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters. In establishing this policy, the Foundation considered the long-term expected return on its endowment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return. There currently are no underwater endowment funds. The transfers in the column without donor restrictions consist of the general endowment 5% spendable calculation and transfers of match to affiliate funds. Transfers in the column with donor restrictions is made up of the 5% spendable calculations of affiliate and component funds.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts previously collected, may constitute a liability for the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although the Foundation expects such amounts, if any, to be immaterial.

NOTE 14 EMPLOYEE BENEFIT PLAN

The Foundation maintains a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers employees of the Foundation who work at least 20 hours per week. The Foundation contributes up to 5% of gross salaries for qualified employees to the Plan. Employees may make contributions to the Plan up to the maximum allowed by the Internal Revenue Code. Plan expenses were \$82,818 and \$75,323 for the years ended June 30, 2020 and 2019, respectively.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 14 EMPLOYEE BENEFIT PLAN (CONTINUED)

A 457(b) deferred compensation plan is maintained by the Foundation for certain members of management. It is a non-qualified deferred compensation plan subject to the claims of creditors. The Foundation contributed approximately \$-0- and \$40,000 for the years then ended June 30, 2020 and 2019, respectively. No employee contributions have been made to the plan.

NOTE 15 GRANTS MADE

The Foundation made grants in the following categories during the years ended June 30:

	<u>2020</u>	<u>2019</u>
Business Initiatives	\$ 45,225	\$ 3,000
Community Initiatives	870,672	673,922
Aging	196,443	168,900
Youth	1,039,712	646,628
Leadership	7,500	-
Minority	-	1,675
Total Grants Made	<u>\$ 2,159,552</u>	<u>\$ 1,494,125</u>

NOTE 16 RELATED PARTY TRANSACTIONS

The Foundation enters into transactions with directors and key management personnel in the ordinary course of business. For the years ended June 30, 2020 and 2019, donations from these individuals to the Southwest Initiative Foundation totaled approximately \$26,000 and \$100,000, respectively.

NOTE 17 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure without donor restrictions limiting their use within one year of the consolidated statements of financial position date, consists of the following:

Description:	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 939,543	\$ 464,491
Investments	3,854,640	3,946,162
Other Receivables	817	510
Board Designated - Quasi-Endowment Fund	15,092,673	16,317,462
Board Designated - Program Use	5,066,326	3,818,358
Total	<u>\$ 24,953,999</u>	<u>\$ 24,546,983</u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 17 LIQUIDITY AND AVAILABILITY (CONTINUED)

As part of the Foundation's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Foundation invests its without donor restricted assets in short term and income strategies, the quasi-endowment assets in a long term strategy, and the program use assets in a mixture of strategies. The quasi-endowment assets above represent earnings on the Foundation's endowment. The Foundation has additional endowment funds and those assets are recorded as with donor restricted. These assets are not listed above due to the donor restrictions in place.

The \$15,092,673 and \$16,317,462 for the year ended June 30, 2020 and 2019, respectively, is subject to the endowment spendable calculation (see Note 12). As a part of this calculation, approximately \$1,870,000 and \$1,800,000, respectively, will be drawn into operations over the next 12 months. Although the Foundation does not intend to spend more than the spendable allotment from the quasi-endowment, the Board of Directors could make these funds available if necessary.

The board designated assets set aside for program use will be spent when the program restriction has been met. The Board of Directors has the discretion to change the program limitation but does not intend to make any changes at this time.



**INDEPENDENT AUDITORS' 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**

Board of Directors
Southwest Initiative Foundation
Hutchinson, Minnesota

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 consolidated financial statements of Southwest Initiative Foundation, which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 24, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Southwest Initiative Foundation'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 Southwest Initiative Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of Southwest Initiative Foundation'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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Initiative Foundation's consolidated 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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

St. Cloud, Minnesota
September 24, 2020



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Southwest Initiative Foundation
Hutchinson, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Southwest Initiative Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Southwest Initiative Foundation's major federal programs for the year ended June 30, 2020. Southwest Initiative Foundation's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Southwest Initiative Foundation'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 Southwest Initiative Foundation'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 Southwest Initiative Foundation's compliance.

Opinion on Each Major Federal Program

In our opinion, Southwest Initiative Foundation 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 June 30, 2020.

Report on Internal Control Over Compliance

Management of Southwest Initiative Foundation 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 Southwest Initiative Foundation'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 Southwest Initiative Foundation'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 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 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.



CliftonLarsonAllen LLP

St. Cloud, Minnesota
September 24, 2020

SOUTHWEST INITIATIVE FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Department of Agriculture				
Direct Program:				
Rural Microentrepreneur Assistance Program - TA Grant	10.870		\$ -	\$ 26,470
Rural Microentrepreneur Assistance Program (Note 3)	10.870		-	219,541
Total Rural Microentrepreneur Assistance Program			-	246,011
Small Business Administration				
Direct Program:				
Microloan Program - Technical Assistance	59.046		-	215,504
Microloan Program (Note 3)	59.046		-	797,316
Total Microloan Program			-	1,012,820
Department of Health and Human Services				
MN Department of Health and Human Services				
ESSA Preschool Development Grants Birth through Five	93.434		-	19,721
Total PDG Program			-	19,721
MN Department of Health and Human Services				
Child Care and Development Block Grant Act of 1990	93.575		-	78,750
Total CCDF Cluster			-	78,750
Total Department of Health and Human Services			-	98,471
Total Federal Awards			\$ -	\$ 1,357,302

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Southwest Initiative Foundation under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of 2 CFR 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 Southwest Initiative Foundation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Southwest Initiative Foundation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Southwest Initiative Foundation has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**SOUTHWEST INITIATIVE FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
JUNE 30, 2020**

NOTE 3 FEDERAL LOAN PROGRAM

The federal loan program listed subsequently is administered directly by Southwest Initiative Foundation, and balances and transactions relating to this program are included in Southwest Initiative Foundation's basic consolidated financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2020 consists of:

Program	Federal CFDA Number	Balance Outstanding
Rural Microentrepreneur Assistance Program	10.870	\$ 195,434
Microloan Program	59.046	<u>568,215</u>
Total Federal Loans Outstanding		<u><u>\$ 763,649</u></u>

**SOUTHWEST INITIATIVE FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020**

Section I - Summary of Auditors' Results

Consolidated Financial Statements

Type of Auditors' Report Issued: Unmodified

Internal Control over Financial Reporting:

- Material Weakness(es) Identified? Yes No
- Significant Deficiency(ies) Identified? Yes None reported
- Noncompliance Material to Financial Statements Noted? Yes No

Federal Awards

Internal Control over Major Federal Programs:

- Material Weakness(es) Identified? Yes No
- Significant Deficiency(ies) Identified? Yes None reported

Type of Auditors' Report Issued on Compliance for Major Federal Programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Identification of Major Federal Programs:

CFDA Number(s)
59.046

Name of Federal Program or Cluster
Small Business Administration Microloan Program

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes No

**SOUTHWEST INITIATIVE FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020**

Section II - Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with Government Auditing Standards.

Section III - Findings and Questioned Costs - Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).