

SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS
AND
SINGLE AUDIT COMPLIANCE REPORTS
YEARS ENDED JUNE 30, 2017 AND 2016

**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, 2017 and 2016 **and 2016**, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2017 and 2016 **and 2016**, 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 October 10, 2017, 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 solely 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 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
October 10, 2017

SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and Cash Equivalents	\$ 246,409	\$ 209,289
Restricted Cash	1,325,704	1,001,799
Loans Receivable, Net of Allowance for Doubtful Accounts	6,274,558	7,001,544
Pledges Receivable	29,960	27,835
Other Receivables	354,714	371,427
Due from McKnight Foundation	-	250,000
Prepaid Expenses	50,935	35,898
Investments	74,722,119	67,859,148
Property and Equipment, Net	2,675,811	2,487,148
Total Assets	\$ 85,680,210	\$ 79,244,088
LIABILITIES AND NET ASSETS		
LIABILITIES		
Grants and Other Payables	\$ 334,272	\$ 472,129
Accrued Liabilities	353,782	241,863
Assets Held on Donor's Behalf	1,581,344	1,496,167
Obligations of Split-Interest Agreements	204,819	188,903
Life Estate Liability	3,768,235	3,736,459
Notes Payable	1,746,353	1,783,856
Bonds Payable, Net	1,508,010	1,724,547
Total Liabilities	9,496,815	9,643,924
NET ASSETS		
Board Designated	19,525,509	15,766,865
Unrestricted	6,012,896	5,619,097
Total Unrestricted	25,538,405	21,385,962
Temporarily Restricted	16,350,425	14,663,065
Permanently Restricted	34,294,565	33,551,137
Total Net Assets	76,183,395	69,600,164
Total Liabilities and Net Assets	\$ 85,680,210	\$ 79,244,088

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE				
McKnight Foundation Grants	\$ 1,001,835	\$ 42,500	\$ -	\$ 1,044,335
Other Grants	-	838,008	-	838,008
Contributions	800,142	1,278,475	616,008	2,694,625
Investment Income	4,379,302	1,569,813	-	5,949,115
Loan Interest Income	-	411,183	-	411,183
Rental Income	62,543	-	-	62,543
Change in Split Interest Agreement	-	-	111,270	111,270
Miscellaneous Income	25,374	54,636	9,093	89,103
Subtotal Revenue	<u>6,269,196</u>	<u>4,194,615</u>	<u>736,371</u>	<u>11,200,182</u>
Net Assets Released from Restrictions and Transfers	<u>2,500,198</u>	<u>(2,507,255)</u>	<u>7,057</u>	<u>-</u>
Total Revenue	<u>8,769,394</u>	<u>1,687,360</u>	<u>743,428</u>	<u>11,200,182</u>
EXPENSE				
Program Expenses:				
Grant Programs	1,039,618	-	-	1,039,618
Economic Development Programs	1,383,903	-	-	1,383,903
Affiliate Funds	912,342	-	-	912,342
Total Program Expenses	<u>3,335,863</u>	<u>-</u>	<u>-</u>	<u>3,335,863</u>
General and Administrative Fund Development	807,201	-	-	807,201
Total Expense	<u>4,616,951</u>	<u>-</u>	<u>-</u>	<u>4,616,951</u>
CHANGE IN NET ASSETS	4,152,443	1,687,360	743,428	6,583,231
Net Assets - Beginning of Year	<u>21,385,962</u>	<u>14,663,065</u>	<u>33,551,137</u>	<u>69,600,164</u>
NET ASSETS - END OF YEAR	<u>\$ 25,538,405</u>	<u>\$ 16,350,425</u>	<u>\$ 34,294,565</u>	<u>\$ 76,183,395</u>

See accompanying Notes to Consolidated Financial Statements.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>1,397,182</u>	<u>2,333,725</u>	<u>1,938,934</u>	<u>5,669,841</u>
Net Assets Released from Restrictions and Transfers	<u>2,562,216</u>	<u>(2,565,912)</u>	<u>3,696</u>	<u>-</u>
Total Revenue	<u>3,959,398</u>	<u>(232,187)</u>	<u>1,942,630</u>	<u>5,669,841</u>
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	<u>3,896,101</u>	<u>-</u>	<u>-</u>	<u>3,896,101</u>
General and Administrative	537,011	-	-	537,011
Fund Development	525,634	-	-	525,634
Total Expense	<u>4,958,746</u>	<u>-</u>	<u>-</u>	<u>4,958,746</u>
CHANGE IN NET ASSETS	(999,348)	(232,187)	1,942,630	711,095
Net Assets - Beginning of Year	<u>22,385,310</u>	<u>14,895,252</u>	<u>31,608,507</u>	<u>68,889,069</u>
NET ASSETS - END OF YEAR	<u>\$ 21,385,962</u>	<u>\$ 14,663,065</u>	<u>\$ 33,551,137</u>	<u>\$ 69,600,164</u>

