

SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS AND
SINGLE AUDIT COMPLIANCE REPORTS
YEARS ENDED JUNE 30, 2024 AND 2023



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Southwest Initiative Foundation
Hutchinson, Minnesota

Report on the Audit of the Consolidated Financial Statements

Opinion

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, 2024 and 2023, 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.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwest Initiative Foundation as of June 30, 2024 and 2023, 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.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, effective July 1, 2023, Southwest Initiative Foundation adopted new accounting guidance for the measurement of credit losses with a cumulative effect adjustment to net assets. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated 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, and for 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.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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


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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 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 consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2024 on our consideration of Southwest Initiative Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Southwest Initiative Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southwest Initiative Foundation's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

St. Cloud, Minnesota
September 30, 2024

SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2024 AND 2023

ASSETS	2024	2023
Cash and Cash Equivalents	\$ 430,578	\$ 847,829
Restricted Cash	453,445	671,816
Loans Receivable, Net	11,241,527	9,524,791
Pledges Receivable	234,000	264,500
Due from McKnight Foundation	1,000,000	1,500,000
Other Receivables	2,084,331	752,264
Prepaid Expenses	111,403	75,749
Investments	96,872,114	92,187,492
Property and Equipment, Net	2,190,486	2,351,218
Total Assets	\$ 114,617,884	\$ 108,175,659
LIABILITIES AND NET ASSETS		
LIABILITIES		
Grants and Other Payables	\$ 2,209,386	\$ 2,681,194
Accrued Liabilities	900,215	1,106,061
Assets Held on Donor's Behalf	2,007,182	1,796,720
Obligations of Split-Interest Agreements	216,001	199,295
Life Estate Liability	3,129,941	3,198,270
Investment Trust Liability	355,270	380,999
Notes Payable	1,121,564	1,239,321
Total Liabilities	9,939,559	10,601,860
NET ASSETS		
Without Donor Restrictions:		
Board-Designated	23,977,419	21,075,646
Undesignated	10,941,981	10,283,602
Total Net Assets Without Donor Restrictions	34,919,400	31,359,248
With Donor Restrictions:		
Purpose and Time Restricted	23,574,144	20,795,780
Held in Perpetuity	46,184,781	45,418,771
Total Net Assets With Donor Restrictions	69,758,925	66,214,551
Total Net Assets	104,678,325	97,573,799
Total Liabilities and Net Assets	\$ 114,617,884	\$ 108,175,659

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2024**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
McKnight Foundation Grants	\$ 209,152	\$ -	\$ 209,152
Other Grants	1,941,913	993,300	2,935,213
Contributions	74,134	3,205,549	3,279,683
Investment Income	5,561,847	3,397,763	8,959,610
Loan Interest Income	-	562,745	562,745
Discount on Below Market Loans	-	(89,562)	(89,562)
Rental Income	65,305	15,700	81,005
Change in Split Interest Agreement	-	91,124	91,124
Miscellaneous Income	42,385	27,999	70,384
Subtotal Revenue	7,894,736	8,204,618	16,099,354
Net Assets Released from Restrictions and Transfers	4,660,244	(4,660,244)	-
Total Revenue	12,554,980	3,544,374	16,099,354
EXPENSE			
Program Expenses:			
Grant Programs	2,620,201	-	2,620,201
Economic Development Programs	3,217,373	-	3,217,373
Affiliate Funds	3,014,749	-	3,014,749
Total Program Expenses	8,852,323	-	8,852,323
General and Administrative	1,039,454	-	1,039,454
Fund Development	422,341	-	422,341
Total Expense	10,314,118	-	10,314,118
CHANGE IN NET ASSETS	2,240,862	3,544,374	5,785,236
Net Assets - Beginning of Year	31,359,248	66,214,551	97,573,799
Adoption of ASC 326 (CECL)	1,319,290	-	1,319,290
NET ASSETS - END OF YEAR	\$ 34,919,400	\$ 69,758,925	\$ 104,678,325

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
McKnight Foundation Grants	\$ 345,570	\$ -	\$ 345,570
Other Grants	1,080,556	5,965,315	7,045,871
Contributions	123,302	3,250,125	3,373,427
Investment Income	3,931,119	2,143,592	6,074,711
Loan Interest Income	-	459,103	459,103
Discount on Below Market Loans	-	72,415	72,415
Rental Income	65,305	15,700	81,005
Change in Split Interest Agreement	-	121,238	121,238
Miscellaneous Income	26,565	116,318	142,883
Subtotal Revenue	5,572,417	12,143,806	17,716,223
Net Assets Released from Restrictions and Transfers	6,743,084	(6,743,084)	-
Total Revenue	12,315,501	5,400,722	17,716,223
EXPENSE			
Program Expenses:			
Grant Programs	4,499,019	-	4,499,019
Economic Development Programs	1,532,444	-	1,532,444
Affiliate Funds	2,216,537	-	2,216,537
Total Program Expenses	8,248,000	-	8,248,000
General and Administrative	891,647	-	891,647
Fund Development	649,826	-	649,826
Total Expense	9,789,473	-	9,789,473
CHANGE IN NET ASSETS	2,526,028	5,400,722	7,926,750
Net Assets - Beginning of Year	28,833,220	60,813,829	89,647,049
NET ASSETS - END OF YEAR	\$ 31,359,248	\$ 66,214,551	\$ 97,573,799

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2024**

	Program Expenses			General and Administrative	Fund Development	Total	
	Programs	Economic Development	Affiliate Funds				Total Program
Provision for Credit Losses	\$ -	\$ 677,768	\$ -	\$ -	\$ -	\$ 677,768	
Grants Made	674,539	1,180,042	2,961,820	-	-	4,816,401	
Salaries	605,519	389,249	-	565,992	199,985	1,760,745	
Payroll Taxes	43,187	27,298	-	40,378	14,249	125,112	
Fringe Benefits	101,377	65,510	-	94,907	32,822	294,616	
Staff Travel	66,304	46,532	-	112,836	20,768	148,406	
Board Expense	3,191	1,599	-	4,790	971	8,553	
Staff and Board Development	29,560	12,748	-	42,308	8,302	60,525	
Meetings	52,622	9,318	-	61,940	3,697	67,155	
Program Delivery	440,147	334,098	(855)	773,390	553	776,049	
Contracted Services	109,884	80,540	-	190,424	33,550	313,897	
Rent	110	50	-	160	48	300	
Advertising	13,366	8,279	-	21,645	4,975	40,731	
Printing	8,617	4,723	-	13,340	16,227	42,758	
Telephone	13,932	8,864	-	22,796	2,685	29,684	
Postage	8,657	5,276	-	13,933	7,552	28,683	
Office Supplies	2,629	1,863	-	4,492	1,067	7,557	
Subscriptions and Dues	24,692	15,127	-	39,819	2,163	46,271	
Professional Fees	238,052	174,712	-	412,764	19,177	476,897	
Insurance	13,877	7,179	-	21,056	4,024	36,921	
Repairs and Maintenance	2,824	1,369	-	4,193	824	7,388	
Depreciation	69,841	34,356	-	104,197	20,572	184,148	
Sponsorships	28,607	66,543	-	95,150	1,573	101,470	
Public Relations	11,986	8,871	-	20,857	(1,485)	24,503	
Strategic Planning	27,219	15,056	-	42,275	7,571	74,344	
Utilities	18,418	9,215	-	27,633	5,460	48,836	
Component Fund Fees	-	787	-	787	-	787	
Interest Expense	723	25,329	-	26,052	215	26,880	
Fundraising Costs	-	-	49,412	49,412	4,915	54,327	
Website	4,601	1,961	-	6,562	3,760	13,709	
Miscellaneous Expense	5,720	3,111	4,372	13,203	1,684	18,697	
Total Expenses	\$ 2,620,201	\$ 3,217,373	\$ 3,014,749	\$ 8,852,323	\$ 1,039,454	\$ 422,341	\$ 10,314,118

