SOUTHWEST INITIATIVE FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS
AND
SINGLE AUDIT COMPLIANCE REPORTS

YEARS ENDED JUNE 30, 2016 AND 2015

SOUTHWEST INITIATIVE FOUNDATION
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
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, 2016 and 2015, 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 audits 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.

Board of Trustees
Southwest Initiative Foundation

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwest Initiative Foundation as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Foundation adopted a recently issued accounting standard related to the accounting for debt issuance costs. The new standard requires entities to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. Our opinion is not modified with respect to this matter.

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 Award*s, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on 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

CliftonLarsonAllen LLP

St. Cloud, Minnesota
September 28, 2016

SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash and Cash Equivalents	$ 209,289	$ 295,440
Restricted Cash	1,001,799	1,347,339
Loans Receivable, Net of Allowance for Doubtful Accounts	7,001,544	7,078,765
Pledges Receivable	27,835	129,973
Other Receivables	371,427	191,126
Due from McKnight Foundation	250,000	200,209
Prepaid Expenses	35,898	13,451
Investments	67,859,148	68,104,112
Property and Equipment, Net	2,487,148	2,530,481
Total Assets	$ 79,244,088	$ 79,890,896
LIABILITIES AND NET ASSETS		
LIABILITIES		
Grants and Other Payables	$ 472,129	$ 265,178
Accrued Liabilities	241,863	643,425
Assets Held on Donor's Behalf	1,496,167	1,360,680
Obligations of Split-Interest Agreements	188,903	199,473
Life Estate Liability	3,736,459	3,800,513
Notes Payable	1,783,856	2,035,774
Bonds Payable, Net	1,724,547	2,696,784
Total Liabilities	9,643,924	11,001,827
NET ASSETS		
Board Designated	15,766,865	17,015,445
Unrestricted	5,619,097	5,369,865
Total Unrestricted	21,385,962	22,385,310
Temporarily Restricted	14,663,065	14,895,252
Permanently Restricted	33,551,137	31,608,507
Total Net Assets	69,600,164	68,889,069
Total Liabilities and Net Assets	$ 79,244,088	$ 79,890,896

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
McKnight Foundation Grants	$ 1,000,000	$ 50,000	$ 199,791	$ 1,249,791
Other Grants	-	877,423	-	877,423
Contributions	500	645,369	1,667,558	2,313,427
Pledge Write Offs	-	-	(10,500)	(10,500)
Investment Income	298,081	252,727	-	550,808
Loan Interest Income	-	433,515	-	433,515
Rental Income	74,050	-	-	74,050
Change in Split Interest Agreement	-	-	60,728	60,728
Miscellaneous Income	24,551	74,691	21,357	120,599
Subtotal Revenue	1,397,182	2,333,725	1,938,934	5,669,841
Net Assets Released from Restrictions and Transfers	2,562,216	(2,565,912)	3,696	-
Total Revenue	3,959,398	(232,187)	1,942,630	5,669,841
EXPENSE				
Program Expenses:				
Grant Programs	1,465,974	-	-	1,465,974
Economic Development Programs	1,135,368	-	-	1,135,368
Affiliate Funds	1,294,759	-	-	1,294,759
Total Program Expenses	3,896,101	-	-	3,896,101
General and Administrative	537,011	-	-	537,011
Fund Development	525,634	-	-	525,634
Total Expense	4,958,746	-	-	4,958,746
CHANGE IN NET ASSETS	(999,348)	(232,187)	1,942,630	711,095
Net Assets - Beginning of Year	22,385,310	14,895,252	31,608,507	68,889,069
NET ASSETS - END OF YEAR	$ 21,385,962	$ 14,663,065	$ 33,551,137	$ 69,600,164

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
McKnight Foundation Grants	$ 1,000,000	$ 100,000	$ 200,000	$ 1,300,000
Other Grants	-	391,417	-	391,417
Contributions	-	398,607	880,811	1,279,418
Pledge Write Offs	-	(2,500)	(9,500)	(12,000)
Investment Income	1,015,467	354,379	-	1,369,846
Loss on Sale of Assets	(910)	-	-	(910)
Loan Interest Income	-	361,784	-	361,784
Rental Income	86,653	17,782	-	104,435
Change in Split Interest Agreement	-	-	56,566	56,566
Miscellaneous Income	16,179	204,208	23,805	244,192
Subtotal Revenue	2,117,389	1,825,677	1,151,682	5,094,748
Net Assets Released from Restrictions and Transfers	1,926,861	(1,995,970)	69,109	-
Total Revenue	4,044,250	(170,293)	1,220,791	5,094,748
EXPENSE				
Program Expenses:				
Grant Programs	817,263	-	-	817,263
Economic Development Programs	1,325,326	-	-	1,325,326
Component Funds	457,891	-	-	457,891
Affiliate Funds	592,144	-	-	592,144
Total Program Expenses	3,192,624	-	-	3,192,624
General and Administrative	599,904	-	-	599,904
Fund Development	566,943	-	-	566,943
Total Expense	4,359,471	-	-	4,359,471
CHANGE IN NET ASSETS	(315,221)	(170,293)	1,220,791	735,277
Net Assets - Beginning of Year	22,700,531	15,065,545	30,387,716	68,153,792
NET ASSETS - END OF YEAR	$ 22,385,310	$ 14,895,252	$ 31,608,507	$ 68,889,069

