

FRIENDS OF SWITCHPOINT, INC.

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
*WITH GOVERNMENT AUDITING STANDARDS***

FOR THE PERIOD ENDED SEPTEMBER 30, 2018

FRIENDS OF SWITCHPOINT INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Friends of Switchpoint Inc.

We have audited the accompanying financial statements of Friends of Switchpoint Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends of Switchpoint Inc. as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 10 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves,

and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hafen, Buckner, Everett, & Graff, PC

St. George, Utah

January 10, 2019

FRIENDS OF SWITCHPOINT
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2018

ASSETS

Current Assets:	
Cash (Note 1)	\$ 918,240
Grant Receivables	105,479
Prepaid Assets	4,868
Inventory	124,701
Total Current Assets	<u>1,153,288</u>
Fixed Assets (Note 2):	
Construction in Progress	248,438
Land, Buildings, & Improvements	411,826
Furniture, Fixtures and Equipment	122,031
Vehicles	10,549
Accumulated Depreciation	<u>(123,650)</u>
Total Fixed Assets	<u>669,194</u>
TOTAL ASSETS	<u>\$ 1,822,482</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts Payable	\$ 4,764
Payroll Liabilities	2,132
Client Funds	5,204
Total Current Liabilities	<u>12,100</u>
Net Assets:	
Unrestricted	1,389,753
Temporarily Restricted	420,629
Permanently Restricted	-
Total Net Assets	<u>1,810,382</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,822,482</u>

The accompanying notes are an integral part of the financial statements

FRIENDS OF SWITCHPOINT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Revenues, Gains and Other Support:			
Grant Income	\$ -	\$ 1,256,913	\$ 1,256,913
Donations-in-kind	2,862,473	-	2,862,473
Contributions	360,566	810,008	1,170,574
Thrift Store Sales	269,121	-	269,121
Animal Day Care Services	223,838	-	223,838
Other Income	44,635	-	44,635
Interest Income	1,581	-	1,581
Satisfaction of Temporary Restrictions	1,794,711	(1,794,711)	-
	<u>5,556,925</u>	<u>272,210</u>	<u>5,829,135</u>
Total Revenues, Gains, and Other Support			
Expenses:			
Program 1 - Food	2,708,379	-	2,708,379
Program 2 - Shelter	1,502,414	-	1,502,414
Thrift Store	521,448	-	521,448
Animal Day Care Services	307,644	-	307,644
Management and General	136,977	-	136,977
Fund-Raising	6,803	-	6,803
	<u>5,183,665</u>	<u>-</u>	<u>5,183,665</u>
Total Expenses			
Change in Net Assets	373,260	272,210	645,470
Net Assets at Beginning of Period	<u>1,016,493</u>	<u>148,419</u>	<u>1,164,912</u>
Net Assets at End of Period	<u>\$ 1,389,753</u>	<u>\$ 420,629</u>	<u>\$ 1,810,382</u>

The accompanying notes are an integral part of the financial statements

FRIENDS OF SWITCHPOINT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Cash flows from operating activities:	
Cash received from contributors	\$ 1,170,574
Cash received from grants	1,311,951
Cash received from thrift store	269,121
Cash received from animal care services	223,838
Cash received from miscellaneous income	44,635
Cash received from interest	1,581
Cash paid to suppliers & staff	<u>(2,317,862)</u>
Net cash provided by operating activities	<u>703,838</u>
Cash flows from investing activities:	
Purchase of fixed assets	<u>(238,587)</u>
Net cash used by investing activities	<u>(238,587)</u>
Net increase / (decrease) in cash and cash equivalents	465,251
Cash and cash equivalents, beginning of year	<u>452,989</u>
Cash and cash equivalents, end of year	<u><u>\$ 918,240</u></u>
Reconciliation of change in net assets to net cash provided	
by operating activities:	
Change in net assets	\$ 645,470
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	41,079
Donations in-kind, net	(13,616)
Changes in operating assets and liabilities:	
(Increase) / Decrease in receivables	55,038
Increase / (Decrease) in other liabilities	(11,465)
Increase / (Decrease) in accounts payable	<u>(12,668)</u>
Net cash provided by operating activities	<u>\$ 703,838</u>

The accompanying notes are an integral part of the financial statements

**FRIENDS OF SWITCHPOINT INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

General

The accompanying financial statements of Friends of Switchpoint Inc. (the Organization) have been prepared on the accrual basis of accounting. Contributions are recorded when received unless susceptible to accrual. Other sources of revenue for 2018 include private and government grants.