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023**

	Program Expenses			General and Administrative	Fund Development	Total
	Programs	Economic Development	Affiliate Funds			
Provision for Credit Losses	\$ -	\$ (171,558)	\$ -	\$ (171,558)	\$ -	\$ (171,558)
Grants Made	2,889,000	230,718	2,159,119	5,278,837	-	5,278,837
Salaries	575,995	489,408	-	1,065,403	473,999	1,858,382
Payroll Taxes	39,806	34,033	-	73,839	32,989	129,017
Fringe Benefits	103,987	88,676	-	192,663	86,174	336,086
Staff Travel	60,519	56,053	-	116,572	6,487	137,904
Board Expense	6,471	4,437	-	10,908	5,945	20,300
Staff and Board Development	14,537	8,846	-	23,383	3,778	33,115
Meetings	21,443	11,052	-	32,495	3,367	37,922
Program Delivery	323,814	325,017	1,245	650,077	579	650,998
Contracted Services	82,693	81,576	-	164,269	70,950	287,728
Rent	251	158	-	409	213	750
Advertising	21,680	15,415	-	37,095	13,493	58,714
Printing	13,322	7,729	-	21,051	10,954	55,476
Telephone	12,846	10,637	-	23,483	3,502	31,098
Postage	9,312	6,808	-	16,120	7,799	32,000
Office Supplies	3,358	2,711	-	6,069	2,326	9,994
Subscriptions and Dues	18,100	17,173	-	35,273	3,339	41,979
Professional Fees	160,684	195,935	-	356,619	48,608	441,838
Insurance	12,035	8,216	-	20,251	10,499	37,090
Repairs and Maintenance	1,577	1,005	-	2,582	1,376	4,781
Depreciation	64,598	44,825	-	109,423	57,157	201,269
Sponsorships	-	3,750	-	3,750	-	3,750
Public Relations	17,389	10,631	-	28,020	6,137	38,540
Strategic Planning	2,752	1,595	-	4,347	2,348	8,100
Utilities	16,206	10,744	-	26,950	14,108	49,583
Component Fund Fees	-	785	-	785	-	785
Interest Expense	10,688	30,539	-	41,227	9,206	55,958
Fundraising Costs	-	-	51,813	51,813	-	71,549
Website	14,668	4,760	-	19,428	6,993	31,073
Miscellaneous Expense	1,288	770	4,360	6,417	9,321	16,415
Total Expenses	\$ 4,499,019	\$ 1,532,444	\$ 2,216,537	\$ 8,248,000	\$ 891,647	\$ 9,789,473

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST INITIATIVE FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2024 AND 2023**

	2024	2023
CASH FLOW FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 5,785,236	\$ 7,926,750
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	184,148	201,269
Amortization of Discount on Bonds Payable and Issuance Costs	-	24,680
(Gain) Loss on Sale of Fixed Assets	295	(7,876)
Net Unrealized Gain on Investments	(4,878,279)	(4,802,020)
Net Realized Loss on Sale of Investments	2,265	1,112,917
Credit Loss Provisions	673,510	(170,794)
Loan Charge Offs	4,258	(764)
Change in Present Value of Loans Receivable	89,562	(72,415)
SBEL Loan Forgiveness	-	859,807
Change in Value of Life Estate Liability	(74,418)	(115,193)
Contributions Restricted for Endowment Funds	(670,427)	(3,715,585)
(Increase) Decrease in:		
Due from McKnight Foundation	500,000	1,000,000
Pledges Receivable	30,500	(264,500)
Other Receivables	(1,332,067)	31,021
Prepaid Expenses	(35,654)	13,210
Increase (Decrease) in:		
Grants and Other Payables	(431,897)	(9,945)
Accrued Liabilities	(205,846)	(89,398)
Investment Trust Liability	(25,729)	(25,246)
Assets Held on Donor's Behalf	210,462	221,310
Net Cash Provided (Used) by Operating Activities	(174,081)	2,117,228
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on Loans Receivable	1,585,052	2,522,809
Issuance of Loans Receivable	(2,749,828)	(3,121,199)
Proceeds from Sale of Investments	24,843,671	31,556,853
Purchase of Investments	(24,652,279)	(36,261,446)
Purchase of Property and Equipment	(24,061)	(23,705)
Proceeds from Sale of Property and Equipment	350	57,962
Net Cash Used by Investing Activities	(997,095)	(5,268,726)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	-	500,000
Principal Payments on Long-Term Debt	(117,757)	(227,683)
Principal Payments on Bonds Payable	-	(470,000)
Principal Payments on Financing Lease	(39,911)	(50,880)
Contributions to Endowment Funds	693,222	3,736,388
Net Cash Provided by Financing Activities	535,554	3,487,825
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(635,622)	336,327
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	1,519,645	1,183,318
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	\$ 884,023	\$ 1,519,645
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 19,314	\$ 23,683
Acquisition of Financing Lease	\$ 30,436	\$ 35,112
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH PER THE CONSOLIDATED STATEMENTS OF CASH FLOWS TO CASH, CASH EQUIVALENTS, AND RESTRICTED CASH PER THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
Cash and Cash Equivalents	\$ 430,578	\$ 847,829
Restricted Cash	453,445	671,816
Cash, Cash Equivalents, and Restricted Cash per Consolidated Statements of Cash Flows	\$ 884,023	\$ 1,519,645

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Foundation

Southwest Initiative Foundation (the Foundation) is a nonprofit community foundation connecting people, investing in ideas, and building communities to create a southwest Minnesota where all people thrive. Working across 18 counties and two Native Nations, the Foundation has distributed more than \$122 million through grant-making and business financing. The Foundation is supported by individuals, families, businesses, and organizations who want to keep this rural region going strong for the next generation.

Basis of Presentation

The accompanying consolidated financial statements include the accounts and operations of SWIF Real Estate Holdings, LLC and Southwest Minnesota Community Capital. There are no transactions within SWIF Real Estate Holdings, LLC.

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

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

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

Obligations of Split-Interest Agreements

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

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

Life Estate Liability

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

Investment Trust Liability

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

Loans

Loans are stated at the amount of unpaid principal, reduced by an allowance for credit 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 credit losses. The Foundation has determined accounting for nonrefundable fees and costs associated with originating or acquiring loans does not have a material effect on its consolidated financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively. Interest income is accrued on the unpaid principal balance.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans (Continued)

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

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

Allowance for Credit Losses on Loans

The Foundation will utilize a loss-rate method called the weighted average remaining maturity (WARM) method in calculating its allowance for credit losses for all loan segments. The WARM method estimates expected credit losses over their remaining life of the loan and uses a weighted average of the assets contractual terms to estimate the pool's remaining contractual term. The WARM method uses average annual net charge-off rates and the amortization of the adjusted remaining life, plus or minus any qualitative adjustments management deems applicable.

Segmentation

ASC 326-20 prescribes that expected credit losses be measured on a pool basis for financial assets with similar risk characteristics. For the purposes of their collective evaluation, financial assets will be aggregated based on the below portfolio segments which are deemed to have common characteristics. All other financial instruments which do not fall into one of these pools, or are considered impaired as later defined, will be individually evaluated.