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	Program Expenses						
	Programs	Economic Development	Affiliate Funds	Total Program	General and Administrative	Fund Development	Total
Provision for Loan Losses	$ -	$ (58,374)	$ -	$ (58,374)	$ -	$ -	$ (58,374)
Grants Made	686,420	92,250	1,085,663	1,864,333	-	-	1,864,333
Salaries	344,448	476,837	-	821,285	306,814	246,452	1,374,551
Payroll Taxes	24,198	33,587	-	57,785	21,604	17,341	96,730
Fringe Benefits	69,981	97,166	-	167,147	64,731	50,174	282,052
Staff Travel	28,402	57,854	-	86,256	29,516	8,839	124,611
Board Expense	-	-	-	-	28,890	-	28,890
Advisory Committee Expense	-	160	-	160	-	-	160
Staff and Board Development	3,290	5,556	-	8,846	8,013	1,386	18,245
Meetings	27,281	11,273	-	38,554	-	832	39,386
Contracted Services	32,050	34,023	25	66,098	28,216	18,442	112,756
Rent	415	473	-	888	385	245	1,518
Advertising	23,106	20,371	-	43,477	16,234	10,015	69,726
Printing	11,884	12,869	-	24,753	10,163	20,153	55,069
Telephone	10,795	10,566	-	21,361	4,598	4,374	30,333
Postage	4,650	5,020	-	9,670	3,879	6,001	19,550
Office Supplies	4,911	19,506	-	24,417	3,491	2,333	30,241
Subscriptions and Dues	1,990	14,979	-	16,969	11,063	801	28,833
Professional Fees	59,433	143,321	3,880	206,634	24,542	54,948	286,124
Insurance	6,087	6,909	-	12,996	5,438	3,507	21,941
Repairs and Maintenance	3,195	3,425	-	6,620	3,000	1,687	11,307
Depreciation/Amortization	32,171	35,185	-	67,356	28,573	18,338	114,267
Public Relations	12,090	12,598	-	24,688	16,212	6,564	47,464
Strategic Planning	-	-	-	-	16,613	-	16,613
Utilities	11,562	12,684	-	24,246	10,341	6,584	41,171
Component Fund Fees	166	6,391	161,912	168,469	(168,517)	48	-
Interest Expense	53,833	67,372	-	121,205	49,771	30,211	201,187
Fundraising Costs	-	-	42,707	42,707	1,857	9,111	53,675
Website	5,701	10,058	-	15,759	3,947	5,511	25,217
Miscellaneous Expense	7,915	3,309	572	11,796	7,637	1,737	21,170
Total Expenses	$ 1,465,974	$ 1,135,368	$ 1,294,759	$ 3,896,101	$ 537,011	$ 525,634	$ 4,958,746

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Program Expenses							
	Programs	Economic Development	Component Funds	Affiliate Funds	Total Program	General and Administrative	Fund Development	Total
Provision for Loan Losses	$ -	$ 211,523	$ -	$ -	$ 211,523	$ -	$ -	$ 211,523
Grants Made	230,872	104,600	346,011	508,839	1,190,322	-	-	1,190,322
Salaries	263,619	470,267	-	-	733,886	307,357	294,869	1,336,112
Payroll Taxes	19,114	34,145	-	-	53,259	22,081	21,032	96,372
Fringe Benefits	53,710	96,015	-	-	149,725	61,304	58,249	269,278
Staff Travel	26,094	54,037	-	-	80,131	26,263	17,168	123,562
Board Expense	-	-	-	-	-	56,960	-	56,960
Advisory Committee Expense	-	451	-	-	451	-	-	451
Staff and Board Development	3,850	4,710	-	-	8,560	8,067	3,827	20,454
Meetings	16,652	13,231	-	-	29,883	3,958	1,834	35,675
Contracted Services	9,508	17,902	25	-	27,435	12,523	13,241	53,199
Rent	346	585	-	-	931	400	362	1,693
Advertising	22,366	17,549	-	-	39,915	11,440	10,516	61,871
Printing	9,197	12,823	-	-	22,020	8,171	18,703	48,894
Telephone	6,019	10,134	-	-	16,153	3,485	4,146	23,784
Postage	4,302	7,158	-	-	11,460	4,730	7,419	23,609
Office Supplies	4,581	11,858	-	-	16,439	2,774	2,684	21,897
Subscriptions and Dues	2,713	8,948	-	-	11,661	6,268	865	18,794
Professional Fees	43,775	95,659	-	-	139,434	124,082	16,239	279,755
Insurance	5,432	7,983	-	-	13,415	5,898	5,388	24,701
Repairs and Maintenance	1,414	2,857	-	-	4,271	1,451	1,334	7,056
Depreciation/Amortization	23,748	39,281	-	-	63,029	26,056	23,768	110,598
Public Relations	5,659	2,913	-	-	8,572	20,243	2,114	30,929
Strategic Planning	-	-	-	-	-	1,461	-	1,461
Utilities	8,261	16,330	-	-	24,591	8,755	8,004	41,350
Component Fund Fees	-	7,062	101,728	54,798	163,588	(163,588)	-	-
Interest Expense	32,381	67,555	-	-	99,936	25,599	32,212	157,747
Fundraising Costs	-	-	10,127	27,703	37,830	-	17,244	55,074
Website	9,716	9,223	-	-	18,939	4,679	5,725	29,343
Miscellaneous Expense	13,934	527	-	804	15,265	9,487	-	24,752
Total Expenses	$ 817,263	$ 1,325,326	$ 457,891	$ 592,144	$ 3,192,624	$ 599,904	$ 566,943	$ 4,357,216