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

	Program Expenses			Total Program	General and Administrative	Fund Development	Total
	Programs	Economic Development	Affiliate Funds				
Provision for Loan Losses	\$ -	\$ 256,636	\$ -	\$ 256,636	\$ -	\$ -	\$ 256,636
Grants Made	292,846	84,000	870,020	1,246,866	-	-	1,246,866
Salaries	311,226	518,067	-	829,293	338,231	242,935	1,410,459
Payroll Taxes	21,353	35,515	-	56,868	23,198	16,615	96,680
Fringe Benefits	55,850	93,042	-	148,892	80,412	43,416	272,720
Staff Travel	41,957	47,678	-	89,634	24,515	6,268	120,418
Board Expense	268	-	-	268	76,351	-	76,619
Advisory Committee Expense	-	-	-	-	15	-	15
Staff and Board Development	15,834	2,478	-	18,312	36,043	858	55,213
Meetings	108,298	8,215	-	116,513	-	1,057	117,571
Contracted Services	35,743	53,515	-	89,258	43,021	25,280	157,559
Rent	312	3,604	-	3,916	360	218	4,494
Advertising	14,783	20,844	-	35,627	17,152	9,314	62,093
Printing	8,775	11,995	-	20,770	10,735	22,082	53,587
Telephone	9,411	12,210	-	21,622	5,395	4,072	31,088
Postage	3,168	4,833	28	8,030	3,537	4,617	16,183
Office Supplies	1,386	5,296	-	6,682	8,897	2,477	18,057
Subscriptions and Dues	4,121	8,782	900	13,803	6,988	698	21,488
Professional Fees	56,677	117,540	136	174,353	32,230	40,212	246,795
Insurance	6,063	8,829	1,589	16,481	7,215	4,130	27,826
Repairs and Maintenance	1,862	2,721	-	4,583	2,095	1,291	7,969
Depreciation/Amortization	23,254	33,405	-	56,659	27,336	16,520	100,515
Public Relations	1,104	870	-	1,974	20,376	-	22,350
Strategic Planning	-	-	-	-	414	-	414
Utilities	9,770	13,851	-	23,621	11,648	6,586	41,855
Interest Expense	7,994	26,724	-	34,718	9,237	5,508	49,464
Fundraising Costs	-	-	39,470	39,470	-	12,341	51,811
Website	7,564	13,252	-	20,816	8,312	7,391	36,520
Miscellaneous Expense	-	-	198	198	13,488	-	13,686
Total Expenses	\$ 1,039,618	\$ 1,383,903	\$ 912,342	\$ 3,335,863	\$ 807,201	\$ 473,887	\$ 4,616,951

See accompanying Notes to Consolidated Financial Statements.

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

	Program Expenses			General and Administrative	Fund Development	Total
	Programs	Economic Development	Affiliate Funds			
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	1,374,551
Payroll Taxes	24,198	33,587	-	57,785	21,604	96,730
Fringe Benefits	69,981	97,166	-	167,147	64,731	282,052
Staff Travel	28,402	57,854	-	86,256	29,516	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	18,245
Meetings	27,281	11,273	-	38,554	-	39,386
Contracted Services	32,050	34,023	25	66,098	28,216	112,756
Rent	415	473	-	888	385	1,518
Advertising	23,106	20,371	-	43,477	16,234	69,726
Printing	11,884	12,869	-	24,753	10,163	55,069
Telephone	10,795	10,566	-	21,361	4,598	30,333
Postage	4,650	5,020	-	9,670	3,879	19,550
Office Supplies	4,911	19,506	-	24,417	3,491	30,241
Subscriptions and Dues	1,990	14,979	-	16,969	11,063	28,833
Professional Fees	59,433	143,321	3,880	206,634	24,542	286,124
Insurance	6,087	6,909	-	12,996	5,438	21,941
Repairs and Maintenance	3,195	3,425	-	6,620	3,000	11,307
Depreciation/Amortization	32,171	35,185	-	67,356	28,573	114,267
Public Relations	12,090	12,598	-	24,688	16,212	47,464
Strategic Planning	-	-	-	-	16,613	16,613
Utilities	11,562	12,684	-	24,246	10,341	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	201,187
Fundraising Costs	-	-	42,707	42,707	1,857	53,675
Website	5,701	10,058	-	15,759	3,947	25,217
Miscellaneous Expense	7,915	3,309	572	11,796	7,637	21,170
Total Expenses	\$ 1,465,974	\$ 1,135,368	\$ 1,294,759	\$ 3,896,101	\$ 537,011	\$ 4,958,746