Qualitative Factors & Reasonable and Supportable Forecasts

Historic credit losses (or even recent trends in losses) generally do not, by themselves, form a sufficient basis to determine appropriate levels for allowance for credit losses. Management considers the need to qualitatively adjust expected credit loss estimates for information not already captured in the loss estimation process. Qualitative factors are determined by management as necessary to adjust (up or down) historical losses for other external and internal risk conditions. Management is also required to consider reasonable and supportable forecasts that affect expected collectability of financial assets. These forecasts should incorporate anticipated changes in the economic environment that may affect credit loss estimates over time. Forward looking information may reflect positive or negative expectations. These factors reflect any differences between the conditions that existed when the historical losses were incurred and the conditions that exist at the measurement date.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses on Loans (Continued)

External factors may include, but are not limited to:

- Qualitative Outlook Analysis (source Vertical IQ)
- Reviewed by sector for:
 - Expected industry growth or decline
 - Growth in industry as it compares to GDP
 - Employment in industry

It will be determined if changes are insignificant from the previous assessment (no change) or whether q-factors show low, medium or higher risk. Risk level for the pool will be adjusted and applied.

Effective, July 1, 2023, the allowance for credit losses on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The allowance for credit losses on loans is adjusted through the provision for credit losses to the amount of amortized cost basis not expected to be collected at the statement of financial position date. Loan losses are charged off against the allowance for credit losses on loans when the Foundation determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance for credit losses on loans.

The allowance for credit losses (allowance) is an estimate of loan losses inherent in the Foundation's loan portfolio. The allowance is established through a provision for loan credit losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after loan credit losses and loan growth.

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

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

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses on Loans (Continued)

The risk ratings can be grouped into the following categories:

Pass:

Loans classified as Pass are loans with no existing or known potential weaknesses deserving of management's close attention.

Special Mention:

Loans classified as Special Mention have a potential weakness that deserves management's close attention. If left uncorrected, the potential weakness may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Organization to sufficient risk to warrant adverse classification.

Substandard:

Loans classified as Substandard are not adequately protected by current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as Substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Organization will sustain some loss if the deficiencies are not corrected.

Doubtful:

Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss:

Loans classified as Loss are considered uncollectible and anticipated to be charged off.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses on Loans (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:

Agriculture: The Agriculture portfolio consists of 19 and 22 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at years ending June 30, 2024 and 2023, respectively. The qualitative factors include climate change issues, which may affect agricultural productivity and property values; government support, which can provide financial stability to certain sectors; and the debate between organic vs. GMO products, influencing market preferences and pricing. Additionally, industry consolidation can alter competitive dynamics, while immigration reform may impact labor availability and economic growth. Despite these potential challenges, strong demand supports higher price levels and greater revenue.

Healthcare: The Healthcare portfolio consists of 8 and 7 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at years ending June 30, 2024 and 2023, respectively. The qualitative factors include the forecasted growth in this sector driven by an aging population, which increases demand for healthcare services. However, this growth is tempered by a deepening labor shortage, which could impact service delivery and operational costs.

Hospitality: The Hospitality portfolio consists of 18 and 17 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at years ending June 30, 2024 and 2023, respectively. The qualitative factors include the significant recovery from the pandemic, with travel on the rise, leading to increased occupancy rates and revenue.

Manufacturing: The Manufacturing portfolio consists of 29 and 26 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at years ending June 30, 2024 and 2023, respectively. The qualitative factors include this sector remaining steady in 2023, with relatively flat growth and unchanged employment levels.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses on Loans (Continued)

Real Estate: The Real Estate portfolio consists of 13 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at both years ending June 30, 2024 and 2023, respectively. The qualitative factors include the facing challenges such as high mortgage rates and declining builder sentiment, which can impact property values and sales.

Retail: The Retail portfolio consists of 52 and 47 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at years ending June 30, 2024 and 2023, respectively. The qualitative factors include the high wage costs and credit card fees to retailers, which can squeeze profit margins. Additionally, the growth rate in retail has slowed down but still is growing.

Service: The Service portfolio consists of 184 and 169 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at years ending June 30, 2024 and 2023, respectively. The qualitative factors include a cooling in artificial intelligence and technology advancements, making it sensitive to economic changes. Additionally, the cost of skilled labor remains high.

Other: The Other portfolio consists of 18 and 14 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at years ending June 30, 2024 and 2023, respectively. The qualitative factors include demand for services exceeding available supplies, creating operational challenges in the nonprofit segment. The childcare sector has also lost workers, but sales growth remains moderate.

Although management believes the allowance for credit losses to be adequate, ultimate losses may vary from its estimates. On a quarterly basis, the Foundation reviews the adequacy of the allowance, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount.

Prior to the adoption of ASC 326, the Foundation used an incurred loss model to measure an allowance for loan losses.

Small Business Emergency Loan Forgiveness (SBEL)

In fiscal year 2020, the State of Minnesota, Department of Employment and Economic Development (DEED), partnered with Southwest Initiative Foundation to provide due diligence and loan issuance for loan applicants. This State of Minnesota program is titled Small Business Emergency Loans (SBEL). The terms of the loans were set by DEED. During the years ended June 30, 2024 and 2023, certain loan applicants qualified for 50% loan forgiveness based on specific criteria as determined by DEED, which amounted to \$-0- and \$859,807, respectively.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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, 2024 and 2023, the Foundation has not recorded a reserve for uncollectible pledges.

Due from McKnight Foundation

McKnight Foundation has granted \$2,500,000 during the year ended June 30, 2022 to support the general operations of the Foundation. As of June 30, 2024 and 2023, \$1,000,000 and \$1,500,000, respectively, were outstanding and is expected to be received in \$500,000/year installments through year ended June 30, 2027.

Contributions

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

Revenue Recognition

Grant revenue is recognized in the period the grant was awarded, provided it is unconditional, and is recorded as with or without donor restrictions, depending on the grantor's intent. Grant amounts awarded and in which the conditions have been met, but not received, are reported as Other Receivables in the consolidated statements of financial position. Grant revenue for which donor restrictions are met in the year the revenue is received, is considered without donor restrictions.

A portion of the Organization's revenue is derived from cost-reimbursable contracts and grants. Amounts received are recognized as earned and are reported as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received but not yet earned are reported as Grants and Other Payables in the consolidated statements of financial position. Conditional promises to give amount to \$447,815 and \$674,217 as of June 30, 2024 and 2023, respectively. Conditional promises to give are recognized as revenue when the conditions on which they depend are substantially met. Conditions are met when the qualifying expenses based on specific criteria are incurred. The Organization was awarded cost-reimbursable grants of \$6,149,043 and \$4,020,127, respectively, for which qualifying expenditures have not yet been incurred and therefore have not been recognized. Unconditional promises to give due in subsequent years are recorded at their net realizable value.

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

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2024 and 2023, using discount rates of 4.4% in both years. Contribution income is recognized for the difference between the initial contributed asset and related liability.

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

Assets Held on Donor's Behalf

Assets held on donor's behalf at June 30, 2024 and 2023 consist of 22 funds, 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.

Advertising

The Foundation follows the policy of charging the cost of advertising to expense as incurred. Advertising expense was \$40,731 and \$58,714 for the years ended June 30, 2024 and 2023, respectively.