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 711,095	$ 735,277
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	114,267	112,853
Amortization of Discount on Bonds Payable and Issuance Costs	62,159	2,800
Loss on Sale of Fixed Assets	-	910
Net Unrealized Loss on Investments	1,078,938	833,304
Realized Gain on Sale of Investments	(948,835)	(1,546,134)
Gain on Sale of Assets Held for Sale	-	(109,580)
Loan Loss Provision	(58,374)	211,523
Change in Value of Life Estate Liability	(71,298)	(60,116)
Contributions Restricted for Endowment Funds	(1,867,349)	(1,080,811)
(Increase) Decrease in:		
Restricted Cash	345,540	(73,052)
Pledges Receivable	102,138	24,796
Other Receivables	(180,301)	33,018
Prepaid Expenses	(22,447)	6,840
Increase (Decrease) in:		
Grants and Other Payables	217,762	(132,007)
Accrued Liabilities	(401,562)	447,389
Net Cash Used by Operating Activities	(918,267)	(592,990)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on Loan Receivables	1,863,431	1,393,487
Issuance of Loan Receivables	(1,727,836)	(2,596,339)
Proceeds from Sale of Investments	40,361,395	35,083,026
Purchase of Investments	(40,249,860)	(36,927,100)
Purchase of Property and Equipment	(70,934)	(94,408)
Proceeds from Sale of Assets Held for Sale	-	1,688,185
Change in Assets Held on Donor's Behalf	135,487	6,350
Net Cash Provided (Used) by Investing Activities	311,683	(1,446,799)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	-	500,000
Principal Payments on Long-Term Debt	(251,918)	(429,374)
Proceeds from Issuance of Bonds Payable	1,830,000	-
Principal Payments on Bonds Payable	(2,775,000)	(105,000)
Payment of Debt Issuance Costs	(89,396)	-
Principal Payments on Capital Lease	(10,811)	(10,256)
Contributions to Permanently Restricted Endowment Funds	1,817,558	1,062,311
Net Cash Provided by Financing Activities	520,433	1,017,681
NET DECREASE IN CASH AND CASH EQUIVALENTS	(86,151)	(1,022,108)
Cash and Cash Equivalents - Beginning of Year	295,440	1,317,548
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 209,289	$ 295,440
SUPPLEMENTAL DISCLOSURES		
Cash Paid for Interest	$ 180,517	$ 163,422

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Foundation

The Southwest Initiative Foundation (the Foundation) is a single connection offering unlimited possibilities to grow and promote people, businesses, entrepreneurs and communities mainly in 18 counties of rural southwest Minnesota. As a rural, regional community foundation, Southwest Initiative Foundation fulfills its mission “to be a catalyst, facilitating economic and social growth by developing and challenging leaders to build on the region’s assets” through leadership, relationship building, economic development and philanthropy.

Basis of Presentation

The accompanying consolidated financial statements include the accounts and operations of AWSM LLC and SWIF Real Estate Holdings, LLC. All significant transactions between the Foundation and these entities 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:

Unrestricted – Resources over which the board of trustees has discretionary control. Designated amounts represent those revenues which the board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Foundation or passage of time.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Foundation. The Foundation uses the income earned, including capital appreciation on related investments, for the purpose restricted by the donor.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (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.

Investments

Money market funds and certificates of deposit 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 farm land 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 non-profits.

Loans

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans (Continued)

The accrual of interest on loans is discontinued 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 or charged off is reversed against interest income. 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 Macrolending (Macro) program and three levels for the Microlending (Micro) 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 depth and 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 year of default.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The risk ratings can be grouped into the following categories for Macro and Micro loans respectively:

Macroloans:

Risk Classification "5" (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 "4" (Reserve Level 8% of Principal Balance)

The loan is current. The borrower's financial condition is adequate and all items of Risk Classification "5" apply.

Risk Classification "3" – Watchlist (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 needed.

Risk Classification "2" – Watchlist (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 "1" – Liquidate (Reserve Level 75% to 100% of Principal Balance)

The loan is 30 days or more past due. The financial condition is Liquidate. There are violations of loan covenants. There are liens against the company.

Microloans:

Risk Classification "3" (Reserve Levels 5% and 15% 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 "2" (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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Microloans (Continued):

Risk Classification "1" (Reserve Level 75% to 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:

Agri Processing/Marketing: The Agri Processing/Marketing portfolio consists of seven loans split between Macro (4) and Micro (3) lending scheduled to be amortized over various lengths of time.

Building/Construction: The Building/Construction portfolio consists of six loans split between Macro (1) and Micro (5) lending scheduled to be amortized over various lengths of time.

Childcare Providers: The Childcare Providers portfolio consists of one loan in Micro lending scheduled to be amortized over various lengths of time.

Conference/Hotel: The Conference/Hotel portfolio consists of three loans in Macro (3) lending scheduled to be amortized over various lengths of time.

Healthcare: The Healthcare portfolio consists of nine loans split between Macro (6) and Micro (3) lending scheduled to be amortized over various lengths of time.

Manufacturing: The Manufacturing portfolio consists of 25 loans split between Macro (12) and Micro (13) lending scheduled to be amortized over various lengths of time.

Retail Trade: The Retail Trade portfolio consists of 56 loans split between Macro (20) and Micro (36) lending scheduled to be amortized over various lengths of time.

Service Industries: The Service Industries portfolio consists of 33 loans split between Macro (12) and Micro (21) lending scheduled to be amortized over various lengths of time.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Utilities: The Utilities portfolio consists of three loans in Macro (3) lending scheduled to be amortized over various lengths of time.

Other: The Other portfolio consists of thirteen loans split between Macro (8) and Micro lending (5) scheduled to be amortized over various lengths of time.

Although management believes the allowance to be adequate, ultimate 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, 2016 and 2015, the Foundation has not recorded a reserve for uncollectible pledges.

Revenue Recognition

Grants revenue is recognized in the period the grant was awarded, provided it is unconditional, and is recorded as permanently restricted, temporarily restricted, or unrestricted, 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 unrestricted.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in subsequent years are recorded at their net realizable value.

Investment earnings on contributions and grants are recorded in temporarily restricted or unrestricted 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2016 and 2015, using discount rates of 6.3% to 6.6%. 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.

Assets Held on Donor’s Behalf

Assets held on donor’s behalf at June 30, 2016 and 2015 consist of 23 and 22 funds, respectively, 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.

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Subsequent to initial recognition, the Foundation may re-measure 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. Cancellations of grants occur when the grantees do not meet the grant terms or when grant program needs are less than the appropriated amount.

New Accounting Pronouncements

Fair Value Disclosure:

During the year ended June 30, 2016, the Foundation early adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This provision eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized cost, as previously required by Accounting Standards Codification (ASC) 825-10-50. As such, the Foundation has omitted this disclosure for the years ended June 30, 2016 and 2015. The early adoption of this provision did not have an impact on the Foundation's financial position or results of operations.

Presentation of Debt Issuance Costs:

The Foundation has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The effect of adopting the new standard decreased the debt issuance costs asset to zero and decreased the debt liability by $35,047 as of July 1, 2014. The adoption of the standard had no effect on previously reported net assets. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The ASU is retrospectively applied. The Foundation has elected to adopt this change in accounting principle as of July 1, 2014, prior to its effective date.