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 6,583,231	\$ 711,095
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	100,515	114,267
Amortization of Discount on Bonds Payable and Issuance Costs	13,463	62,159
Loss on Sale of Fixed Assets	2,475	-
Net Unrealized Loss on Investments	8,835,573	1,078,938
Realized Gain on Sale of Investments	(13,705,534)	(948,835)
Loan Loss (Gain) Provisions	256,636	(58,374)
Loan Charge Offs	(30,462)	-
Change in Present Value of Loans Receivable	(10,498)	-
Change in Value of Life Estate Liability	(95,354)	(71,298)
Contributions Restricted for Endowment Funds	(616,008)	(1,867,349)
(Increase) Decrease in:		
Restricted Cash	(323,905)	345,540
Pledges Receivable	(2,125)	102,138
Other Receivables	16,713	(180,301)
Prepaid Expenses	(15,037)	(22,447)
Increase (Decrease) in:		
Grants and Other Payables	(126,462)	217,762
Accrued Liabilities	111,919	(401,562)
Net Cash Provided (Used) by Operating Activities	995,140	(918,267)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on Loan Receivables	1,588,873	1,863,431
Issuance of Loan Receivables	(1,077,563)	(1,727,836)
Proceeds from Sale of Investments	163,743,940	40,361,395
Purchase of Investments	(165,736,950)	(40,249,860)
Purchase of Property and Equipment	(291,653)	(70,934)
Change in Assets Held on Donor's Behalf	85,177	135,487
Net Cash Provided (Used) by Investing Activities	(1,688,176)	311,683
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	250,000	-
Principal Payments on Long-Term Debt	(287,503)	(251,918)
Proceeds from Issuance of Bonds Payable	-	1,830,000
Principal Payments on Bonds Payable	(230,000)	(2,775,000)
Payment of Debt Issuance Costs	-	(89,396)
Principal Payments on Capital Lease	(11,395)	(10,811)
Contributions to Permanently Restricted Endowment Funds	1,009,054	1,817,558
Net Cash Provided by Financing Activities	730,156	520,433
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,120	(86,151)
Cash and Cash Equivalents - Beginning of Year	209,289	295,440
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 246,409	\$ 209,289
SUPPLEMENTAL DISCLOSURES		
Cash Paid for Interest	\$ 32,399	\$ 180,517

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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 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:

Unrestricted – 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.

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.

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.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 non-profits.

Life Estate Liability

The Foundation holds land that are 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.

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.

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.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans (Continued)

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.

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.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Macroloans (Continued):

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.

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.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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 6 loans split between Macro (3) and Micro (3) lending scheduled to be amortized over various lengths of time.

Building/Construction: The Building/Construction portfolio consists of 6 loans split between Macro (1) and Micro (5) lending scheduled to be amortized over various lengths of time.

Childcare Providers: The Childcare Providers segment consists of two loans in Micro (2) lending scheduled to be amortized over various lengths of time.

Conference/Hotel: The Conference/Hotel portfolio consists of 3 loans split between Macro (2) and Micro (1) lending scheduled to be amortized over various lengths of time.

Healthcare: The Healthcare portfolio consists of 7 loans split between Macro (5) and Micro (2) lending scheduled to be amortized over various lengths of time.

Manufacturing: The Manufacturing portfolio consists of 28 loans split between Macro (14) and Micro (14) lending scheduled to be amortized over various lengths of time.

Retail Trade: The Retail Trade portfolio consists of 41 loans split between Macro (14) and Micro (27) lending scheduled to be amortized over various lengths of time.

Service Industries: The Service Industries portfolio consists of 43 loans split between Macro (18) and Micro (25) lending scheduled to be amortized over various lengths of time.

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

Other: The Other portfolio consists of 11 loans split between Macro (9) and Micro (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.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017 and 2016, the Foundation has not recorded a reserve for uncollectible pledges.

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

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.

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, 2017 and 2016, 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. Annuities Payable is combined with other payables on the statement of financial position.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Held on Donor's Behalf

Assets held on donor's behalf at June 30, 2017 and 2016 consist of 23 and 23 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.