Functional Allocation of Expense

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

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

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

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

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

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

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

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

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

Program Grants

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

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax-Exempt Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws. The Foundation is a nonprivate foundation and contributions to the organization qualify as a charitable tax deduction by the contributor. SWIF Real Estate Holdings LLC and Southwest Minnesota Community Capital are 100% owned and 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.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. Such reclassifications have no effect on the change in member's deficit or member's deficit in total as previously reported.

New Accounting Pronouncements

On July 1, 2023, the Foundation adopted ASU 2016-03, *Financial Instruments – Credit Losses (Topic) 326): Measurement of Credit Losses on Financial Instruments*, as amended (ASC 326), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss methodology (CECL). The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet credit exposures such as loan commitments and standby letters of credit.

An allowance for credit losses under the CECL methodology is determined using the loss rate approach and measured on a collective (pool) basis when similar risk characteristics exist. Where financial instruments do not share risk characteristics, they are evaluated on an individual basis. The allowance for credit losses is based on relevant information from internal and external sources relating to past events, current conditions, and reasonable and supportable forecasts. Prior to the adoption of ASC 326, the Foundation maintained an allowance for loan losses to reserve for loan losses inherent in the Foundation's loan portfolio.

The Foundation adopted the standard using the modified retrospective method for all financial assets measured at amortized cost and for off-balance sheet credit exposures. Results for annual periods beginning after July 1, 2023 are presented under the new CECL model while prior reporting periods continue to be reported in accordance with previously applicable GAAP. The Foundation recorded a net increase to net assets in the amount of \$1,319,290 as of July 1, 2023 representing the cumulative effect of adopting this standard.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 30, 2024, 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 primarily of cash, receivables, and investments in marketable securities.

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

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

The grants from the McKnight Foundation are considered a significant source of operating revenue. The McKnight Foundation awarded a five-year unconditional grant of \$2,500,000 at the end of June 30, 2022 which was intended to cover \$500,000 each year for FY2023, FY2024, FY2025, FY2026, and FY2027. In FY2023, the McKnight Foundation paid an additional \$500,000 early for a total of \$1,000,000. In FY 2024, the McKnight Foundation paid the intended \$500,000.

For the year ending June 30, 2024, 16% of the Foundation's revenue were derived from one major contributor.

NOTE 3 INVESTMENTS

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

	2024		2023	
	Amount	Percent	Amount	Percent
Cash and Cash Equivalents	\$ 10,626,448	11 %	\$ 11,028,854	12 %
U.S. Government Obligations	2,282,025	2	2,228,929	2
Corporate Bonds	2,308,894	2	7,004,063	8
Stock Mutual Funds	36,786,452	38	35,248,514	38
Equity Securities	542,483	1	537,410	1
Taxable Bond Mutual Funds	14,947,151	16	10,249,017	11
Foreign Bonds, Notes, and Debentures	4,141	-	3,738	-
Alternative Investments	19,419,943	20	15,949,096	17
Charitable Remainder				
Trust Investments	216,001	-	199,295	-
Donated Real Estate Held as Investments	8,009,085	8	8,009,085	9
Investment Held in Trust	1,729,491	2	1,729,491	2
Totals	<u>\$ 96,872,114</u>	<u>100 %</u>	<u>\$ 92,187,492</u>	<u>100 %</u>

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 3 INVESTMENTS (CONTINUED)

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

	2024	2023
Interest and Dividends on Investments	\$ 4,419,172	\$ 2,684,933
Realized Loss on Investments	(2,265)	(1,112,917)
Unrealized Gain (Loss) on Investments	4,878,279	4,802,020
Investment Fees	(335,576)	(299,325)
Total	\$ 8,959,610	\$ 6,074,711

Donated Real Estate Held as Investments

The Foundation holds contributed land as investment at the lower of fair value when land was received and current net realizable value. The carrying amount is \$8,009,085 as of both June 30, 2024 and 2023. The Foundation obtains rental income from the parcels without life estate beneficiaries and does not plan to sell the land.

Investment Held in Trust

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

NOTE 4 LOANS RECEIVABLE, NET OF ALLOWANCE FOR CREDIT LOSSES

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% for the years ended June 30, 2024 and 2023. The Foundation has commitments on loans approved but not disbursed as of June 30, 2024 and 2023 of \$89,900 and \$609,675, respectively. A loan is considered past due once a payment date has been missed. As of June 30, 2024 and 2023, fourteen and ten loans, respectively, were greater than 90 days past due. Any loans greater than 90 days past due may start the process of being added to nonaccrual. Once a loan is determined to be nonaccrual, it is removed from the greater than 90-day category and maintained separately as a nonaccrual loan. Southwest Initiative Foundation has \$145,183 and \$418,696 on nonaccrual at June 30, 2024 and 2023, respectively.

For the years 2024 and 2023, \$1,030,456 and \$852,640, respectively, of loans receivable were pledged as security to the underlying notes payable.

The Organization elected to exclude the accrued interest receivable from the amortized cost basis of loans. As of June 30, 2024 and 2023, accrued interest receivable for loans totaled \$105,596 and \$56,921, respectively, and is included in other receivables on the statements of financial position.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 4 LOANS RECEIVABLE, NET OF ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

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

	<u>2024</u>	<u>2023</u>
Loans Receivable Maturities:		
Current	\$ 2,980,951	\$ 2,106,522
Long-Term	9,529,814	9,243,726
Total Loans Receivable Maturities	<u>12,510,765</u>	<u>11,350,248</u>
Discount for Below Market Interest Rates	(148,447)	(58,885)
Allowance for Credit Losses	<u>(1,120,791)</u>	<u>(1,766,572)</u>
Net Loans Receivable	<u>\$ 11,241,527</u>	<u>\$ 9,524,791</u>

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

	<u>2024</u>	<u>2023</u>
Agriculture	\$ 1,232,786	\$ 1,416,664
Healthcare	661,079	674,585
Hospitality	657,553	694,219
Manufacturing	2,861,821	2,293,741
Real Estate	1,167,129	1,323,571
Retail	1,337,620	1,293,712
Service	3,788,976	3,022,504
Other	803,801	631,252
Less: Allowance, Discount, and Participation	<u>(1,269,238)</u>	<u>(1,825,457)</u>
Net Loans Receivable	<u>\$ 11,241,527</u>	<u>\$ 9,524,791</u>

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

	<u>2024</u>	<u>2023</u>
Balance at Beginning of Year	\$ 1,766,572	\$ 1,938,894
Adoption of CECL (326)	(1,319,290)	-
Provision	669,251	(171,558)
Loans Charged Off	4,258	(764)
Balance at End of Year	<u>\$ 1,120,791</u>	<u>\$ 1,766,572</u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 4 LOANS RECEIVABLE, NET OF ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following tables summarize the loan portfolio by loan category and the internally assigned risk level for those categories at June 30:

2024			
Loan Category	Outstanding Balance	Risk Level	Expected Future Losses
Agriculture	\$ 1,103,894	No Change	\$ 21,569
Healthcare	626,863	No Change	18,905
Hospitality	652,332	No Change	-
Manufacturing	2,548,905	No Change	162,868
Real Estate	1,103,978	Medium	(11,539)
Retail	967,309	Low	7,568
Service	3,191,835	Low	45,733
Other	824,293	Low	(4,308)
Subtotal	<u>11,019,409</u>		<u>240,796</u>
Individually Assessed	<u>1,491,356</u>	Varies*	<u>879,995</u>
Total	<u>\$ 12,510,765</u>		<u>\$ 1,120,791</u>
2023			
Loan Category	Outstanding Balance	Risk Level	Expected Future Losses
Agriculture	\$ 1,358,046	No Change	\$ 16,088
Healthcare	713,469	No Change	22,385
Hospitality	694,220	No Change	-
Manufacturing	2,139,735	No Change	187,627
Real Estate	1,323,572	Medium	(14,536)
Retail	1,174,616	Low	12,128
Service	3,002,980	Low	41,573
Other	631,251	Low	(3,467)
Subtotal	<u>11,037,889</u>		<u>261,798</u>
Individually Assessed	<u>312,359</u>	Varies*	<u>185,484</u>
Total	<u>\$ 11,350,248</u>		<u>\$ 447,282</u>

See Note 1 Summary of Significant Accounting Policies for further information on the qualitative factors that went into each risk level determination by management of the Foundation.

