Southwest Initiative Foundation

Consolidated Financial Statements and
Report on Federal Awards

June 30, 2025 and 2024

Independent Auditors' Report

To the Board of Directors of
Southwest Initiative Foundation and Subsidiary

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Southwest Initiative Foundation and subsidiary (the Foundation), which comprise the consolidated statement of financial position as of June 30, 2025, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Foundation as of June 30, 2025, and the changes in their net assets and their cash flows for the year 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 (Government Auditing Standards)* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the 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 audit opinion.

Other Matter

The financial statements of the Foundation, as of and for the year ended June 30, 2024, were audited by other auditors whose report thereon, dated September 30, 2024, expressed an unmodified opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the Foundation's ability to continue as a going concern within one year after the date that the 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 auditors' 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 the 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 the 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2025 on our consideration of the 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 the 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 the Foundation's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Minneapolis, Minnesota
September 25, 2025

	2025	2024
Assets		
Cash and cash equivalents	$ 595,896	$ 430,578
Restricted cash	769,007	453,445
Loans receivable, net	11,241,162	11,241,527
Pledges receivable	151,000	234,000
Due from McKnight Foundation	1,000,000	1,000,000
Other receivables	1,113,353	2,084,331
Prepaid expenses	116,346	111,403
Investments	98,743,037	89,258,038
Life estate investment	2,832,834	2,754,644
Investment held in trust	1,396,035	1,374,221
Property and equipment, net	2,097,630	2,190,486
Total assets	$ 120,056,300	$ 111,132,673
Liabilities and Net Assets		
Liabilities		
Grants and other payables	$ 927,129	$ 2,209,386
Accrued liabilities	783,561	900,215
Assets held on donor's behalf	2,222,962	2,007,182
Obligations of split-interest agreements	233,220	216,001
Notes payable	1,645,871	1,121,564
Total liabilities	5,812,743	6,454,348
Net Assets		
Without donor restrictions:		
Board-designated	29,268,448	23,977,419
Undesignated	11,414,697	10,941,981
Total net assets without donor restrictions	40,683,145	34,919,400
With donor restrictions:		
Purpose and time restricted	26,569,197	23,574,144
Held in perpetuity	46,991,215	46,184,781
Total net assets with donor restrictions	73,560,412	69,758,925
Total net assets	114,243,557	104,678,325
Total liabilities and net assets	$ 120,056,300	$ 111,132,673

See notes to consolidated financial statements

Southwest Initiative Foundation

Consolidated Statement of Activities
Year Ended June 30, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
McKnight Foundation grants	$ 139,065	$ -	$ 139,065
Other grants	2,673,885	950,000	3,623,885
Contributions	95,619	3,404,800	3,500,419
Investment return	8,315,886	4,121,210	12,437,096
Loan interest income	-	548,545	548,545
Discount on below market loans	-	6,614	6,614
Rental income	65,305	15,700	81,005
Change in split interest agreement	-	97,084	97,084
Miscellaneous income	45,023	44,664	89,687
Subtotal revenue	11,334,783	9,188,617	20,523,400
Net assets released from restrictions and transfers	5,387,130	(5,387,130)	-
Total revenue	16,721,913	3,801,487	20,523,400
Expense			
Program expenses:			
Grant programs	1,844,131	-	1,844,131
Economic development programs	4,357,128	-	4,357,128
Affiliate funds	3,320,869	-	3,320,869
Total program expenses	9,522,128	-	9,522,128
General and administrative	1,055,050	-	1,055,050
Fund development	380,990	-	380,990
Total expense	10,958,168	-	10,958,168
Change in net assets	5,763,745	3,801,487	9,565,232
Net Assets, Beginning	34,919,400	69,758,925	104,678,325
Net Assets, Ending	$ 40,683,145	$ 73,560,412	$ 114,243,557

See 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 return	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	31,359,248	66,214,551	97,573,799
Adoption of ASC 326 (CECL)	1,319,290	-	1,319,290
Net Assets, Ending	$ 34,919,400	$ 69,758,925	$ 104,678,325