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.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 October 10, 2017, the date the consolidated financial statements were available to be 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 grants from the McKnight Foundation are considered a significant source of operating revenue. The McKnight Foundation consists of 9% and 22% of total operating revenue at June 30, 2017 and 2016, respectively.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 3 INVESTMENTS

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

	2017		2016	
	Amount	Percent	Amount	Percent
Cash and Cash Equivalents	\$ 8,020,446	10 %	\$ 2,086,779	3 %
Federal Agencies	42,853	-	4,816,289	7
US Government Obligations	2,101,499	3	7,414,303	11
Corporate Bonds	4,145,953	6	6,463,192	10
Stock Mutual Funds	37,005,113	50	34,211,638	50
Equity Securities	113,252	-	217,502	-
Taxable Bond Mutual Funds	9,777,351	13	2,620,524	4
Municipal Obligations	-	-	1,327,900	2
Foreign Bonds, Notes and Debentures	798	-	550,941	1
Alternative Investments	5,300,000	7	479,762	1
Charitable Remainder Trust Investments	205,769	-	188,903	-
Donated Real Estate Held as Investments	8,009,085	11	7,481,415	11
Totals	<u>\$ 74,722,119</u>	<u>100 %</u>	<u>\$ 67,859,148</u>	<u>100 %</u>

The composition of investment income is as follows for the years ended June 30, 2017 and 2016:

	2017	2016
Interest and Dividends on Investments	\$ 1,243,475	\$ 834,998
Realized Gain on Investments	13,705,534	948,835
Unrealized Loss on Investments	(8,835,573)	(1,078,938)
Investment Fees	(164,321)	(154,087)
Total	<u>\$ 5,949,115</u>	<u>\$ 550,808</u>

Donated Real Estate Held as Investments

Foundation holds contributed land as an investment with a carrying value of \$8,009,085 and \$7,481,415 at June 30, 2017 and 2016, respectively. The Foundation obtains rental income from the parcels without life estate beneficiaries and does not plan to sell the land.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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 2017 and 2016. The Foundation has commitments on loans approved but not disbursed as of June 30, 2017 and 2016 of \$316,000 and \$0-, respectively. A loan is considered past due once a payment date has been missed. As of June 30, 2017 and 2016, two 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 \$161,295 and \$34,972 on non-accrual at June 30, 2017 and 2016, respectively.

Loans receivable except for Revolving Loan Fund (Business Finance) loans of \$782,642 and \$896,890 are pledged as security to the underlying notes payable for 2017 and 2016, respectively.

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

	<u>2017</u>	<u>2016</u>
Loans Receivable Maturities:		
Current	\$ 1,744,038	\$ 1,545,034
Long Term	5,786,500	6,496,814
Total Loans Receivable Maturities	<u>7,530,538</u>	<u>8,041,848</u>
Discount for Below Market Interest Rates	(32,328)	(42,826)
Allowance for Uncollectible Loan	(1,223,652)	(997,478)
Net Loans Receivable	<u>\$ 6,274,558</u>	<u>\$ 7,001,544</u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

Loans receivable and the allowance for loan losses accounts at June 30, 2017 and 2016 consist of the following:

	2017	2016
Agri Processing/Marketing	\$ 879,199	\$ 1,040,006
Building/Construction	141,151	163,513
Childcare Providers	3,571	3,788
Conference/Hotels	335,063	479,988
Healthcare	236,440	283,325
Manufacturing	2,100,827	2,233,494
Retail Trade	1,101,918	1,381,206
Service Industries	1,407,162	1,097,927
Utilities	75,000	75,000
Other	1,250,207	1,283,601
Less Allowance and Discount	<u>(1,255,980)</u>	<u>(1,040,304)</u>
Net Loans Receivable	<u>\$ 6,274,558</u>	<u>\$ 7,001,544</u>

Transactions in the allowance for loan losses during the years ended June 30, 2017 and 2016 are summarized as follows:

	2017	2016
Balance at Beginning of Year	\$ 997,478	\$ 1,074,103
Provision	256,636	(94,876)
Loans Charged Off	<u>(30,462)</u>	<u>18,251</u>
Balance at End of Year	<u>\$ 1,223,652</u>	<u>\$ 997,478</u>

The allowance for loan losses and recorded investment in loans at June 30, 2017 is as follows:

	Agri Process/ Marketing	Building / Construction	Child Care Providers	Conference / Hotels	Healthcare	Manufacturing	Retail Trade	Service Industries	Utilities	Other	Total
Macro Loans											
Allowance for Loan Losses:											
Beginning Balance	\$ 110,349	\$ 8,619	\$ -	\$ 43,673	\$ 71,116	\$ 200,909	\$ 110,881	\$ 103,863	\$ -	\$ 139,092	\$ 788,502
Provision	42,637	(280)	-	1,793	(9,635)	33,489	41,599	120,922	-	6,425	236,950
Notes Charged Off	-	-	-	-	-	-	-	-	-	-	-
Recoveries of Notes	-	-	-	-	-	-	-	-	-	-	-
Previously Charged Off	-	-	-	-	-	-	-	-	-	-	-
Ending Balance	<u>\$ 152,986</u>	<u>\$ 8,339</u>	<u>\$ -</u>	<u>\$ 45,466</u>	<u>\$ 61,481</u>	<u>\$ 234,398</u>	<u>\$ 152,480</u>	<u>\$ 224,785</u>	<u>\$ -</u>	<u>\$ 145,517</u>	<u>\$ 1,025,452</u>
Micro Loans											
Allowance for Loan Losses:											
Beginning Balance	\$ 5,952	\$ 5,817	\$ 568	\$ -	\$ 10,246	\$ 43,895	\$ 84,651	\$ 46,350	\$ -	\$ 11,497	\$ 208,976
Provision	(1,548)	(2,126)	3,003	600	(3,577)	20,882	1,026	5,192	-	(3,766)	19,686
Notes Charged Off	-	-	-	-	-	-	(14,842)	(15,620)	-	-	(30,462)
Recoveries of Notes	-	-	-	-	-	-	-	-	-	-	-
Previously Charged Off	-	-	-	-	-	-	-	-	-	-	-
Ending Balance	<u>\$ 4,404</u>	<u>\$ 3,691</u>	<u>\$ 3,571</u>	<u>\$ 600</u>	<u>\$ 6,669</u>	<u>\$ 64,777</u>	<u>\$ 70,835</u>	<u>\$ 35,922</u>	<u>\$ -</u>	<u>\$ 7,731</u>	<u>\$ 198,200</u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

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	Other	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	<u>\$ 110,349</u>	<u>\$ 8,619</u>	<u>\$ -</u>	<u>\$ 43,673</u>	<u>\$ 71,116</u>	<u>\$ 200,909</u>	<u>\$ 110,881</u>	<u>\$ 103,863</u>	<u>\$ -</u>	<u>\$ 139,092</u>	<u>\$ 788,502</u>
Micro Loans											
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	<u>\$ 5,952</u>	<u>\$ 5,817</u>	<u>\$ 568</u>	<u>\$ -</u>	<u>\$ 10,246</u>	<u>\$ 43,895</u>	<u>\$ 84,651</u>	<u>\$ 46,350</u>	<u>\$ -</u>	<u>\$ 11,497</u>	<u>\$ 208,976</u>

The following table shows the loans at June 30, 2017 allocated by management's internal risk ratings:

2017 <u>Loans by Risk Category</u>	MACRO					MICRO					Total Loans Receivable
	Level 5	Level 4	Level 3	Level 2	Level 1	Level 3	Level 3	Level 2	Level 1		
	<u>Risk Rate % Range</u> 6.0%	8.0%	10.0%	25.0%	100.0%	5.0%	15.0%	25.0%	100.0%		
FY17 Loans Receivable											
Credit Risk Profile by											
Risk Rating:											
Agri Processing/ Marketing	\$ -	\$ -	\$ 769,174	\$ -	\$ 76,068	\$ 845,242	\$ 6,897	\$ 27,060	\$ -	\$ -	\$ 33,957
Building/Construction	-	104,243	-	-	-	104,243	-	36,908	-	-	36,908
Childcare Providers	-	-	-	-	-	-	-	3,571	-	-	3,571
Conference/Hotel	-	-	248,662	82,401	-	331,063	-	4,000	-	-	4,000
Healthcare	-	91,174	-	69,512	49,079	209,765	-	-	26,675	-	26,675
Manufacturing	305,649	174,136	1,034,794	394,595	-	1,909,174	768	102,932	34,814	53,139	191,653
Retail Trade	62,133	117,929	370,521	99,683	80,030	730,296	1,672	303,791	48,759	17,400	371,622
Service Industries	90,704	117,356	826,438	34,230	118,755	1,187,483	7,011	162,606	38,144	11,918	219,679
Utilities	50,000	-	-	-	25,000	75,000	-	-	-	-	-
Other	226,060	-	984,749	-	8,478	1,219,287	-	-	30,920	-	30,920
Total	<u>\$ 734,546</u>	<u>\$ 604,838</u>	<u>\$ 4,234,338</u>	<u>\$ 680,421</u>	<u>\$ 357,410</u>	<u>\$ 6,611,553</u>	<u>\$ 16,348</u>	<u>\$ 640,868</u>	<u>\$ 179,312</u>	<u>\$ 82,457</u>	<u>\$ 918,985</u>