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 non-private 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.

Subsequent Events

In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 28, 2016, the date the consolidated financial statements were issued.

NOTE 2 CONCENTRATIONS

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally 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 McKnight Foundation is considered a significant source of operating revenue. The McKnight Foundation consists of 22% and 26% of total operating revenue at June 30, 2016 and 2015, respectively.

NOTE 3 INVESTMENTS

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

	2016		2015	
	Amount	Percent	Amount	Percent
Cash and Cash Equivalents	$ 2,086,779	3 %	$ 2,654,060	4 %
Federal Agencies	4,816,289	7	5,103,370	7
US Government Obligations	7,414,303	11	6,674,543	10
Corporate Bonds	6,463,192	10	6,054,309	9
Stock Mutual Funds	34,211,638	50	31,928,234	47
Equity Securities	217,502	-	217,502	-
Taxable Bond Mutual Funds	2,620,524	4	3,014,483	4
Municipal Obligations	1,327,900	2	2,068,077	3
Foreign Bonds, Notes and Debentures	550,941	1	527,883	1
Alternative Investments	479,762	1	2,180,763	4
Charitable Remainder Trust Investments	188,903	-	199,473	-
Donated Real Estate Held as Investments	7,481,415	11	7,481,415	11
Totals	$ 67,859,148	100 %	$ 68,104,112	100 %

The composition of investment income is as follows for the years ended June 30, 2016 and 2015:

	2016	2015
Interest and Dividends on Investments	$ 834,998	$ 828,275
Realized Gain on Investments	948,835	1,546,134
Unrealized Loss on Investments	(1,078,938)	(833,304)
Investment Fees	(154,087)	(171,259)
Total	$ 550,808	$ 1,369,846

<u>Donated Real Estate Held as Investments</u>

Foundation holds contributed land as an investment with a carrying value of $7,481,415 at June 30, 2016 and 2015. The Foundation obtains rental income from the parcels without life estate beneficiaries and does not plan to sell the land.

NOTE 4 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% - 8.5% for 2016 and from 0% - 10% for 2015. The Foundation has commitments on loans approved but not disbursed as of June 30, 2016 and 2015 of $-0- and $704,000, respectively. A loan is considered past due once a payment date has been missed. As of June 30, 2016, two loans were greater than 90 days past due. As of June 30, 2015, three loans were greater than 90 days past due. Any loans greater than 90 days past due may start the process of being added to non-accrual. Once a loan is determined to be non-accrual, it is removed from the greater than 90-day category and maintained separately as a non-accrual loan. Southwest Initiative Foundation has $34,972 and $35,777 on non-accrual at June 30, 2016 and 2015, respectively.

Loans receivable except for Revolving Loan Fund loans of $896,890 and $815,822 are pledged as security to the underlying notes payable for 2016 and 2015, respectively.

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

	2016	2015
Loans Receivable Maturities:		
Current	$ 1,379,265	$ 1,545,034
Long Term	6,662,583	6,642,172
Total Loans Receivable Maturities	8,041,848	8,187,206
Discount for Below Market Interest Rates	(42,826)	(34,338)
Allowance for Uncollectible Loan	(997,478)	(1,074,103)
Net Loans Receivable	$ 7,001,544	$ 7,078,765

NOTE 4 LOANS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS (CONTINUED)

Loans receivable and the allowance for loan losses accounts at June 30, 2016 and 2015 consist of the following:

	2016	2015
Agri Processing/Marketing	$ 1,040,006	$ 1,294,281
Building/Construction	163,513	188,221
Childcare Providers	3,788	6,541
Conference/Hotels	479,988	511,748
Healthcare	283,325	340,100
Manufacturing	2,233,494	2,100,297
Retail Trade	1,381,206	1,143,696
Service Industries	1,097,927	1,135,205
Utilities	75,000	75,000
Other	1,283,601	1,392,117
Less Allowance and Discount	(1,040,304)	(1,108,441)
Net Loans Receivable	$ 7,001,544	$ 7,078,765

Transactions in the allowance for loan losses during the years ended June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Balance at Beginning of Year	$ 1,074,103	$ 867,439
Provision	(94,876)	206,664
Loans Charged Off	18,251	-
Balance at End of Year	$ 997,478	$ 1,074,103

The allowance for loan losses and recorded investment in loans at June 30, 2016 is as follows:

Macro Loans	Agri Process/ Marketing	Building / Construction	Child Care Providers	Conference / Hotels	Healthcare	Manufacturing	Retail Trade	Service Industries	Utilities	Total
Allowance for Loan Losses:										
Beginning Balance	$ 136,507	$ 8,882	$ -	$ 51,175	$ 103,657	$ 176,740	$ 94,376	$ 140,024	$ 156,514	$ 867,875
Provision	(26,158)	(263)	-	(7,502)	(32,541)	24,169	16,505	(36,161)	(17,422)	(79,373)
Notes Charged Off	-	-	-	-	-	-	-	-	-	-
Recoveries of Notes Previously Charged Off	-	-	-	-	-	-	-	-	-	-
Ending Balance	$ 110,349	$ 8,619	$ -	$ 43,673	$ 71,116	$ 200,909	$ 110,881	$ 103,863	$ 139,092	$ 788,502

Micro Loans	Agri Process/ Marketing	Building / Construction	Child Care Providers	Conference / Hotels	Healthcare	Manufacturing	Retail Trade	Service Industries	Utilities	Total
Allowance for Loan Losses:										
Beginning Balance	$ 6,484	$ 10,114	$ 981	$ -	$ 9,099	$ 44,412	$ 72,046	$ 54,630	$ 8,462	$ 206,228
Provision	(532)	(4,297)	(413)	-	1,147	(18,768)	12,605	(8,280)	3,035	(15,503)
Notes Charged Off	-	-	-	-	-	18,251	-	-	-	18,251
Recoveries of Notes Previously Charged Off	-	-	-	-	-	-	-	-	-	-
Ending Balance	$ 5,952	$ 5,817	$ 568	$ -	$ 10,246	$ 43,895	$ 84,651	$ 46,350	$ 11,497	$ 208,976