*Loans that are individually assessed are evaluated on a case-by-case basis due to their unique risk characteristics and are risked from 15%-100%. They often include non-performing loans, loans that are in default or close to being in default, if a borrower is struggling beyond sector environmental factors, or other payment issues. These loans are assessed individually because their risk profiles and potential losses can vary significantly from other loans in the portfolio. The Foundation takes into consideration any recovery from available collateral when determining an expected future loss figure.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 4 LOANS RECEIVABLE, NET OF ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The allowance for credit losses and recorded investment in loans at June 30, 2024 is as follows:

	Change in Loan Loss Reserve					06/30/24
	06/30/23	Adoption of CECL (326)	Provision	Charged Off	Recovered	
Agriculture	\$ 172,533	\$ (156,445)	\$ 1,223	\$ 4,258	\$ -	\$ 21,569
Healthcare	59,931	(37,546)	(3,480)	-	-	18,905
Hospitality	88,364	(88,364)	-	-	-	-
Manufacturing	375,563	(187,936)	(24,759)	-	-	162,868
Real Estate	155,816	(170,352)	2,997	-	-	(11,539)
Retail	293,723	(281,595)	(4,560)	-	-	7,568
Service	546,751	(505,178)	4,160	-	-	45,733
Other	73,891	(77,358)	(841)	-	-	(4,308)
Subtotal	<u>1,766,572</u>	<u>(1,504,774)</u>	<u>(25,260)</u>	<u>4,258</u>	<u>-</u>	<u>240,796</u>
Individually Assessed	-	185,484	694,511	-	-	879,995
Total	<u>\$ 1,766,572</u>	<u>\$ (1,319,290)</u>	<u>\$ 669,251</u>	<u>\$ 4,258</u>	<u>\$ -</u>	<u>\$ 1,120,791</u>

The allowance for credit losses and recorded investment in loans at June 30, 2023 is as follows. The Foundation adopted CECL as of July 1, 2023. The prior year amounts presented are calculated under the prior accounting standard:

	Change in Loan Loss Reserve					06/30/23
	06/30/22	Provision	Charged Off	Recovered	06/30/23	
Agriculture	\$ 178,018	\$ (5,485)	\$ -	\$ -	\$ -	\$ 172,533
Healthcare	65,534	(5,603)	-	-	-	59,931
Hospitality	117,282	(28,918)	-	-	-	88,364
Manufacturing	447,390	(71,827)	-	-	-	375,563
Real Estate	87,856	67,960	-	-	-	155,816
Retail	324,965	(31,242)	-	-	-	293,723
Service	596,446	(50,460)	765	-	-	546,751
Other	121,403	(47,512)	-	-	-	73,891
Total	<u>\$ 1,938,894</u>	<u>\$ (173,087)</u>	<u>\$ 765</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,766,572</u>

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 4 LOANS RECEIVABLE, NET OF ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following table shows the loans receivable at June 30, 2024 allocated by management's internal risk ratings:

FY24 Loans Receivable	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total Loans Receivable</u>
Credit Risk Profile by						
Risk Rating:						
Agriculture	\$ 1,103,894	\$ 81,869	\$ -	\$ -	\$ 47,023	\$ 1,232,786
Healthcare	626,863	-	34,216	-	-	661,079
Hospitality	652,332	-	-	-	5,221	657,553
Manufacturing	2,548,905	158,910	-	-	154,006	2,861,821
Real Estate	1,103,978	63,151	-	-	-	1,167,129
Retail	952,885	182,374	25,605	107,574	69,182	1,337,620
Service	3,211,688	260,288	67,657	60,228	189,115	3,788,976
Other	794,293	-	-	6,146	3,362	803,801
Total	<u>\$ 10,994,838</u>	<u>\$ 746,592</u>	<u>\$ 127,478</u>	<u>\$ 173,948</u>	<u>\$ 467,909</u>	<u>\$ 12,510,765</u>

The following table shows the loans receivable at June 30, 2023 allocated by management's internal risk ratings:

FY23 Loans Receivable	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total Loans Receivable</u>
Credit Risk Profile by						
Risk Rating:						
Agriculture	\$ 1,273,214	\$ 92,828	\$ -	\$ -	\$ 50,623	\$ 1,416,665
Healthcare	674,585	-	-	-	-	674,585
Hospitality	563,902	124,784	-	-	5,534	694,220
Manufacturing	1,882,134	257,601	-	-	154,006	2,293,741
Real Estate	1,217,960	105,612	-	-	-	1,323,572
Retail	983,019	191,597	-	56,420	62,674	1,293,710
Service	2,601,122	184,066	-	69,377	167,939	3,022,504
Other	619,165	-	-	6,132	5,954	631,251
Total	<u>\$ 9,815,101</u>	<u>\$ 956,488</u>	<u>\$ -</u>	<u>\$ 131,929</u>	<u>\$ 446,730</u>	<u>\$ 11,350,248</u>

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 4 LOANS RECEIVABLE, NET OF ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following table shows an aging at June 30, 2024 analysis of loan portfolio by time past due:

FY24 Loans Receivable	Current Balance	30-89 Days Past Due	More Than 90 Days Past Due	Total on Nonaccrual	Total Loans Receivable
Agriculture	\$ 1,232,786	\$ -	\$ -	\$ -	\$ 1,232,786
Healthcare	661,079	-	-	-	661,079
Hospitality	652,332	-	5,221	-	657,553
Manufacturing	2,715,821	-	146,000	8,006	2,861,821
Real Estate	1,167,129	-	-	-	1,167,129
Retail	1,288,107	-	49,513	69,181	1,337,620
Service	3,673,250	87,667	28,059	67,996	3,788,976
Other	803,801	-	-	-	803,801
Total	<u>\$ 12,194,305</u>	<u>\$ 87,667</u>	<u>\$ 228,793</u>	<u>\$ 145,183</u>	<u>\$ 12,510,765</u>

The following table shows an aging at June 30, 2023 analysis of loan portfolio by time past due:

FY23 Loans Receivable	Current Balance	30-89 Days Past Due	More Than 90 Days Past Due	Total on Nonaccrual	Total Loans Receivable
Agriculture	\$ 1,416,665	\$ -	\$ -	\$ -	\$ 1,416,665
Healthcare	674,585	-	-	-	674,585
Hospitality	694,220	-	-	-	694,220
Manufacturing	2,139,735	-	154,006	8,006	2,293,741
Real Estate	1,323,572	-	-	-	1,323,572
Retail	1,174,616	-	119,094	119,094	1,293,710
Service	2,864,863	88,952	68,689	39,258	3,022,504
Other	631,251	-	-	-	631,251
Total	<u>\$ 10,919,507</u>	<u>\$ 88,952</u>	<u>\$ 341,789</u>	<u>\$ 166,358</u>	<u>\$ 11,350,248</u>

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 4 LOANS RECEIVABLE, NET OF ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Interest income foregone on nonaccrual loans approximated \$34,064 and \$18,147 for the years ended June 30, 2024 and 2023, respectively.