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

2016 <u>Loans by Risk Category</u>	MACRO					MICRO					Total Loans Receivable
	Level 5	Level 4	Level 3	Level 2	Level 1	Level 3	Level 3	Level 2	Level 1		
	<u>Risk Rate % Range</u> 6.0%	8.0%	10.0%	25.0%	75.0%	5.0%	15.0%	25.0%	75.0%		
FY16 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	<u>\$ 827,037</u>	<u>\$ 883,087</u>	<u>\$ 4,748,367</u>	<u>\$ 360,748</u>	<u>\$ 130,394</u>	<u>\$ 6,949,633</u>	<u>\$ 29,912</u>	<u>\$ 783,056</u>	<u>\$ 198,055</u>	<u>\$ 81,192</u>	<u>\$ 1,092,215</u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

The following table shows an aging at June 30, 2017 analysis of loan portfolio by time past due:

FY17 Loans Receivable	MACRO					MICRO				
	Accruing Interest			Total on Nonaccrual	Total Loans Receivable	Accruing Interest			Total on Nonaccrual	Total Loans Receivable
	Current Balance	30-89 Days Past Due	More Than 90 Days Past Due			Current Balance	30-89 Days Past Due	More Than 90 Days Past Due		
Agri Processing/ Marketing	\$ 845,242	\$ -	\$ -	\$ -	\$ 845,242	\$ 33,957	\$ -	\$ -	\$ -	\$ 33,957
Building/Construction	104,243	-	-	-	104,243	36,908	-	-	-	36,908
Childcare Providers	-	-	-	-	-	3,571	-	-	-	3,571
Conference/Hotel	331,063	-	-	-	331,063	4,000	-	-	-	4,000
Healthcare	209,765	-	-	-	209,765	26,675	-	-	-	26,675
Manufacturing	1,909,174	-	-	-	1,909,174	191,653	-	-	-	191,653
Retail Trade	730,296	-	-	-	730,296	362,560	-	9,062	-	371,622
Service Industries	1,068,728	-	-	118,755	1,187,483	219,679	-	-	-	219,679
Utilities	50,000	-	-	25,000	75,000	-	-	-	-	-
Other	1,210,809	-	-	8,478	1,219,287	30,920	-	-	-	30,920
Total	\$ 6,459,320	\$ -	\$ -	\$ 152,233	\$ 6,611,553	\$ 909,923	\$ -	\$ 9,062	\$ -	\$ 918,985

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

FY16 Loans Receivable	MACRO					MICRO				
	Accruing Interest			Total on Nonaccrual	Total Loans Receivable	Accruing Interest			Total on Nonaccrual	Total Loans Receivable
	Current Balance	30-89 Days Past Due	More Than 90 Days Past Due			Current Balance	30-89 Days Past Due	More Than 90 Days Past Due		
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	\$ 9,972	\$ -	\$ 1,092,215

Interest income foregone on nonaccrual loans approximated \$2,619 and \$1,053 for the years ended June 30, 2017 and 2016, respectively.

There were eight impaired loans with a loan loss reserve of 100% in the amount of \$317,626 as of June 30, 2017, and two impaired loans with a loan loss reserve of 100% in the amount of \$33,654 as of June 30, 2016.

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.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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

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:

	2017	2016
Pledges Expected to be Collected in:		
Less than One Year	\$ 20,520	\$ 18,635
One to Five Years	9,440	9,200
Total	\$ 29,960	\$ 27,835

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:

	2017	2016
Land and Land Improvements	\$ 1,207,900	\$ 1,206,900
Buildings	1,669,402	1,669,402
Furniture and Equipment	896,288	635,903
Subtotal	3,773,590	3,512,205
Accumulated Depreciation	(1,097,779)	(1,025,057)
Net Investment in Property and Equipment	\$ 2,675,811	\$ 2,487,148

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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, 2017, 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. The capital lease is included in grants and other payables on the consolidated statements of financial position.

Capital Lease Payable - Office Equipment;
Interest at 5.28%; Monthly Installments of
\$1,431, Matures 2018

	\$	6,930	\$	29,136
Less: Current Maturities of Capital Lease Payable		(6,930)		(10,811)
Capital Lease Payable Net of Current Maturities	\$	-	\$	18,325

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

Fiscal Year	Amount
2018	\$ 7,052
Total Minimum Lease Payments	7,052
Less: Amount Representing Interest on Capital Lease Payable	(122)
Net Minimum Capital Lease Payments	\$ 6,930

NOTE 8 LONG-TERM DEBT

The Foundation's long-term debt at June 30, 2017 and 2016 consists of the following:

Description	2017	2016
<u>Note Payable - U.S. Small Business Administration</u> Face Amount \$1,250,000, Interest at 0.875%, Due May 2023, Monthly Interest and Principal Payments, Secured by the Foundation's Microloan Revolving Fund.	\$ 914,854	\$ 803,451
<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. Secured by the Foundation's Microloan Revolving Fund.	1,407	31,869

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 8 LONG-TERM DEBT (CONTINUED)

<u>Description</u>	<u>2017</u>	<u>2016</u>
<u>Note Payable - U.S. Small Business Administration</u> Face Amount \$337,000, Bears interest at 0.875%, Due October 2022, Monthly Interest and Principal Payments, Secured by the Foundation's Microloan Revolving Fund.	\$ 199,704	\$ 237,148
<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 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.	223,707	279,590
<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 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.	406,681	431,798
<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	1,600,000	1,830,000
Unamortized Discount	(15,631)	(17,919)
Unamortized Bond Issuance Costs	(76,359)	(87,534)
Total	3,254,363	3,508,403
Less: Current Maturities	460,507	464,487
Long-Term Debt Net of Current Maturities	<u>\$ 2,793,856</u>	<u>\$ 3,043,916</u>

Substantially all receivables are pledged to long-term debt.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 8 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>
2018	\$ 460,507
2019	462,044
2020	463,061
2021	459,288
2022	411,808
Thereafter	1,089,645
Total	<u>\$ 3,346,353</u>

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 \$1,325,704 and \$1,001,799 at June 30, 2017 and 2016, respectively.

NOTE 9 NET ASSETS

Unrestricted net assets designated by the board of directors consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Endowment Funds	\$ 16,002,685	\$ 12,672,806
Affiliate Funds	789,984	734,080
Component Funds	2,267,970	2,031,976
Economic Development	30,867	30,867
Grants Program	434,003	241,002
Operations	-	56,134
Total	<u>\$ 19,525,509</u>	<u>\$ 15,766,865</u>

Temporarily restricted net assets consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Affiliate Funds	\$ 1,964,043	\$ 1,509,201
Component Funds	2,886,579	1,642,835
Economic Development	11,347,035	11,215,675
Programs	152,768	295,354
Total	<u>\$ 16,350,425</u>	<u>\$ 14,663,065</u>

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 9 NET ASSETS (CONTINUED)

Permanently restricted net assets consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Endowment Funds	\$ 21,160,270	\$ 20,981,845
Affiliate Funds Endowed	3,617,771	3,388,412
Component Funds Endowed	7,020,798	6,796,060
Endowment - Farmland Retention	2,495,726	2,384,820
Total	<u>\$ 34,294,565</u>	<u>\$ 33,551,137</u>

Temporarily restricted net assets were released from donor restrictions during 2017 and 2016 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.

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 GrowingSM 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), and USDA Microloan Fund (RMAP). These funds are 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.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017:

	2017				Total
	Level 1	Level 2	Level 3	NAV	
Investments:					
Federal Agencies	\$ -	\$ 42,853	\$ -	\$ -	\$ 42,853
US Government Obligations	2,101,499	-	-	-	2,101,499
Corporate Bonds	-	4,145,953	-	-	4,145,953
Stock Mutual Funds	37,005,113	-	-	-	37,005,113
Equity Securities	-	-	113,252	-	113,252
Taxable Bond Mutual Funds	9,777,351	-	-	-	9,777,351
Municipal Obligations	-	-	-	-	-
Foreign Bonds, Notes and Debentures	-	798	-	-	798
Charitable Remainder Trust Investments	205,769	-	-	-	205,769
Alternative Investments	-	-	-	5,300,000	5,300,000
Total	<u>\$ 49,089,732</u>	<u>\$ 4,189,604</u>	<u>\$ 113,252</u>	<u>\$ 5,300,000</u>	<u>\$ 58,692,588</u>

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				Total
	Level 1	Level 2	Level 3	NAV	
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
Charitable Remainder Trust Investments	188,903	-	-	-	188,903
Alternative Investments	479,761	-	-	-	479,761
Total	<u>\$ 44,915,129</u>	<u>\$ 13,158,322</u>	<u>\$ 217,502</u>	<u>\$ -</u>	<u>\$ 58,290,953</u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017 and 2016:

	2017	2016
Beginning Balance	\$ 217,502	\$ 285,091
Realized Gains	-	-
Purchase of Investments	-	-
Write Down of Investments	(104,250)	(67,589)
Ending Balance	<u>\$ 113,252</u>	<u>\$ 217,502</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 the years ended June 30, 2017 and 2016, losses related to nonrecurring fair value measurements of certain assets included the following:

	Level 1	Level 2	Level 3	Total Loss
2017				
Impaired Loans	\$ -	\$ -	\$ -	\$ -
2016				
Impaired Loans	\$ -	\$ -	\$ 33,654	\$ 33,654

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.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2017:

<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	\$ 3,700,000	\$ -	Monthly	60 Days
Hirtle Callaghan Absolute Return Offshore Fund II Limited	<u>1,600,000</u>	<u>-</u>	Monthly	60 Days
Total	<u>\$ 5,300,000</u>	<u>\$ -</u>		

Hirtle Callaghan Total Return Offshore Fund II Limited includes investments in hedge funds. The fair value of the investment 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, 2017.