NOTE 4 LOANS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS (CONTINUED)

The allowance for loan losses and recorded investment in loans at June 30, 2015 is as follows:

Macro Loans	Agri Process/ Marketing	Building / Construction	Child Care Providers	Conference / Hotels	Healthcare	Manufacturing	Retail Trade	Service Industries	Other	Total
Allowance for Loan Losses:										
Beginning Balance	$ 63,378	$ 6,848	$ -	$ 55,340	$ 59,644	$ 172,664	$ 95,863	$ 101,263	$ 79,898	$ 634,898
Provision	73,129	2,034	-	(4,165)	44,013	4,076	(1,487)	38,761	76,616	232,977
Notes Charged Off	-	-	-	-	-	-	-	-	-	-
Recoveries of Notes Previously Charged Off	-	-	-	-	-	-	-	-	-	-
Ending Balance	$ 136,507	$ 8,882	$ -	$ 51,175	$ 103,657	$ 176,740	$ 94,376	$ 140,024	$ 156,514	$ 867,875

Micro Loans	Agri Process/ Marketing	Building / Construction	Child Care Providers	Conference / Hotels	Healthcare	Manufacturing	Retail Trade	Service Industries	Other	Total
Allowance for Loan Losses:										
Beginning Balance	$ 5,987	$ 8,510	$ 2,268	$ -	$ 3,129	$ 29,788	$ 116,056	$ 53,909	$ 12,894	$ 232,541
Provision	497	1,604	(1,287)	-	5,970	14,624	(44,010)	721	(4,432)	(26,313)
Notes Charged Off	-	-	-	-	-	-	-	-	-	-
Recoveries of Notes Previously Charged Off	-	-	-	-	-	-	-	-	-	-
Ending Balance	$ 6,484	$ 10,114	$ 981	$ -	$ 9,099	$ 44,412	$ 72,046	$ 54,630	$ 8,462	$ 206,228

The following table shows the loans at June 30, 2016 allocated by management's internal risk ratings:

2016

Loans by Risk Category	MACRO						MICRO				
	Level 5	Level 4	Level 3	Level 2	Level 1		Level 3	Level 3	Level 2	Level 1	
Risk Rate % Range											
FY16 Loans Receivable	6.0%	8.0%	10.0%	25.0%	100.0%	Total Loans Receivable	5.0%	15.0%	25.0%	100.0%	Total Loans Receivable
Credit Risk Profile by Risk Rating:											
Agri Processing/ Marketing	$ -	$ 62,242	$ 848,806	$ 81,956	$ -	$ 993,004	$ 10,979	$ 36,023	$ -	$ -	$ 47,002
Building/Construction	-	107,740	-	-	-	107,740	-	55,773	-	-	55,773
Childcare Providers	-	-	-	-	-	-	-	3,788	-	-	3,788
Conference/Hotel	-	216,306	263,682	-	-	479,988	-	-	-	-	-
Healthcare	-	63,505	46,847	78,412	55,664	244,428	-	13,205	18,321	7,371	38,897
Manufacturing	390,149	249,747	1,262,659	125,016	-	2,027,571	5,241	146,508	12,869	41,305	205,923
Retail Trade	156,575	94,262	567,838	75,364	21,543	915,582	-	379,140	69,588	16,895	465,623
Service Industries	-	89,285	755,798	-	28,187	873,270	12,973	139,531	56,532	15,621	224,657
Utilities	50,000	-	-	-	25,000	75,000	-	-	-	-	-
Other	230,313	-	1,002,737	-	-	1,233,050	719	9,088	40,745	-	50,552
Total	$ 827,037	$ 883,087	$ 4,748,367	$ 360,748	$ 130,394	$ 6,949,633	$ 29,912	$ 783,056	$ 198,055	$ 81,192	$ 1,092,215

NOTE 4 LOANS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS (CONTINUED)

The following table shows the loans at June 30, 2015 allocated by management's internal risk ratings:

Loans by Risk Category	MACRO						MICRO				
	Level 5	Level 4	Level 3	Level 2	Level 1		Level 3	Level 3	Level 2	Level 1	
Risk Rate % Range						Total Loans					Total Loans
FY15 Loans Receivable	6.0%	8.0%	10.0%	25.0%	75.0%	Receivable	5.0%	15.0%	25.0%	75.0%	Receivable
Credit Risk Profile by Risk Rating:											
Agri Processing/ Marketing	$ -	$ 318,235	$ 796,717	$ 125,506	$ -	$ 1,240,458	$ 15,896	$ 37,927	$ -	$ -	$ 53,823
Building/Construction	-	111,025	-	-	-	111,025	-	77,195	-	-	77,195
Childcare Providers	-	-	-	-	-	-	-	6,541	-	-	6,541
Conference/Hotel	-	-	511,748	-	-	511,748	-	-	-	-	-
Healthcare	-	69,570	86,789	58,672	99,660	314,691	-	16,598	-	8,812	25,410
Manufacturing	694,821	457,520	639,877	137,844	-	1,930,062	9,496	94,517	48,091	18,131	170,235
Retail Trade	170,068	22,212	518,348	77,600	14,881	803,109	26,251	214,558	48,081	51,697	340,587
Service Industries	-	57,874	582,826	27,080	149,883	817,663	23,889	231,542	37,180	24,931	317,542
Utilities	50,000	-	-	-	25,000	75,000	-	-	-	-	-
Other	40,442	-	1,290,872	-	-	1,331,314	4,853	55,950	-	-	60,803
Total	$ 955,331	$ 1,036,436	$ 4,427,177	$ 426,702	$ 289,424	$ 7,135,070	$ 80,385	$ 734,828	$ 133,352	$ 103,571	$ 1,052,136

The following table shows an aging at June 30, 2016 analysis of loan portfolio by time past due:

	MACRO					MICRO				
	Accruing Interest					Accruing Interest				
FY16 Loans Receivable	Current Balance	30-89 Days Past Due	More Than 90 Days Past Due	Total on Nonaccrual	Total Loans Receivable	Current Balance	30-89 Days Past Due	More Than 90 Days Past Due	Total on Nonaccrual	Total Loans Receivable
Agri Processing/ Marketing	$ 993,004	$ -	$ -	$ -	$ 993,004	$ 47,002	$ -	$ -	$ -	$ 47,002
Building/Construction	107,740	-	-	-	107,740	55,773	-	-	-	55,773
Childcare Providers	-	-	-	-	-	3,788	-	-	-	3,788
Conference/Hotel	479,988	-	-	-	479,988	-	-	-	-	-
Healthcare	244,428	-	-	-	244,428	38,897	-	-	-	38,897
Manufacturing	2,027,572	-	-	-	2,027,572	205,923	-	-	-	205,923
Retail Trade	915,582	-	-	-	915,582	455,651	-	-	9,972	465,623
Service Industries	873,270	-	-	-	873,270	224,157	300	200	-	224,657
Utilities	50,000	-	-	25,000	75,000	-	-	-	-	-
Other	1,233,049	-	-	-	1,233,049	50,552	-	-	-	50,552
Total	$ 6,924,633	$ -	$ -	$ 25,000	$ 6,949,633	$ 1,081,743	$ 300	$ 200	$ 9,972	$ 1,092,215

The following table shows an aging at June 30, 2015 analysis of loan portfolio by time past due:

	MACRO					MICRO				
	Accruing Interest					Accruing Interest				
FY15 Loans Receivable	Current Balance	30-89 Days Past Due	More Than 90 Days Past Due	Total on Nonaccrual	Total Loans Receivable	Current Balance	30-89 Days Past Due	More Than 90 Days Past Due	Total on Nonaccrual	Total Loans Receivable
Agri Processing/ Marketing	$ 1,240,458	$ -	$ -	$ -	$ 1,240,458	$ 53,823	$ -	$ -	$ -	$ 53,823
Building/Construction	111,025	-	-	-	111,025	77,195	-	-	-	77,195
Childcare Providers	-	-	-	-	-	6,541	-	-	-	6,541
Conference/Hotel	511,748	-	-	-	511,748	-	-	-	-	-
Healthcare	314,691	-	-	-	314,691	25,410	-	-	-	25,410
Manufacturing	1,930,062	-	-	-	1,930,062	163,910	1,054	5,271	-	170,235
Retail Trade	803,109	-	-	-	803,109	329,810	-	-	10,777	340,587
Service Industries	817,663	-	-	-	817,663	317,542	-	-	-	317,542
Utilities	50,000	-	-	25,000	75,000	-	-	-	-	-
Other	1,331,314	-	-	-	1,331,314	59,938	346	519	-	60,803
Total	$ 7,110,070	$ -	$ -	$ 25,000	$ 7,135,070	$ 1,034,169	$ 1,400	$ -	$ 10,777	$ 1,052,136

NOTE 4 LOANS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS (CONTINUED)

Interest income foregone on nonaccrual loans approximated $1,053 and $3,699 for the years ended June 30, 2016 and 2015, respectively.

There were two impaired loans in the amount of $33,654 as of June 30, 2016, and one impaired loan in the amount of $25,000 as of June 30, 2015.

The organization 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.

SWIF participates in the Small Business Loan Guarantee (SBLG) Program through Minnesota Department of Employment and Economic Development's (DEED) State Small Business Credit Initiative (SSBCI). SSBCI uses federal funding to stimulate private-sector lending and improve access to capital for small businesses and manufacturers. The SBLG Program guarantees up to 70% of a loan made by non-traditional lenders and lenders pay a fee of 0.25% of loan principal into a reserve fund per loan. Loans must be made to businesses with no more than 500 employees and funds may be used for construction; remodeling or renovation; leasehold improvements; purchase of land, buildings, machinery and equipment; maintenance or repair; expenses related to moving into or within Minnesota; and working capital (if secured by fixed assets). The entire finance package, including non-SSBCI funds, may not exceed $20 million. Lenders must demonstrate that a bank or commercial lender will match the guaranteed loan amount and loans from this fund may not be used to guarantee the un-guaranteed portion of SBA loans. Interest rates and terms are negotiated between borrower and lender and loans generally require a debt coverage ratio of at least 1.25 and a current ratio of 1.2. Program-approved lenders submit loan enrollment applications to the DEED on a rolling basis.

NOTE 5 PLEDGES RECEIVABLE

Pledges receivable are due to be collected as follows:

	2016	2015
Pledges Expected to be Collected in:		
Less than One Year	$ 18,635	$ 80,040
One to Five Years	9,200	49,933
Total	$ 27,835	$ 129,973

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

NOTE 6 PROPERTY AND EQUIPMENT

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

	2016	2015
Land and Land Improvements	$ 1,206,900	$ 1,204,200
Buildings	1,669,402	1,669,402
Furniture and Equipment	635,903	648,185
Subtotal	3,512,205	3,521,787
Accumulated Depreciation	(1,025,057)	(991,306)
Net Investment in Property and Equipment	$ 2,487,148	$ 2,530,481

NOTE 7 CAPITAL LEASE

During the year ended June 30, 2014, the Foundation entered into a capital lease for office equipment upon termination of the prior lease. At June 30, 2016, the gross cost of equipment under the capital lease is $53,026 and the corresponding accumulated depreciation is $39,884. Depreciation on the office equipment under capital lease is included in depreciation expense.