See notes to consolidated financial statements

Southwest Initiative Foundation

Consolidated Statement of Functional Expenses
Year Ended June 30, 2025

	Program Expenses						
	Programs	Economic Development	Affiliate Funds	Total Program	General and Administrative	Fund Development	Total
Provision for credit losses	$ -	$ 206,552	$ -	$ 206,552	$ -	$ -	$ 206,552
Grants made	678,631	2,111,664	2,811,844	5,602,139	-	-	5,602,139
Salaries	423,093	525,924	197,579	1,146,596	582,623	174,873	1,904,092
Payroll taxes	30,398	37,786	14,197	82,381	41,860	12,564	136,805
Fringe benefits	82,346	101,784	38,680	222,810	113,543	34,108	370,461
Staff travel	44,170	60,362	26,007	130,539	12,290	19,825	162,654
Board expense	1,136	1,228	641	3,005	1,760	422	5,187
Staff and board development	10,066	21,188	7,108	38,362	5,243	11,431	55,036
Meetings	19,864	7,075	1,724	28,663	360	86	29,109
Program delivery	272,202	749,858	6,128	1,028,188	-	6,000	1,034,188
Contracted services	74,920	100,084	42,553	217,557	116,354	27,823	361,734
Rent	151	174	81	406	234	56	696
Advertising	184	4,410	1,065	5,659	285	743	6,687
Printing	6,423	7,769	4,121	18,313	9,900	13,953	42,166
Telephone	9,570	10,051	5,505	25,126	4,362	1,708	31,196
Postage	5,360	6,670	2,888	14,918	8,272	10,824	34,014
Office supplies	1,724	1,872	867	4,463	2,306	722	7,491
Subscriptions and dues	9,960	22,765	790	33,515	2,187	1,100	36,802
Professional fees	49,450	216,217	30,139	295,806	43,676	28,911	368,393
Insurance	8,473	9,178	4,778	22,429	13,143	3,143	38,715
Repairs and maintenance	1,201	1,255	724	3,180	1,873	453	5,506
Depreciation	36,557	37,747	20,941	95,245	56,823	13,602	165,670
Sponsorships	53,981	56,686	7,164	117,831	1,664	394	119,889
Lobbying	545	4,634	290	5,469	840	200	6,509
Public relations	3,617	3,634	8,431	15,682	4,255	1,118	21,055
Strategic planning	3,982	4,219	2,236	10,437	6,169	1,477	18,083
Utilities	11,383	11,895	6,589	29,867	17,706	4,247	51,820
Interest expense	411	29,607	228	30,246	637	152	31,035
Fundraising costs	-	-	70,517	70,517	-	6,903	77,420
Website	890	889	515	2,294	1,382	2,889	6,565
Miscellaneous expense	3,443	3,951	6,539	13,933	5,303	1,263	20,499
Total expenses	$ 1,844,131	$ 4,357,128	$ 3,320,869	$ 9,522,128	$ 1,055,050	$ 380,990	$ 10,958,168

See notes to consolidated financial statements

Southwest Initiative Foundation

Consolidated Statement of Functional Expenses
Year Ended June 30, 2024

	Program Expenses						
	Programs	Economic Development	Affiliate Funds	Total Program	General and Administrative	Fund Development	Total
Provision for credit losses	$ -	$ 677,768	$ -	$ 677,768	$ -	$ -	$ 677,768
Grants made	674,539	1,180,042	2,961,820	4,816,401	-	-	4,816,401
Salaries	605,519	389,249	-	994,768	565,992	199,985	1,760,745
Payroll taxes	43,187	27,298	-	70,485	40,378	14,249	125,112
Fringe benefits	101,377	65,510	-	166,887	94,907	32,822	294,616
Staff travel	66,304	46,532	-	112,836	14,802	20,768	148,406
Board expense	3,191	1,599	-	4,790	2,792	971	8,553
Staff and board development	29,560	12,748	-	42,308	9,915	8,302	60,525
Meetings	52,622	9,318	-	61,940	3,697	1,518	67,155
Program delivery	440,147	334,098	(855)	773,390	2,106	553	776,049
Contracted services	109,884	80,540	-	190,424	89,923	33,550	313,897
Rent	110	50	-	160	92	48	300
Advertising	13,366	8,279	-	21,645	14,111	4,975	40,731
Printing	8,617	4,723	-	13,340	13,191	16,227	42,758
Telephone	13,932	8,864	-	22,796	4,203	2,685	29,684
Postage	8,657	5,276	-	13,933	7,198	7,552	28,683
Office supplies	2,629	1,863	-	4,492	1,998	1,067	7,557
Subscriptions and dues	24,692	15,127	-	39,819	4,289	2,163	46,271
Professional fees	238,052	174,712	-	412,764	44,956	19,177	476,897
Insurance	13,877	7,179	-	21,056	11,841	4,024	36,921
Repairs and maintenance	2,824	1,369	-	4,193	2,371	824	7,388
Depreciation	69,841	34,356	-	104,197	59,379	20,572	184,148
Sponsorships	28,607	66,543	-	95,150	4,747	1,573	101,470
Public relations	11,986	8,871	-	20,857	(1,485)	5,131	24,503
Strategic planning	27,219	15,056	-	42,275	24,498	7,571	74,344
Utilities	18,418	9,215	-	27,633	15,743	5,460	48,836
Component fund fees	-	787	-	787	-	-	787
Interest expense	723	25,329	-	26,052	613	215	26,880
Fundraising costs	-	-	49,412	49,412	-	4,915	54,327
Website	4,601	1,961	-	6,562	3,387	3,760	13,709
Miscellaneous expense	5,720	3,111	4,372	13,203	3,810	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 notes to consolidated financial statements