Tax

The Organization is an exempt organization for federal income tax purposes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has indicated the Organization is not a private foundation. In accordance with tax statute, the Organization's tax returns remain subject to examination for all tax years ended on or after September 30, 2016 with regard to all tax positions and the results reported.

Description of Programs

Friends of Switchpoint Inc. is an organization providing food, shelter, and case management services for needy individuals in St. George, Utah and the surrounding communities. The organization also operates a relatively small thrift store to assist with employment, training, and to sell in-kind contributions. During 2017, the organization opened an animal day-care center to provide employment opportunities and generate additional funding.

Revenue Recognition

In accordance with SFAS No.116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. As restrictions are met, these revenues become unrestricted and are then allowed to be expended. As of September 30, 2018 there were no permanently restricted net assets. Grant revenues are recognized when qualifying expenses have been incurred and all other grant requirements have been met.

Accounts Receivable

Receivables are recorded using accrual basis of accounting. All receivables are generated through government grant billings for reimbursable services provided and are considered fully collectible. Accordingly, no allowance account has been established.

Cash

Cash includes all monies in demand deposit and savings accounts.

FRIENDS OF SWITCHPOINT INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventories

Inventories consist of food and clothing items that have been donated to the Organization. Inventory for the food pantry is valued at \$1.67 per pound, based on Feeding America 2016 study of value per pound of donated food. Thrift store inventory is valued at estimated realizable value. The reported values are \$22,293 and \$102,408 respectively.

Contributed Services, Supplies and Facilities

The Organization does not record in the financial statements any support, revenue or expense from services contributed by volunteers because the services performed do not require a specialist and did not create or enhance a nonfinancial asset. Organization facilities are provided by the City of St. George for no cost to facilitate homeless care to the local area.

Contributed Services, Supplies and Facilities

Transactions related to assets held by the Organization as an agent for individuals are accounted for as an agency fund. Agency funds include assets held by individual clients of the Organization.

NOTE 2 - FIXED ASSETS

The Organization follows the policy of charging ordinary maintenance and repairs to operations as incurred. All expenditures for property, furniture, fixtures and office equipment in excess of \$5,000 are capitalized. Purchased fixed assets are recorded at cost. Donated fixed assets are recorded at fair value. No fixed assets were donated in 2018. When depreciable property is retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reflected in income.

Depreciation of fixed assets is calculated on the straight-line method over the following estimated useful lives:

Buildings & building improvements	15-40 years
Vehicles	5 years
Furniture, fixtures and equipment	5-10 years

**FRIENDS OF SWITCHPOINT INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

NOTE 2 - FIXED ASSETS CONTINUED

Changes in fixed assets for fiscal year 2018 are as follows:

:	Balance 9/30/2017	Additions	Deletions	Balance 9/30/2018
<i>Capital Asset Not Being Depreciated</i>				
Construction in Progress	\$ 72,039	\$176,399	\$ -	\$248,438
<i>Capital Asset Being Depreciated</i>				
Buildings and Improvements	404,518	7,308	-	411,826
Furniture, Fixtures & Equipment	67,151	54,880	-	122,031
Vehicles	10,549	-	-	10,549
Total	554,257	238,587	-	792,844
Less Accumulated Depreciation	(82,571)	(41,079)	-	(123,650)
	<u>\$471,686</u>	<u>\$197,508</u>	<u>\$ -</u>	<u>\$669,194</u>

NOTE 3 – LEASES

In addition to the facilities provided by the City of St. George, the Organization entered into a lease agreement with BOV-RAC Utah, LLC on December 3, 2015 for retail space to operate a thrift store. The lease is for 48 months ending the last day of April 2020.