Description	Amount
Capital Lease Payable - Office Equipment; Interest at 5.28%; Monthly Installments of $1,431, Matures 2018	$ 18,325
Less: Current Maturities of Capital Lease Payable	(11,395)
Capital Lease Payable Net of Current Maturities	$ 6,930

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

Fiscal Year	Amount
2017	$ 12,090
2018	7,052
Total Minimum Lease Payments	19,142
Less: Amount Representing Interest on Capital Lease Payable	(817)
Net Minimum Capital Lease Payments	$ 18,325

NOTE 8 LONG-TERM DEBT

The Foundation's long-term debt at June 30, 2016 and 2015 consists of the following:

Description	2016	2015
Note Payable - US Small Business Administration Face Amount $1,250,000, of which only $1,000,000 has been advanced as of year-end, Interest at 0.875%, Due May 2023, Monthly Interest and Principal Payments, Secured by the Foundation's Microloan Revolving Fund.	$ 803,451	$ 919,613
Note Payable - Southwest Minnesota Housing Partnership 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. Secured by the Foundation's Microloan Revolving Fund.	31,869	50,000
Note Payable - US Small Business Administration Face Amount $1,250,000, of which only $337,000 has been advanced as of year end, Interest at 0.875%, Due October 2022, Monthly Interest and Principal Payments, Secured by the Foundation's Microloan Revolving Fund.	237,148	274,593
Note Payable - US Small Business Administration Face Amount $500,000, Bears Interest at 2.25% for the first 12 months and Decreases to 0.125% for the remainder Loan, Due 2021, No Payments Required First 12 Months, Monthly Principal and Interest Payments Starting in June 2012, Secured by the Foundation's Microloan Revolving Fund.	279,590	334,988
Note Payable - US Department of Agriculture 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 IRP Revolving Loan Fund, 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.	431,798	456,580

NOTE 8 LONG-TERM DEBT (CONTINUED)

Description	2016	2015
Bonds Payable - Commercial Development Revenue Bonds Face Amount \$3,500,000, Original Discount \$70,000, Interest at 3.9% to 5.125%, Due December 1, 2031, Annual Principal Payments of \$80,000 to \$240,000, Secured by Foundation's Revenues	\$ -	\$ 2,775,000
Bonds Payable - Commercial Development Revenue Bonds 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	1,830,000	-
Unamortized Discount	(17,919)	(43,169)
Unamortized Bond Issuance Costs	(87,534)	(35,047)
Total	3,508,403	4,732,558
Less: Current Maturities	464,487	348,680
Long-Term Debt Net of Current Maturities	\$ 3,043,916	\$ 4,383,878

Substantially all receivables are pledged to long-term debt.

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

Fiscal Year	Amount
2017	\$ 464,487
2018	460,507
2019	462,044
2020	463,061
2021	464,288
Thereafter	1,299,469
Total	\$ 3,613,856

Micro Loan 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 \$1,001,799 and \$1,347,339 at June 30, 2016 and 2015, respectively.

NOTE 9 NET ASSETS

Unrestricted net assets designated by the board of directors consisted of the following at June 30, 2016 and 2015:

	2016	2015
Endowment Funds	$ 12,672,806	$ 14,079,753
Affiliate Funds	734,080	670,134
Component Funds	2,031,976	2,078,221
Economic Development	30,867	59,571
Grants Program	241,002	86,299
Operations	56,134	41,467
Total	$ 15,766,865	$ 17,015,445

Temporarily restricted net assets consisted of the following at June 30, 2016 and 2015:

	2016	2015
Affiliate Funds	$ 1,509,201	$ 1,766,228
Component Funds	1,642,835	2,206,578
Economic Development	11,215,675	10,584,260
Programs	295,354	338,186
Total	$ 14,663,065	$ 14,895,252

Permanently restricted net assets consisted of the following at June 30, 2016 and 2015:

	2016	2015
Endowment Funds	$ 20,981,845	$ 20,470,380
Affiliate Funds Endowed	3,388,412	3,153,644
Component Funds Endowed	6,796,060	5,664,081
Endowment - Farmland Retention	2,384,820	2,320,402
Total	$ 33,551,137	$ 31,608,507

Temporarily restricted net assets were released from donor restrictions during 2016 and 2015 by incurring expenses satisfying the restrictions. Releases from permanently restricted net assets represent changes in donor intent.

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

NOTE 9 NET ASSETS (CONTINUED)

Affiliate Funds and Component Funds reflected as temporarily restricted represent contributions restricted by the donors. Investment earnings on these funds are temporarily 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 permanently 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 temporarily restricted or unrestricted Aging Trust funds. The unrestricted portion of Aging Trust represents investment income earned and satisfaction of usage restrictions on the temporarily restricted dollars. The temporarily restricted and unrestricted dollars are for projects that promote productive aging in the region.

The Keep it Growing[SM] Farmland Giving Program reflects donations of farmland to the Foundation as permanently or unrestricted 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 temporarily restricted for the purpose chosen by the donor and earnings on unrestricted parcels remain unrestricted.

Economic Development is made up of Joint Powers Area Community (JPAC), Revolving Loan Fund (RLF), Small Business Administration (SBA) Microloan Funds, Rural Energy Development Initiative (REDI), USDA Microloan Fund (RMAP), Investment Capital Fund, Youth Entrepreneurship (YES), funds reflected as temporarily restricted that consist of grant dollars or loan dollars received and some investment income restricted by the grantor for loans. Other funds income is unrestricted within the Economic Development umbrella and used to fund administration. Some of these funds with loan dollars must be repaid.

Program funds reflected as temporarily 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 10 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, 2016:

	2016			
	Level 1	Level 2	Level 3	Total
Investments:				
Federal Agencies	$ -	$ 4,816,289	$ -	$ 4,816,289
US Government Obligations	7,414,303	-	-	7,414,303
Corporate Bonds	-	6,463,192	-	6,463,192
Stock Mutual Funds	34,211,638	-	-	34,211,638
Equity Securities	-	-	217,502	217,502
Taxable Bond Mutual Funds	2,620,524	-	-	2,620,524
Municipal Obligations	-	1,327,900	-	1,327,900
Foreign Bonds, Notes and Debentures	-	550,941	-	550,941
Alternative Investments	479,761	-	-	479,761
Total	$ 44,726,226	$ 13,158,322	$ 217,502	$ 58,102,050

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, 2015:

	2015			
	Level 1	Level 2	Level 3	Total
Investments:				
Federal Agencies	$ -	$ 5,103,370	$ -	$ 5,103,370
US Government Obligations	6,674,543	-	-	6,674,543
Corporate Bonds	-	6,054,309	-	6,054,309
Stock Mutual Funds	31,928,234	-	-	31,928,234
Equity Securities	-	-	217,502	217,502
Taxable Bond Mutual Funds	3,014,483	-	-	3,014,483
Municipal Obligations	-	2,068,077	-	2,068,077
Foreign Bonds, Notes and Debentures	-	527,883	-	527,883
Alternative Investments	2,180,763	-	-	2,180,763
Total	$ 43,798,023	$ 13,753,639	$ 217,502	$ 57,769,164

NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2016 and 2015:

	2016	2015
Beginning Balance	$ 217,502	$ 285,091
Write Down of Investments	-	(67,589)
Ending Balance	$ 217,502	$ 217,502

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 the years ended June 30, 2016 and 2015, losses related to nonrecurring fair value measurements of certain assets included the following:

2016	Level 1	Level 2	Level 3	Total Loss
Impaired Loans	$ -	$ -	$ 33,654	$ 33,654

2015	Level 1	Level 2	Level 3	Total Loss
Impaired Loans	$ -	$ -	$ 25,000	$ 25,000

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.

NOTE 11 ENDOWMENT

At June 30, 2016 and 2015, the Foundation's endowment consisted of 116 and 111 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 trustees to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 11 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

The Board of Trustees 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 classifies as permanently restricted net assets the original value of the gifts to the permanent endowment and the value of subsequent gifts to the permanent endowment. The remaining portion of donor-restricted endowment funds, if any that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation.

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, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, July 1, 2015	$ 14,774,887	$ 2,472,880	$ 29,288,105	$ 46,535,872
Investment Return:				
Interest, Dividends and Realized Gains	1,076,491	415,883	-	1,492,374
Unrealized Losses	(841,622)	(214,793)	-	(1,056,415)
Total Investment Return	234,869	201,090	-	435,959
Contributions	-	-	1,874,516	1,874,516
Appropriations of Endowment Assets for Expenditure	-	(754,639)	-	(754,639)
Other Changes, Transfers	(1,589,816)	(12,095)	3,696	(1,598,215)
Endowment Net Assets, June 30, 2016	$ 13,419,940	$ 1,907,236	$ 31,166,317	$ 46,493,493

NOTE 11 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

Endowment composition by type and changes in endowment net assets for the year ended June 30, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, July 1, 2014	$ 15,265,418	$ 2,575,367	$ 28,125,143	$ 45,965,928
Investment Return:				
Interest, Dividends and Realized Gains	1,528,603	511,877	-	2,040,480
Unrealized Gains	(587,372)	(178,155)	-	(765,527)
Total Investment Return	941,231	333,722	-	1,274,953
Contributions	-	-	1,092,643	1,092,643
Appropriations of Endowment Assets for Expenditure	-	(417,365)	-	(417,365)
Other Changes, Transfers	(1,431,762)	(18,844)	70,319	(1,380,287)
Endowment Net Assets, June 30, 2015	$ 14,774,887	$ 2,472,880	$ 29,288,105	$ 46,535,872

The following is a summary of endowment funds composition for the years ended June 30, 2016 and 2015:

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ -	$ 1,907,236	$ 31,166,317	$ 33,073,553
Board-Designated Endowment Funds	13,419,940	-	-	13,419,940
Total Funds	$ 13,419,940	$ 1,907,236	$ 31,166,317	$ 46,493,493

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ -	$ 2,472,880	$ 29,288,105	$ 31,760,985
Board-Designated Endowment Funds	14,774,887	-	-	14,774,887
Total Funds	$ 14,774,887	$ 2,472,880	$ 29,288,105	$ 46,535,872

NOTE 11 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 trustees, 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.

NOTE 12 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 13 EMPLOYEE BENEFIT PLAN

The Foundation maintains a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time employees of the Foundation. 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 $68,448 and $65,388 for the years ended June 30, 2016 and 2015, respectively.

NOTE 14 GRANTS MADE

The Foundation made grants in the following categories during the years ended June 30, 2016 and 2015:

	2016	2015
Business Initiatives	$ 41,000	$ 15,000
Community Initiatives	995,857	735,261
Aging	324,635	16,000
Youth	481,991	372,291
Leadership	19,350	11,770
Minority	1,500	40,000
Total Grants Made	$ 1,864,333	$ 1,190,322

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 Trustees
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, 2016, 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 28, 2016.

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 result 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

CliftonLarsonAllen LLP

St. Cloud, Minnesota
September 28, 2016

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

Board of Trustees
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, 2016. 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.

A member of Nexia International

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, 2016.

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 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

CliftonLarsonAllen LLP

St. Cloud, Minnesota
September 28, 2016

SOUTHWEST INITIATIVE FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

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		$ -	$ 36,717
Rural Microentrepreneur Assistance Program (Note B)	10.870			456,580
Total Rural Microentrepreneur Assistance Program				493,297
Small Business Administration				
Direct Program:				
Microloan Demonstration Program - Training Grant	59.046		-	275,157
Microloan Demonstration Program (Note B)	59.046		-	1,529,194
Total Microloan Demonstration Program				1,804,351
Total Federal Awards				$ 2,297,648

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, 2016. 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 accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. 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.

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 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, 2016 consists of:

Program	Federal CFDA Number	Balance Outstanding
Rural Microentrepreneur Assistance Program	10.870	$ 431,798
Microloan Demonstration Program	59.046	1,320,189
Total Federal Loans Outstanding		$ 1,751,987

SOUTHWEST INITIATIVE FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

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

Federal Awards

Internal Control over Major Federal Programs:
- Material Weakness(es) Identified? ____ Yes __X__ No
- Significant Deficiency(ies) Identified? ____ Yes __X__ 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 __X__ No

Identification of Major Federal Programs:

CFDA Number(s)	Name of Federal Program or Cluster
59.046	SBA Microloan Program

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? __X__ Yes ____ No

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).

Section IV - Prior Year Findings

2015 - 001

During this year's testing of revenue, we determined that corrective action was implemented. No similar findings were noted during the current year audit.