	2025	2024
Cash Flow From Operating Activities		
Change in net assets	$ 9,565,232	$ 5,785,236
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	165,670	184,148
(Gain) loss on sale of fixed assets	(756)	295
Net unrealized gain on investments	(6,378,054)	(4,878,279)
Net realized (gain) loss on sale of investments	(489,883)	2,265
Provision for credit losses	206,552	673,510
Loan charge offs	(100,559)	4,258
Change in present value of loans receivable	(6,614)	89,562
Change in value of life estate and investment trust liability	(100,004)	(100,147)
Contributions restricted for endowment funds	(779,539)	(670,427)
(Increase) decrease in:		
Due from McKnight Foundation	-	500,000
Pledges receivable	83,000	30,500
Other receivables	923,025	(1,332,067)
Prepaid expenses	(4,943)	(35,654)
Increase (decrease) in:		
Grants and other payables	(1,252,236)	(431,897)
Accrued liabilities	(116,654)	(222,552)
Assets held on donor's behalf	215,780	210,462
Obligations of split-interest agreements	17,219	16,706
Net cash from (used in) operating activities	1,947,236	(174,081)
Cash Flows From Investing Activities		
Payments on loans receivable	2,100,131	1,585,052
Issuance of loans receivable	(2,151,192)	(2,749,828)
Proceeds from sale of investments	19,984,430	24,843,671
Purchase of investments	(22,542,448)	(24,593,235)
Purchase of property and equipment	(72,058)	(24,061)
Proceeds from sale of property and equipment	-	350
Net cash flows used in investing activities	(2,681,137)	(938,051)
Cash Flows From Financing Activities		
Proceeds from long-term debt	650,000	-
Principal payments on long-term debt	(125,693)	(117,757)
Principal payments on financing lease	(30,021)	(39,911)
Payments to annuitants	(59,044)	(59,044)
Contributions to endowment funds	779,539	693,222
Net cash from financing activities	1,214,781	476,510
Net change in cash, cash equivalents and restricted cash	480,880	(635,622)
Cash, Cash Equivalents and Restricted Cash, Beginning	884,023	1,519,645
Cash, Cash Equivalents and Restricted Cash, Ending	$ 1,364,903	$ 884,023
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 33,457	$ 19,314
Acquisition of financing lease	$ -	$ 30,436

See notes to consolidated financial statements

	2025	2024
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	$ 595,896	$ 430,578
Restricted cash	769,007	453,445
Cash, cash equivalents and restricted cash per consolidated statements of cash flows	$ 1,364,903	$ 884,023

See notes to consolidated financial statements

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 just under $130 million through grant-making and business financing since inception. 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 (SMCC). SMCC is wholly owned by the Foundation. All intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements. Southwest Initiative Foundation and Southwest Minnesota Community Capital are collectively referred to as the Foundation. 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. The Board has designated funds for a board-designated endowment (see Note 10).

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.

Investments

Money market funds held for investment purposes are considered investments and are carried at deposit value, which approximates fair 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.

Life Estate Investment

The Foundation holds contributed land as investment at the lower of fair value when land was received or current net realizable value, net of a present value discount based on the life expectancy of the donor. 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, net of a present value discount based on the life expectancy of the donor.

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.

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.

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 there 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

Accounting Standards Codification (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 portfolio segments below 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 and 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.

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.

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.

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 of the institution's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Foundation 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 Foundation 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 improbably.

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

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 15 and 19 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at years ending June 30, 2025 and 2024, 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 11 and 8 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at years ending June 30, 2025 and 2024, 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 12 and 18 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at years ending June 30, 2025 and 2024, 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 27 and 29 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at years ending June 30, 2025 and 2024, respectively. The qualitative factors include this sector remaining steady in 2025, with relatively flat growth and unchanged employment levels.

Real Estate: The Real Estate portfolio consists of 12 and 13 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at both years ending June 30, 2025 and 2024, 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 54 and 52 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at years ending June 30, 2025 and 2024, 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 146 and 184 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at years ending June 30, 2025 and 2024, 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 loans split between Business Finance and Microenterprise lending scheduled to be amortized over various lengths of time, at years ending June 30, 2025 and 2024. 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.

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, 2025 and 2024, the Foundation has not recorded a reserve for uncollectible pledges.

Due From McKnight Foundation

The McKnight Foundation awarded a five-year unconditional grant of $2,500,000 during the year ended June 30, 2022 to support the general operations of the Foundation with $500,000 each year from FY2023 through FY2027. The grants from the McKnight Foundation are considered a significant source of operating revenue. In FY2023, the McKnight Foundation paid an additional $500,000 early for a total of $1,000,000. In FY2025, the McKnight Foundation paid the intended $500,000. As of June 30, 2025 and 2024, $1,000,000 was outstanding and is expected to be received in $500,000 per 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 Foundation to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Conditional promises to give, with a measurable barrier and right of return, are recognized only when the conditions on which they depend are met and the promises become unconditional. Unconditional promises to give due in subsequent years are recorded at their net realizable value.

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 recorded in net assets without donor restrictions.