On December 1, 2016 the Organization entered into a lease agreement with Deltoro LLC for retail space to operate a pet day-care establishment. The lease is for 36 months ending November 30, 2019.

The following schedule shows the total lease payments due over the lease agreement:

FY 2019	\$ 102,946
FY 2020	30,001
THEREAFTER	-
TOTAL	<u>\$ 132,947</u>

FRIENDS OF SWITCHPOINT INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 4 – UNRESTRICTED AND TEMPORARILY RESTRICTED NET ASSETS

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. As restrictions are met, these revenues become unrestricted and are then allowed to be expended. Revenues are reported as unrestricted support if the restrictions are met in the reporting period. Accordingly, all net assets are accounted for under SFAS no. 117, *Financial Statements of Not-for-Profit Organization*. As of September 30, 2018 there were \$420,629 in temporarily restricted net assets.

NOTE 5 – RELATED PARTIES

During FY 2018 the following related party transactions took place:

1. A board member received immaterial payment for legal services rendered during the year.

NOTE 6 – CREDIT LINE

On October 21, 2016 the Organization obtained a line of credit from Rock Canyon Bank in the amount of \$75,000. The line expires on January 30, 2019. It is anticipated that another line of credit will be established at that time. The balance at September 30, 2018 was \$0.

NOTE 7 – RETIREMENT

The Organization offers an IRA plan for any employee who wishes to participate and matches up to 3% of wages. For FY 2018 the Organization match amount totaled \$2,410.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are for a contribution that is required to be spent on construction of a low-cost housing complex.

NOTE 9 – MANAGEMENT'S REVIEW

Management has evaluated subsequent events through the issuance date of this report.

SUPPLEMENTARY SCHEDULES

FRIENDS OF SWITCHPOINT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Expense Category	Program 1 Food	Program 2 Shelter	Thrift Store	Animal Day-Care	Management & General	Total
Advertising and Promotion	-	19,194	873	7,463	-	27,530
Bank Service Charges	-	727	3,910	4,124	426	9,187
Cost of Sales	-	-	269,121	-	-	269,121
Contract Labor	-	2,369	-	50	-	2,419
Depreciation Expense	26,290	9,859	-	-	4,930	41,079
Direct Client Costs	-	9,322	-	-	-	9,322
Dues and Subscriptions	-	37,971	158	1,043	3,406	42,578
Food Expense	2,598,941	-	-	-	-	2,598,941
Rent - Facilities	-	15,539	73,730	73,727	1,350	164,346
Equipment Lease	-	5,392	-	-	469	5,861
Insurance - Liability	-	13,072	-	1,005	1,136	15,213
Rental Assistance	-	261,436	-	-	-	261,436
Miscellaneous	-	8,609	2,286	7,280	748	18,923
Office Expense	3,359	3,925	202	1,058	341	8,885
Postage and Delivery	-	1,662	-	7	145	1,814
Professional Fees	-	152,333	-	-	4,587	156,920
Repairs and Maintenance	130	5,509	722	666	479	7,506
Salaries & Wages	52,681	642,516	114,127	154,082	85,208	1,048,614
Fringe	25,337	167,868	39,544	37,755	21,133	291,637
Travel	-	5,561	5,322	-	483	11,366
Training	-	16,505	-	34	1,438	17,977
Supplies	329	76,929	2,424	6,602	6,689	92,973
Telephone	-	16,197	-	1,624	1,408	19,229
Utilities	1,312	29,919	9,029	11,124	2,601	53,985
Total Program & Administrative Fundraising Expenses	2,708,379	1,502,414	521,448	307,644	136,977	5,176,862 6,803
Total Functional Expenses						5,183,665

The accompanying notes are an integral part of the financial statements

INDEPENDENT AUDITOR'S 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

To the Board of Trustees of
Friends of Switchpoint Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Friends of Switchpoint Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 10, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Friends of Switchpoint Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Friends of Switchpoint Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Friends of Switchpoint Inc.'s internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Friends of Switchpoint Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hafen, Buckner, Everett, & Graff, PC

St. George, Utah
January 10, 2019