There were 10 impaired loans with a loan loss reserve of 100% in the amount of \$379,787 as of June 30, 2024, and 13 impaired loans with a loan loss reserve of 100% in the amount of \$446,731 as of June 30, 2023.

The Foundation does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are on nonaccrual, and therefore, no allowance for credit losses on off-balance sheet credit exposures exist.

NOTE 5 PLEDGES RECEIVABLE

Pledges receivable are due to be collected as follows:

	<u>2024</u>	<u>2023</u>
Pledges Expected to be Collected in:		
Less than One Year	\$ 47,000	\$ 45,500
One to Five Years	187,000	219,000
Total	<u>\$ 234,000</u>	<u>\$ 264,500</u>

All pledges receivable is 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:

	<u>2024</u>	<u>2023</u>
Land and Land Improvements	\$ 1,230,940	\$ 1,227,467
Buildings	1,655,624	1,655,624
Furniture and Equipment	1,438,713	1,423,390
Subtotal	<u>4,325,277</u>	<u>4,306,481</u>
Accumulated Depreciation	<u>(2,134,791)</u>	<u>(1,955,263)</u>
Net Investment in Property and Equipment	<u>\$ 2,190,486</u>	<u>\$ 2,351,218</u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 7 FINANCING LEASES

The Foundation determines if an arrangement is a lease at inception. Financing leases are included as a right-of-use (“ROU”) asset (in Property and Equipment, Net), and as a lease liability (in Grants and Other Payables) on the consolidated statements of financial position. ROU assets represent the Foundation’s right to use an underlying asset for the lease term and lease liabilities represent the Foundation’s obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at a commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option.

During the year ended June 30, 2024, the Foundation entered into a new financing lease for office equipment upon termination of the prior financing lease from the year ended June 30, 2023. At June 30, 2024 and 2023 respectively, the financing lease costs were \$30,436 and \$35,112, respectively, and the corresponding amortization of right-of-use assets were \$4,134 and \$4,877, respectively. Amortization of the right-of-use assets is included in depreciation expense.

The following tables provide quantitative and qualitative information concerning the Foundation’s leases.

<u>Description</u>	<u>2024</u>	<u>2023</u>
Lease Liability - Office Equipment; Interest at 7.00%; Monthly Installments of \$1,084, Matures 2026. Replaced in FY2024.	\$ -	\$ 30,663
Lease Liability - Office Equipment; Interest at 7.00%; Monthly Installments of \$1,181, Matures 2026.	21,188	-
Less: Current Maturities of Lease Liability	<u>(14,176)</u>	<u>(13,010)</u>
Lease Liability, Net of Current Maturities	<u>\$ 7,012</u>	<u>\$ 17,653</u>

<u>Year Ending June 30,</u>	<u>Finance Lease</u>
2025	\$ 14,176
2026	<u>8,269</u>
Total Lease Payments	22,445
Less: Interest	<u>(1,257)</u>
Present Value of Lease Liability	<u>\$ 21,188</u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 8 LONG-TERM DEBT

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

<u>Description</u>	<u>2024</u>	<u>2023</u>
<u>Note Payable - U.S. Department of Agriculture</u> Face Amount \$500,000, Bears Interest at 2.0%, Due 2031, Annual Interest and Principal Payments Required Starting July 2013, Secured by the Foundation's Business Finance Program, Including a Portfolio of Investments from the Proceeds of this Loan Award, Along with Real and Personal Property, and Other Rights and Interests the USDA may require.	\$ 214,306	\$ 243,510
<u>Note Payable - Southwest Minnesota Housing Partnership</u> Face Amount \$50,000, Bears no Interest, The Loan Will be Used to Fund the Loan Loss Reserve. The Loan Will be Forgiven, Unless Not Able to Use for the Loan Loss Reserve. Unsecured by the Foundation's Microenterprise Loan Program.	50,000	50,000
<u>Note Payable - U.S. Small Business Administration</u> Face Amount \$580,000, Bears interest at 1.25%, Due June 2029, Monthly Interest and Principal Payments, Secured by the Foundation's Microenterprise Loan Program.	400,599	445,811
<u>Note Payable - U.S. Small Business Administration</u> Face Amount \$500,000, Bears interest at 1.63%, Due August 2032, Monthly Interest and Principal Payments, Secured by the Foundation's Microenterprise Loan Program.	456,659	500,000
Total	1,121,564	1,239,321
Less: Current Maturities	118,243	139,550
Long-Term Debt, Net of Current Maturities	<u>\$ 1,003,321</u>	<u>\$ 1,099,771</u>

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2025	\$ 118,243
2026	166,111
2027	167,738
2028	170,323
2029	172,928
Thereafter	326,221
Total	<u>\$ 1,121,564</u>

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 8 LONG-TERM DEBT (CONTINUED)

Federal Microlending Agreements and Restricted Cash

Under the Foundation's Small Business Administration (SBA) and U.S. Department of Agriculture Rural Microentrepreneur Assistance Program (USDA-RMAP) loan agreements, the Foundation is required to keep all cash in separate accounts to be used for administrative costs, debt service, and re-lending. Restricted cash under the SBA and USDA loan agreements amounted to \$453,445 and \$671,816 at June 30, 2024 and 2023, respectively.

NOTE 9 NET ASSETS

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

	<u>2024</u>	<u>2023</u>
Endowment Funds	\$ 20,519,409	\$ 17,468,922
Affiliate Funds	935,754	944,742
Component Funds	2,070,513	2,004,930
Grants Program	451,743	657,052
Total	<u>\$ 23,977,419</u>	<u>\$ 21,075,646</u>

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

	<u>2024</u>	<u>2023</u>
Affiliate Funds	\$ 2,825,198	\$ 2,388,943
Component Funds	428,748	1,342,496
Subject to UPMIFA Appropriations	5,238,667	3,303,006
Economic Development	12,733,858	11,040,112
Programs	1,113,673	956,723
Total Purpose Restricted	<u>22,340,144</u>	<u>19,031,280</u>
Operating	1,000,000	1,500,000
Affiliate Projects	234,000	264,500
Total Time Restricted	<u>1,234,000</u>	<u>1,764,500</u>
Total Donor Restricted Net Assets	<u>\$ 23,574,144</u>	<u>\$ 20,795,780</u>

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 9 NET ASSETS (CONTINUED)

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

	<u>2024</u>	<u>2023</u>
Endowment Funds	\$ 22,003,382	\$ 21,967,202
Affiliate Funds Endowed	6,928,021	6,581,202
Component Funds Endowed	14,138,688	13,836,314
Farmland Giving Program	3,114,690	3,034,053
Total	<u>\$ 46,184,781</u>	<u>\$ 45,418,771</u>

With donor restricted net assets were released from donor restrictions during 2024 and 2023 by satisfying the restrictions as follows:

	<u>2024</u>	<u>2023</u>
Purpose Restrictions Accomplished	\$ 4,160,244	\$ 5,743,084
Time Restrictions Expired	500,000	1,000,000
Total Net Assets Released	<u>\$ 4,660,244</u>	<u>\$ 6,743,084</u>

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

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

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

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 9 NET ASSETS (CONTINUED)

Economic Development is made up of Joint Powers Area Community Fund (JPAC), Revolving Loan Fund (RLF), United States Small Business Administration (SBA) Microloan Funds, Minnesota Department of Employment and Economic Development Emerging Entrepreneur Loan Program (ELP), United States Department of Agriculture (RMAP) Fund, Minnesota Department of Employment and Economic Development Special Appropriation RLF, Minnesota Department of Employment and Economic Development Main Street Economic Revitalization Program funds, Minnesota Department of Employment and Economic Development Promise Grant fund, Minnesota Department of Employment and Economic Development Small Business Emergency Loan funds, Employer Resource Network®, Business Initiatives and several Child Care Initiative funds. These funds are reflected as with donor restrictions that consist of grant dollars or loan dollars received and some investment income restricted by the grantor for loans. Other funds income is without donor restrictions within the Economic Development umbrella and used to fund administration. Some of these funds with loan dollars must be repaid.