A portion of the Foundation's revenue is derived from cost-reimbursable contracts and grants. Amounts received are recognized as earned and are reported as revenue when the Foundation 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 $300,486 and $447,815 as of June 30, 2025 and 2024, respectively. Conditional promises to give are recognized as revenue when the conditions on which they depend are met. Conditions are met when the qualifying expenses based on specific criteria are incurred. The Foundation was awarded cost-reimbursable grants of $3,695,543 and $6,149,043, respectively, for which qualifying expenditures have not yet been incurred and therefore have not been recognized.

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

In the absence of donor stipulations or law to the contrary, gains and losses on the investments of a donor-restricted endowment fund are recorded as net assets with donor restrictions. Gains and losses on investments of endowment funds created by a board designation of funds without donor restrictions are classified as changes in net assets without donor restrictions.

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, 2025 and 2024, 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, 2025 and 2024 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 $6,687 and $40,731 for the years ended June 30, 2025 and 2024, 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.

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.

Program Grants

Program grants are recorded as expense when approved by the Foundation’s Board of Directors unless conditions imposed on the grantee have not yet been fulfilled. Such conditional grants are recorded when the conditions on which they depend are 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.

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 Foundation 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 had no effect on the change in net assets or net assets as previously reported.

Subsequent Events

In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 25, 2025, the date the consolidated financial statements were available to be issued.

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. An economic downturn could negatively impact the Foundation.

For the year ended June 30, 2025, 16% of the Foundation's revenue were derived from one major contributor.

48% and 59% of investments are concentrated in three and four funds at June 30, 2025 and 2024, respectively.

3. Investments

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

	2025		2024	
	Amount	**Percent**	**Amount**	**Percent**
Investments at fair value				
U.S. equity	$ 38,113,008	38 %	$ 34,473,895	39 %
Global equity	12,509,493	13	13,204,770	15
Private equity	9,919,158	10	3,792,652	4
Government bonds	12,552,776	13	11,927,144	14
Corporate bonds	5,758,109	6	5,372,728	6
Securitized bonds	2,774,781	3	2,601,815	3
Private credit	4,283,811	4	3,835,463	4
Money market	10,707,401	11	10,623,734	12
Subtotal	96,618,537	98 %	85,832,201	97 %
Investments at cost				
Farmland	2,124,500	2	2,124,500	2
Private equity	-	-	1,301,337	1
Total investments	$ 98,743,037	100 %	$ 89,258,038	100 %

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

	2025	2024
Interest and dividends on investments	$ 5,932,665	$ 4,419,172
Realized gain (loss) on investments	489,885	(2,265)
Unrealized gain on investments	6,378,054	4,878,279
Investment fees	(363,508)	(335,576)
Total investment return	$ 12,437,096	$ 8,959,610

4. 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, 2025:

	2025				
	Level 1	**Level 2**	**Level 3**	**NAV***	**Total**
Investments:					
U.S. equity*	$ 24,029,250	$ -	$ 112,594	$ 13,971,164	$ 38,113,008
Global equity*	12,165,102	-	64,626	279,765	12,509,493
Private equity*	-	-	557,656	9,361,502	9,919,158
Government bonds	12,522,576	-	30,200	-	12,552,776
Corporate bonds	3,296,333	2,443,730	18,046	-	5,758,109
Securitized bonds	2,767,509	-	7,272	-	2,774,781
Private credit*	-	-	-	4,283,811	4,283,811
Money market	10,706,919	-	482	-	10,707,401
Life estate investment	-	-	2,832,834	-	2,832,834
Investment held in trust	-	-	1,396,035	-	1,396,035
Total	$ 65,487,689	$ 2,443,730	$ 5,019,745	$ 27,896,242	$ 100,847,406

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				
	Level 1	**Level 2**	**Level 3**	**NAV***	**Total**
Investments:					
U.S. equity	$ 22,644,921	$ -	$ 102,018	$ 11,726,956	$ 34,473,895
Global equity	12,539,712	-	57,703	607,355	13,204,770
Private equity	-	-	542,483	3,250,169	3,792,652
Government bonds	11,896,704	-	30,440	-	11,927,144
Corporate bonds	3,084,986	2,270,220	17,522	-	5,372,728
Securitized bonds	2,594,594	-	7,221	-	2,601,815
Private credit	-	-	-	3,835,463	3,835,463
Money market	10,622,637	-	1,097	-	10,623,734
Life estate investment	-	-	2,754,644	-	2,754,644
Investment held in trust	-	-	1,374,221	-	1,374,221
Total	$ 63,383,554	$ 2,270,220	$ 4,887,349	$ 19,419,943	$ 89,961,066

The fair value tables presented above do not include $2,124,500 in donated farmland held at cost as of June 30, 2025 and 2024. One private equity investment in the amount of $1,301,337 was held at cost and is not included in fair value table presented above at June 30, 2024.