Hirtle Callaghan Absolute Return Offshore Fund II Limited includes investments in hedge funds. The fair value of the investment 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, 2017.

NOTE 11 ENDOWMENT

At June 30, 2017 and 2016, the Foundation's endowment consisted of 118 and 116 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.

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 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.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 11 ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

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, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, July 1, 2016	\$ 13,419,940	\$ 1,907,236	\$ 31,166,317	\$ 46,493,493
Investment Return:				
Interest, Dividends and Realized Gains	10,656,588	3,392,406	-	14,048,994
Unrealized Losses	(6,463,426)	(1,815,226)	-	(8,278,652)
Total Investment Return	<u>4,193,162</u>	<u>1,577,180</u>	<u>-</u>	<u>5,770,342</u>
Contributions	-	-	625,171	625,171
Appropriations of Endowment Assets for Expenditure	(1,629,972)	(420,711)	-	(2,050,683)
Transfers	<u>730,542</u>	<u>(150,707)</u>	<u>7,057</u>	<u>586,892</u>
Endowment Net Assets, June 30, 2017	<u>\$ 16,713,672</u>	<u>\$ 2,912,998</u>	<u>\$ 31,798,545</u>	<u>\$ 51,425,215</u>

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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, 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 Gains	(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)
Transfers	(1,589,816)	(12,095)	3,696	(1,598,215)
Endowment Net Assets, June 30, 2016	<u>\$ 13,419,940</u>	<u>\$ 1,907,236</u>	<u>\$ 31,166,317</u>	<u>\$ 46,493,493</u>

The following is a summary of endowment funds composition for the years ended June 30, 2017 and 2016:

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ 2,912,998	\$ 31,798,545	\$ 34,711,543
Board-Designated Endowment Funds	16,713,672	-	-	16,713,672
Total Funds	<u>\$ 16,713,672</u>	<u>\$ 2,912,998</u>	<u>\$ 31,798,545</u>	<u>\$ 51,425,215</u>
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	<u>\$ 13,419,940</u>	<u>\$ 1,907,236</u>	<u>\$ 31,166,317</u>	<u>\$ 46,493,493</u>

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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 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. Their currently are no underwater endowment funds.

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 \$69,321 and \$68,448 for the years ended June 30, 2017 and 2016, respectively.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 14 GRANTS MADE

The Foundation made grants in the following categories during the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Business Initiatives	\$ 51,383	\$ 41,000
Community Initiatives	576,925	995,857
Aging	120,670	324,635
Youth	487,888	481,991
Leadership	5,000	19,350
Minority	5,000	1,500
Total Grants Made	<u>\$ 1,246,866</u>	<u>\$ 1,864,333</u>



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, 2017, 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 October 10, 2017.

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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

St. Cloud, Minnesota
October 10, 2017

**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, 2017. 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, 2017.

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
October 10, 2017

**SOUTHWEST INITIATIVE FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017**

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		\$ -	\$ 41,748
Rural Microentrepreneur Assistance Program (Note B)	10.870			431,798
Total Rural Microentrepreneur Assistance Program				<u>473,546</u>
Small Business Administration				
Direct Program:				
Microloan Demonstration Program - Training Grant	59.046		-	222,878
Microloan Demonstration Program (Note B)	59.046		-	1,320,189
Total Microloan Demonstration Program				<u>1,543,067</u>
Total Federal Awards				<u>\$ 2,016,613</u>

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, 2017. 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.

**SOUTHWEST INITIATIVE FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
JUNE 30, 2017**

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, 2017 consists of:

Program	Federal CFDA Number	Balance Outstanding
Rural Microentrepreneur Assistance Program	10.870	\$ 406,681
Microloan Demonstration Program	59.046	<u>1,338,265</u>
Total Federal Loans Outstanding		<u>\$ 1,744,946</u>

**SOUTHWEST INITIATIVE FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.870	Rural Microentrepreneur Assistance Program

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

Auditee qualified as low-risk auditee? X Yes No

**SOUTHWEST INITIATIVE FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

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

Our audit did no disclose any findings in the prior year.