Due to the COVID-19 pandemic, the Foundation administered funds for the Minnesota Department of Employment and Economic Development (DEED) program for their Main Street COVID relief Grant Program. These grant applications were selected through a lottery process at DEED, verified for eligibility by the Foundation, and disbursed if the application and supporting documents met the DEED grant program requirements.

Program funds reflected as with donor restrictions 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, 2024 AND 2023

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, 2024:

	2024			Total
	Level 1	Level 2	Level 3	
Investments:				
U.S. Government Obligations	\$ 2,282,025	\$ -	\$ -	\$ 2,282,025
Corporate Bonds	-	2,308,894	-	2,308,894
Stock Mutual Funds	36,786,452	-	-	36,786,452
Equity Securities	-	-	542,483	542,483
Taxable Bond Mutual Funds	14,947,151	-	-	14,947,151
Foreign Bonds, Notes, and Debentures	-	4,141	-	4,141
Charitable Remainder Trust Investments	-	-	216,001	216,001
Investment Held in Trust	-	-	1,729,491	1,729,491
*Alternative Investments with Hirtle Callaghan - NAV	-	-	-	19,419,943
Total	<u>\$ 54,015,628</u>	<u>\$ 2,313,035</u>	<u>\$ 2,487,975</u>	<u>\$ 78,236,581</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, 2023:

	2023			Total
	Level 1	Level 2	Level 3	
Investments:				
U.S. Government Obligations	\$ 2,228,929	\$ -	\$ -	\$ 2,228,929
Corporate Bonds	-	7,004,063	-	7,004,063
Stock Mutual Funds	35,248,514	-	-	35,248,514
Equity Securities	-	-	537,410	537,410
Taxable Bond Mutual Funds	10,249,017	-	-	10,249,017
Foreign Bonds, Notes, and Debentures	-	3,738	-	3,738
Charitable Remainder Trust Investments	-	-	199,295	199,295
Investment Held in Trust	-	-	1,729,491	1,729,491
*Alternative Investments with Hirtle Callaghan - NAV	-	-	-	15,949,096
Total	<u>\$ 47,726,460</u>	<u>\$ 7,007,801</u>	<u>\$ 2,466,196</u>	<u>\$ 73,149,553</u>

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

Level 3 Assets

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2024 and 2023:

Instrument	Fair Value		Principal Valuation Technique	Unobservable Inputs	Discount Rate
	2024	2023			
Equity Securities	\$ 542,483	\$ 537,410	FMV of Investments	Value of Underlying Assets	N/A
Charitable Remainder Trust Investments	\$ 216,001	\$ 199,295	FMV of Trust Investments	Time Period of Trust	N/A
Investments Held in Trust	\$ 1,729,491	\$ 1,729,491	Discounted Cash Flows	Discount Rate Duration	3.20%

For the Charitable Remainder Trust Investments (CRUT), see Note 1 header Obligations of Split-Interest Agreements for further details on the valuation of this investment. In addition, for the Investments Held in Trust, see Note 3. There were no transfers in nor transfers out of Level 3 investments during both the years ended June 30, 2024 and 2023.

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.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Assets (Continued)

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

For both the years ended June 30, 2024 and 2023, there were no losses related to nonrecurring fair value measurements.

Net Asset Value

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, 2024:

Investment Category	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hirtle Callaghan Total Return Offshore Fund II Limited	\$ 607,355	\$ -	In liquidation	N/A
Hirtle Callaghan Select Equity Fund, LP	11,726,956	-	Quarterly	90 Days
Hirtle Callaghan Alternative Credit Opportunities Offshore Portfolio Limited	3,835,463	1,270,907	Quarterly	90 Days
Hirtle Callaghan Private Equity Offshore Fund 2020 Limited	2,353,443	1,009,722	N/A	N/A
Hirtle Callaghan Private Equity Offshore Fund 2022 A Limited	896,726	3,581,479	N/A	N/A
Hirtle Callaghan Private Equity Offshore Fund 2024 Limited	-	3,000,000	N/A	N/A
Total	<u>\$ 19,419,943</u>	<u>\$ 8,862,108</u>		

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2023:

Investment Category	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hirtle Callaghan Total Return Offshore Fund II Limited	\$ 1,170,022	\$ -	In liquidation	N/A
Hirtle Callaghan Select Equity Fund, LP	10,007,431	-	Quarterly	90 Days
Hirtle Callaghan Alternative Credit Opportunities Offshore Portfolio Limited	2,899,582	696,545	Quarterly	90 Days
Hirtle Callaghan Private Equity Offshore Fund 2020 Limited	1,645,698	1,460,870	N/A	N/A
Hirtle Callaghan Private Equity Offshore Fund 2022 A Limited	226,363	4,234,323	N/A	N/A
Total	<u>\$ 15,949,096</u>	<u>\$ 6,391,738</u>		

This category includes investments in funds of limited partnerships that pursue multiple strategies intended to diversify risk, reduce volatility and/or enhance returns. The funds include investments in common stocks (Hirtle Callaghan Select Equity Fund, LP); private equity (Hirtle Callaghan Private Equity Offshore Fund 2020 Limited and Hirtle Callaghan Private Equity Offshore Fund 2022 A Limited); private credit (Hirtle Callaghan Alternative Credit Opportunities Offshore Portfolio Limited); and hedge fund vehicles (Hirtle Callaghan Total Return Offshore Fund II Limited, which is in the process of being liquidated). The fair value of the investments in each one is based on the fund's audited net asset value per share multiplied by the Foundation's units owned as of June 30, 2024 and 2023.