*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 in a separate 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, 2025 and 2024:

	Fair Value		Principal Valuation	Unobservable	Discount
Instrument	2025	2024	Technique	Inputs	Rate
Private equity	$ 557,656	$ 542,483	FMV of investments	Value of underlying assets	N/A
Charitable remainder trust investments	233,220	216,001	FMV of trust investments	Time period of trust	N/A
Life estate investment	2,832,834	2,754,644	Discounted cash flows	Discount rate duration	1.9%-4.5%
Investments held in trust	1,396,035	1,374,221	Discounted cash flows	Discount rate duration	3.20%

For the Charitable Remainder Trust Investments (CRUT), life estate investment and investments held in trust, see Note 1 for further details on the valuation of these investments. There were no transfers in nor transfers out of Level 3 investments during both the years ended June 30, 2025 and 2024.

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. There were no assets measured at fair value on a nonrecurring basis at June 30, 2025 and 2024.

For both the years ended June 30, 2025 and 2024, 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, 2025:

Investment Category	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hirtle Callaghan Total Return Offshore Fund II Limited	$ 279,765	$ -	In liquidation	N/A
Hirtle Callaghan Select Equity Fund, LP	13,971,164	-	Quarterly	90 days
Hirtle Callaghan Alternative Credit Opportunities Offshore Portfolio Limited	4,283,811	842,480	Quarterly, following a four-year lockup period, limited to 1/8 of the investment per quarter	90 days
Hirtle Callaghan Private Equity Offshore Fund 2020 Limited	3,389,671	649,742	No redemption provision	N/A
Hirtle Callaghan Private Equity Offshore Fund 2022 A Limited	2,527,950	2,591,676	No redemption provision	N/A
Hirtle Callaghan Private Equity Offshore Fund 2024 Limited	252,374	2,787,034	No redemption provision	N/A
Granite Equity LLC	3,191,507	500,000	Limited to 10% to 15% annually	None
Total	$ 27,896,242	$ 6,870,932		

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, following a four-year lockup period, limited to 1/8 of the investment per quarter	90 days
Hirtle Callaghan Private Equity Offshore Fund 2020 Limited	2,353,443	1,009,722	No redemption provision	N/A
Hirtle Callaghan Private Equity Offshore Fund 2022 A Limited	896,726	3,581,479	No redemption provision	N/A
Hirtle Callaghan Private Equity Offshore Fund 2024 Limited	-	3,000,000	No redemption provision	N/A
Total	$ 19,419,943	$ 8,862,108		

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 fund is based on the fund's audited net asset value per share as of December 31, 2024 multiplied by the Foundation's units owned as of June 30, 2025 and 2024, with an adjustment for changes in market value between the fund's audited statement and the date of the financial statements.

5. 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, 2025 and 2024. The Foundation has commitments on loans approved but not disbursed as of June 30, 2025 and 2024 of $390,707 and $89,900, respectively. A loan is considered past due once a payment date has been missed. As of June 30, 2025 and 2024, ten and fourteen 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 loans totaling $174,667 and $145,183 on nonaccrual status at June 30, 2025 and 2024, respectively.

For the years ended June 30, 2025 and 2024, $1,712,478 and $1,030,456, respectively, of loans receivable were pledged as security to the underlying notes payable.

The Foundation elected to exclude the accrued interest receivable from the amortized cost basis of loans. As of June 30, 2025 and 2024, accrued interest receivable for loans totaled $106,291 and $105,596, respectively, and is included in other receivables on the statements of financial position.

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

	2025	2024
Loans receivable maturities:		
Current	$ 1,796,713	$ 2,980,951
Long-term	10,861,319	9,529,814
Total loans receivable maturities	12,658,032	12,510,765
Discount for below market interest rates	(142,133)	(148,447)
Participation due	(47,953)	-
Allowance for credit losses	(1,226,784)	(1,120,791)
Net loans receivable	$ 11,241,162	$ 11,241,527

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

	2025	2024
Agriculture	$ 1,138,785	$ 1,232,786
Healthcare	780,122	661,079
Hospitality	565,302	657,553
Manufacturing	2,598,897	2,861,821
Real estate	1,156,269	1,167,129
Retail	1,570,621	1,337,620
Service	4,093,400	3,788,976
Other	754,636	803,801
Less allowance, discount and participation	(1,416,870)	(1,269,238)
Net loans receivable	$ 11,241,162	$ 11,241,527

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

	2025	2024
Balance at Beginning of Year	$ 1,120,791	$ 1,766,572
Adoption of ASU 2016-13, Current Expected Credit Losses (CECL)	-	(1,319,290)
Provision	206,552	669,251
Loans charged off	(100,559)	4,258
Balance at End of Year	$ 1,226,784	$ 1,120,791

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

	2025		
Loan Category	Outstanding Balance	Risk Level	Expected Future Losses
Agriculture	$ 1,138,785	Low	$ 23,473
Healthcare	753,475	Medium	38,868
Hospitality	565,302	Low	7,995
Manufacturing	2,452,897	Low	170,026
Real estate	1,156,269	No Change	-
Retail	1,173,737	Medium	48,366
Service	3,750,907	Low	129,644
Other	730,042	Low	10,385
Subtotal	11,721,414		428,757
Individually assessed	936,618	Varies*	798,027
Total	$ 12,658,032		$ 1,226,784

	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	11,019,409		240,796
Individually assessed	1,491,356	Varies*	879,995
Total	$ 12,510,765		$ 1,120,791

See Note 1 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 51%-100%. They often include nonperforming 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.

The allowance for credit losses and recorded investment in loans at June 30, 2025 is as follows:

	Change in Loan Loss Reserve				
	06/30/2024	Provision	Charged Off	Recovered	06/30/2025
Agriculture	$ 21,569	$ 1,904	$ -	$ -	$ 23,473
Healthcare	18,905	19,963	-	-	38,868
Hospitality	-	7,995	-	-	7,995
Manufacturing	162,868	7,158	-	-	170,026
Real estate	(11,539)	11,539	-	-	-
Retail	7,568	43,628	(2,830)	-	48,366
Service	45,733	83,911	-	-	129,644
Other	(4,308)	14,693	-	-	10,385
Subtotal	240,796	190,791	(2,830)	-	428,757
Individually assessed	879,995	15,761	(97,729)	-	798,027
Total	$ 1,120,791	$ 206,552	$ (100,559)	$ -	$ 1,226,784

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

	Change in Loan Loss Reserve					
	06/30/2023	Adoption of CECL (326)	Provision	Charged Off	Recovered	06/30/2024
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	1,766,572	(1,504,774)	(25,260)	4,258	-	240,796
Individually assessed	-	185,484	694,511	-	-	879,995
Total	$ 1,766,572	$ (1,319,290)	$ 669,251	$ 4,258	$ -	$ 1,120,791

The following table shows the loans receivable at June 30, 2025 allocated by management's internal risk ratings:

	2025					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total Loans Receivable
Credit risk profile by risk rating:						
Agriculture	$ 932,913	$ 205,872	$ -	$ -	$ -	$ 1,138,785
Healthcare	753,475	-	16,647	-	-	770,122
Hospitality	421,961	143,341	-	-	-	565,302
Manufacturing	2,160,043	292,854	-	-	146,000	2,598,897
Real estate	1,072,328	83,942	-	-	-	1,156,270
Retail	1,071,603	102,135	20,796	236,316	139,771	1,570,621
Service	3,589,913	160,995	105,050	32,002	205,440	4,093,400
Other	730,041	-	-	24,594	-	754,637
Total	$ 10,732,277	$ 989,139	$ 142,493	$ 292,912	$ 491,211	$ 12,658,032

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

	2024					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total Loans Receivable
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	$ 10,994,838	$ 746,592	$ 127,478	$ 173,948	$ 467,909	$ 12,510,765

The following table shows an aging at June 30, 2025 analysis of loan portfolio by time past due:

	2025				
	Current Balance	30-89 Days Past Due	More Than 90 Days Past Due	Total on Nonaccrual	Total Loans Receivable
Agriculture	$ 1,138,785	$ -	$ -	$ -	$ 1,138,785
Healthcare	780,122	-	-	-	780,122
Hospitality	565,302	-	-	-	565,302
Manufacturing	2,598,897	-	-	-	2,598,897
Real estate	1,156,269	-	-	-	1,156,269
Retail	1,345,148	58,816	56,420	110,236	1,570,620
Service	3,964,507	-	64,461	64,431	4,093,399
Other	754,638	-	-	-	754,638
Total	$ 12,303,668	$ 58,816	$ 120,881	$ 174,667	$ 12,658,032

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

	2024				
	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	2,707,815	-	146,000	8,006	2,861,821
Real estate	1,167,129	-	-	-	1,167,129
Retail	1,218,926	-	49,513	69,181	1,337,620
Service	3,605,254	87,667	28,059	67,996	3,788,976
Other	803,801	-	-	-	803,801
Total	$ 12,049,122	$ 87,667	$ 228,793	$ 145,183	$ 12,510,765

Interest income foregone on nonaccrual loans approximated $19,649 and $34,064 for the years ended June 30, 2025 and 2024, respectively.

There were 12 impaired loans with a loan loss reserve of 100% in the amount of $491,211 as of June 30, 2025, and 10 impaired loans with a loan loss reserve of 100% in the amount of $379,787 as of June 30, 2024.

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.

6. Pledges Receivable

Pledges receivable are due to be collected as follows:

	2025	2024
Pledges expected to be collected in:		
Less than one year	$ 68,000	$ 47,000
One to five years	83,000	187,000
Total	$ 151,000	$ 234,000

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

7. Property and Equipment

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

	2025	2024
Land and land improvements	$ 1,230,940	$ 1,230,940
Buildings	1,655,624	1,655,624
Furniture and equipment	1,423,566	1,438,713
Subtotal	4,310,130	4,325,277
Accumulated depreciation	(2,212,500)	(2,134,791)
Net investment in property and equipment	$ 2,097,630	$ 2,190,486