NOTE 11 ENDOWMENT

At June 30, 2024 and 2023, the Foundation's endowment consisted of 151 and 148 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 retains in perpetuity the original value of the gifts to the endowment and the value of subsequent gifts to the endowment. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

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, 2024 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets, July 1, 2023	\$ 17,308,263	\$ 45,687,724	\$ 62,995,987
Investment Return:			
Interest, Dividends and Realized Gains	2,112,536	1,315,568	3,428,104
Unrealized Gains	<u>2,752,782</u>	<u>1,779,636</u>	<u>4,532,418</u>
Total Investment Return	4,865,318	3,095,204	7,960,522
Contributions	-	693,204	693,204
Appropriations of Endowment Assets for Expenditure	(1,991,885)	(906,316)	(2,898,201)
Transfers	<u>-</u>	<u>(243,230)</u>	<u>(243,230)</u>
Endowment Net Assets, June 30, 2024	<u>\$ 20,181,696</u>	<u>\$ 48,326,586</u>	<u>\$ 68,508,282</u>

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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, 2023 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets, July 1, 2022	\$ 15,815,184	\$ 40,852,213	\$ 56,667,397
Investment Return:			
Interest, Dividends and Realized Gains	581,961	351,822	933,783
Unrealized Gains	<u>2,864,485</u>	<u>1,645,588</u>	<u>4,510,073</u>
Total Investment Return	3,446,446	1,997,410	5,443,856
Contributions	-	3,736,326	3,736,326
Appropriations of Endowment Assets for Expenditure	(1,953,367)	(773,528)	(2,726,895)
Transfers	<u>-</u>	<u>(124,697)</u>	<u>(124,697)</u>
Endowment Net Assets, June 30, 2023	<u>\$ 17,308,263</u>	<u>\$ 45,687,724</u>	<u>\$ 62,995,987</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>2024</u>			
Donor-Restricted Endowment Funds	\$ -	\$ 48,326,586	\$ 48,326,586
Board-Designated Endowment Funds	20,181,696	-	20,181,696
Total Funds	<u>\$ 20,181,696</u>	<u>\$ 48,326,586</u>	<u>\$ 68,508,282</u>
<u>2023</u>			
Donor-Restricted Endowment Funds	\$ -	\$ 45,687,724	\$ 45,687,724
Board-Designated Endowment Funds	17,308,263	-	17,308,263
Total Funds	<u>\$ 17,308,263</u>	<u>\$ 45,687,724</u>	<u>\$ 62,995,987</u>

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

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 appropriates for distribution each year an additional 2% of last year's spendable allotment plus 4% of any total gifts given to the fund during the prior 12-month period. The spendable funds are an allotment of the earnings on the fund and board action is required to allow spending if the amount is less than 3% or more than 6% of the fund balance. Spending will take place only if earnings are present in the fund. For funds that are new and have no historical spendable amount, a calculation of 5% of the average daily balance will take place for the first year. The transfers in the column without donor restrictions consist of the general endowment 5% spendable calculation and transfers of match to affiliate funds. Transfers in the column with donor restrictions is made up of the 5% spendable calculations of affiliate and component funds.

Funds with Deficiencies

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions for the years ended June 30, 2024 and 2023, which amounted to 2 and 12 underwater endowment funds with total balances of \$(1,587) and \$(36,757), respectively.

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.

SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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 employees of the Foundation who work at least 20 hours per week. The Foundation contributes up to 5% of gross salaries for qualified employees to the Plan. Employees may make contributions to the Plan up to the maximum allowed by the Internal Revenue Code. Plan expenses were \$85,543 and \$90,397 for the years ended June 30, 2024 and 2023, respectively.

A 457(b) deferred compensation plan is maintained by the Foundation for certain members of management as defined by the plan. It is a nonqualified deferred compensation plan subject to the claims of creditors. The Foundation contributed approximately \$-0- and \$26,700 for the years ended June 30, 2024 and 2023, respectively. No employee contributions have been made to the plan.

NOTE 14 RELATED PARTY TRANSACTIONS

The Foundation enters into transactions with directors and key management personnel in the ordinary course of business. For the years ended June 30, 2024 and 2023, donations from these individuals to Southwest Initiative Foundation totaled approximately \$8,000 and \$25,000, respectively.

The Foundation also provided loans to related parties in the ordinary course of business. For the years ended June 30, 2024 and 2023, loan balances totaled approximately \$63,000 and \$106,000, respectively.

NOTE 15 LIQUIDITY AND AVAILABILITY

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

Description:	2024	2023
Cash and Cash Equivalents	\$ 369,427	\$ 782,712
Investments	7,438,928	5,004,407
Board-Designated - Quasi-Endowment Fund	20,516,514	17,454,572
Board-Designated - Program Use	3,460,905	3,621,074
Total	\$ 31,785,774	\$ 26,862,765

As part of the Foundation's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Foundation invests its without donor restricted assets in short term and income strategies, the quasi-endowment assets in a long-term strategy, and the program use assets in a mixture of strategies. The quasi-endowment assets above represent earnings on the Foundation's endowment which are subject to the annual spending policy; any additional amount would be available only by a vote of the board of directors. The Foundation has

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 15 LIQUIDITY AND AVAILABILITY (CONTINUED)

additional endowment funds and those assets are recorded as with donor restricted. These assets are not listed above due to the donor restrictions in place.

The \$20,516,514 and \$17,454,572 for the years ended June 30, 2024 and 2023, respectively, are subject to the endowment spendable calculation (see Note 11). As a part of this calculation, approximately \$2,036,710 and \$1,995,040, respectively, will be drawn into operations over the next 12 months. Although the Foundation does not intend to spend more than the spendable allotment from the quasi-endowment, the board of directors could make these funds available if necessary.

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



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

Board of Directors
Southwest Initiative Foundation
Hutchinson, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Southwest Initiative Foundation, which comprise the consolidated statement of financial position as of June 30, 2024, 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 30, 2024.

Report on 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) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 consolidated 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.

Report on 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 30, 2024



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

Opinion on 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, 2024. 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.

In our opinion, Southwest Initiative Foundation complied, in all material respects, with the 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, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditors' Responsibilities for the Audit of Compliance* section of our report.

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

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

Report on Internal Control Over Compliance

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

Board of Directors
Southwest Initiative Foundation

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

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

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



CliftonLarsonAllen LLP

St. Cloud, Minnesota
September 30, 2024

**SOUTHWEST INITIATIVE FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2024**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing 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		\$ -	\$ 51,827
Rural Microentrepreneur Assistance Program (Note 3)	10.870		-	255,826
Total Rural Microentrepreneur Assistance Program			-	307,653
Small Business Administration				
Direct Program:				
Microloan Program - Technical Assistance	59.046		-	211,004
Microloan Program (Note 3)	59.046		-	1,003,002
Total Microloan Program			-	1,214,006
Department of Agriculture				
Direct Program:				
Rural Business Development Grant	10.351		-	44,750
Total Rural Business Development Program			-	44,750
Department of Education				
Pass-Through Program through MN Department of Education (COVID-19) Governors Emergency Education Relief Fund				
	84.425C		-	92,726
Total Federal Awards			\$ -	\$ 1,659,135

See accompanying Notes to Schedule of Expenditures of Federal Awards

**SOUTHWEST INITIATIVE FOUNDATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2024**

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, 2024. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Southwest Initiative Foundation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Southwest Initiative Foundation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Southwest Initiative Foundation has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 FEDERAL LOAN PROGRAM

The federal loan program listed subsequently is administered directly by Southwest Initiative Foundation, and balances and transactions relating to this program are included in Southwest Initiative Foundation’s basic consolidated financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2024 consists of:

Program	Federal Assistance Listing Number	Balance Outstanding
Rural Microentrepreneur Assistance Program	10.870	\$ 224,618
Microloan Program	59.046	805,838
Total Federal Loans Outstanding		<u>\$ 1,030,456</u>

**SOUTHWEST INITIATIVE FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2024**

Section I - Summary of Auditors' Results

Consolidated Financial Statements

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? Yes X No
 - Significant deficiency(ies) identified? Yes X None reported
3. Noncompliance material to financial statements noted? Yes X No

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? Yes X No
 - Significant deficiency(ies) identified? Yes X None reported
2. Type of auditors' report issued on compliance for major federal programs: Unmodified
3. 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

Federal Assistance Listing Number(s)	Name of Federal Program or Cluster
59.046	Small Business Administration Microloan Program
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	<u> X </u> Yes <u> </u> No

**SOUTHWEST INITIATIVE FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2024**

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).



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