8. Long-Term Debt

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

Description	2025	2024
Note Payable, U.S. Department of Agriculture (USDA) 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.	$ 186,672	$ 214,306
Note Payable, Southwest Minnesota Housing Partnership Face amount $50,000, bears no interest, the loan will be used to fund the loan loss reserve. The loan will be forgiven, unless not able to use for the loan loss reserve. Unsecured by the Foundation's microenterprise loan program.	50,000	50,000
Note Payable, U.S. Small Business Administration 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.	354,828	400,599
Note Payable, U.S. Small Business Administration Face Amount $500,000, bears interest at 1.63%, due August 2032, monthly Interest and principal payments	404,371	456,659
Note Payable, U.S. Small Business Administration Face amount $800,000, bears interest at 3.25%, of which $550,000 has been drawn down. Due August, 2034 monthly interest and principal payments	550,000	-
PRI Note Payable – Women's Foundation of Minnesota Face amount $100,000, bears interest at 2%. Full balance due October, 2030 monthly interest and principal payments	100,000	-
Total	$ 1,645,871	$ 1,121,564

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

	Amount
Years ending June 30:	
2026	$ 216,615
2027	230,827
2028	235,247
2029	239,890
2030	150,137
Thereafter	573,155
Total	$ 1,645,871

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 $769,007 and $453,445 at June 30, 2025 and 2024, respectively.

9. Net Assets

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

	2025	2024
Endowment Funds	$ 25,708,763	$ 20,519,409
Affiliate Funds	968,232	935,754
Component Funds	2,275,425	2,070,513
Grant Program	316,028	451,743
Total	$ 29,268,448	$ 23,977,419

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

	2025	2024
Affiliate Funds	$ 4,060,891	$ 2,825,198
Component Funds	421,783	428,748
Subject to UPMIFA appropriations	6,825,066	5,238,667
Economic development	13,906,436	12,733,858
Programs	330,114	1,113,673
Southwest Minnesota Community Capital	24,907	-
Total purpose restricted	25,569,197	22,340,144
Operating	1,000,000	1,000,000
Affiliate projects	-	234,000
Total time restricted	1,000,000	1,234,000
Total donor restricted net assets	$ 26,569,197	$ 23,574,144

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

	2025	2024
Endowment Funds	$ 22,038,149	$ 22,003,382
Affiliate Funds Endowed	7,343,945	6,928,021
Component Funds Endowed	15,022,775	14,138,688
Farmland Giving Program	2,586,346	3,114,690
Total	$ 46,991,215	$ 46,184,781

With donor restricted net assets were released from donor restrictions during 2025 and 2024 by satisfying the restrictions as follows:

	2025	2024
Purpose restrictions accomplished	$ 5,387,130	$ 4,160,244
Time restrictions expired	-	500,000
Total net assets released	$ 5,387,130	$ 4,660,244

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. 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 donor-restricted or board-designated 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 Growing 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.

Economic Development consists 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 (MEELP), 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 (MSERP), Minnesota Department of Employment and Economic Development Promise Grant and Loan funds, Minnesota Department of Employment and Economic Development Small Business Emergency Loan funds (SBEL), and several Business Initiatives and 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 granter/donor for the Foundation to deliver programs and make grants.

10. Endowment

At June 30, 2025 and 2024, the Foundation's endowment consisted of 147 and 151 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 Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

(1) The duration and preservation of the fund
(2) The purposes of the Foundation 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 Foundation
(7) The investment policies of the Foundation

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

	2025		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Donor-restricted endowment funds	$ -	$ 51,525,417	$ 51,525,417
Board-designated endowment funds	25,708,763	-	25,708,763
Total funds	$ 25,708,763	$ 51,525,417	$ 77,234,180

	2024		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Donor-restricted endowment funds	$ -	$ 48,326,586	$ 48,326,586
Board-designated endowment funds	20,181,696	-	20,181,696
Total funds	$ 20,181,696	$ 48,326,586	$ 68,508,282

Endowment composition by type and changes in endowment net assets for the year ended June 30, 2025 is as follows:

	2025		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, July 1, 2024	$ 20,181,696	$ 48,326,586	$ 68,508,282
Investment return:			
Interest, dividends and realized gains	3,262,211	2,107,142	5,369,353
Unrealized gains	4,257,803	1,717,266	5,975,069
Total investment return	7,531,168	3,824,408	11,344,422
Contributions	-	798,433	798,433
Appropriations of endowment assets for expenditure	(2,036,710)	(1,112,867)	(3,149,577)
Transfers	43,763	(311,143)	(267,380)
Endowment Net Assets, June 30, 2025	$ 25,708,763	$ 51,525,417	$ 77,234,180

Endowment composition by type and changes in endowment net assets for the year ended June 30, 2024 is as follows:

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
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	2,752,782	1,779,636	4,532,418
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	-	(243,230)	(243,230)
Endowment Net Assets, June 30, 2024	$ 20,181,696	$ 48,326,586	$ 68,508,282

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 Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature for the year ended June 30, 2025. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions for the year ended June 30, 2024, which amounted to 2 underwater endowment funds with gifts with originally donated amounts of $4,280, fair values of $2,693 and deficiencies of $1,587.

11. Commitments and Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by granter 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 granter cannot be determined at this time; although the Foundation expects such amounts, if any, to be immaterial.

12. Employee Benefit Plan

The Foundation maintains a tax-deferred annuity plan (the 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 $92,558 and $85,543 for the years ended June 30, 2025 and 2024, respectively.

A 457(b) deferred compensation plan (the 457(b) 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 did not contribute to the 457(b) plan for the years ended June 30, 2025 and 2024. No employee contributions have been made to the 457(b) plan.

13. 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, 2025 and 2024, donations from these individuals to Southwest Initiative Foundation totaled approximately $6,600 and $8,000, respectively.

The Foundation also provided loans to related parties in the ordinary course of business. For the years ended June 30, 2025 and 2024, loan balances totaled approximately $0 and $63,000, respectively.

14. 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:

	2025	2024
Description:		
Cash and cash equivalents	$ 533,346	$ 369,427
Investments	8,572,747	6,938,928
Receivables due within one year	500,000	500,000
Board-designated, Quasi-Endowment Fund allotted for spending	2,078,938	2,036,710
Board-designated, Program use	5,010,560	3,460,905
Total	$ 16,695,591	$ 13,305,970

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 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.

A portion of The Board Designated Quasi Endowment totals of June 30, 2025 and June 30, 2024 in the amount of $24,704,684 and $20,181,696, respectively, are subject to the endowment spendable calculation (see Note 10). $1,004,079 has been portioned for affiliate fund match and is not available for general expenditure. As a part of this calculation, approximately $2,078,938 will be allotted for spending in fiscal year 2026 as $2,036,710 was drawn in fiscal year 2025. 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.

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*

Independent Auditors' Report

To the Board of Directors of
Southwest Initiative Foundation and Subsidiary

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 (*Government Auditing Standards*), the consolidated financial statements of Southwest Initiative Foundation and subsidiary (the Foundation), which comprise the Foundation's consolidated statement of financial position as of June 30, 2025, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing 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 the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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

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

Report on Compliance and Other Matters

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

Baker Tilly US, LLP

Minneapolis, Minnesota
September 25, 2025

Report on Compliance
for the Major Federal Program and
Report on Internal Control Over Compliance
Required by the Uniform Guidance

Independent Auditors' Report

To the Board of Directors of
Southwest Initiative Foundation and Subsidiary

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Southwest Initiative Foundation and subsidiary's (the Foundation) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended June 30, 2025. The Foundation's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2025.

Basis for Opinion on the 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 (*Government Auditing Standards*); 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 the 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 the major federal program. Our audit does not provide a legal determination of the 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 the 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 the 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 the Foundation's compliance with the requirements of the 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 the 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 the 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 the 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.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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.

Baker Tilly US, LLP

Minneapolis, Minnesota
March 26, 2026

Federal Grantor/ Program or Cluster Title	Assistance Listing Number	Federal Expenditures
U. S. Department of Agriculture		
Direct Program:		
Rural Microentrepreneur Assistance Program TA Grant	10.870	$ 20,944
Rural Microentrepreneur Assistance Program (Note 3)	10.870	224,618
Total Rural Microentrepreneur Assistance Program		245,562
Direct Program:		
Rural Business Development Grant	10.351	98,000
Total Rural Business Development Grant		98,000
Total U.S. Department of Agriculture		343,562
U.S. Small Business Administration		
Direct Program:		
Microloan Program - Technical Assistance	59.046	194,143
Microloan Program (Note 3)	59.046	1,247,550
Total Microloan Program		1,441,693
Total expenditures of federal awards		$ 1,785,255

See notes to schedule of expenditures of federal awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Southwest Initiative Foundation and subsidiary under programs of the federal government for the year ended June 30, 2025. 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.

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.

3. Indirect Cost Rate

Southwest Initiative Foundation has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

4. 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, 2025 consists of:

Program	Federal Assistance Listing Number	Balance Outstanding
Rural Microentrepreneur Assistance Program	10.870	$ 188,817
Microloan Program	59.046	925,679
Total federal loans outstanding		$ 1,114,496

Section I - Summary of Auditors' Results

Consolidated Financial Statements

Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:
- Material weakness(es) identified? ___ yes _X_ no
- Significant deficiency(ies) identified? ___ yes _X_ none reported

Noncompliance material to consolidated financial statements noted? ___ yes _X_ no

Federal Awards

Internal control over major programs:
- Material weakness(es) identified? ___ yes _X_ no

Significant deficiencies identified that are not considered to be material weakness(es)? ___ yes _X_ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance? ___ yes _X_ no

Auditee qualified as low-risk auditee? _X_ yes ___ no

Identification of major federal programs:

Assistance Listing Number	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

Section II - Financial Statement Findings Required to be Reported in Accordance with *Government Auditing Standards*

No findings were reported.

Section III - Federal Award Findings and Questioned Costs

No findings were reported.