

**FRIENDS OF SWITCHPOINT, INC.**

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

**FOR THE PERIOD ENDED SEPTEMBER 30, 2019**

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, 2019, 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, 2019, 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.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 27, 2020, on our consideration of Friends of Switchpoint, Inc.'s internal control over financial reporting and 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 results of that testing, and not to provide an opinion on the effectiveness of Friends of Switchpoint, Inc.'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 Friends of Switchpoint, Inc.'s internal control over financial reporting and compliance.

*Hafen, Buckner, Everett & Graff, PC*

Hafen, Buckner, Everett, & Graff, PC

St. George, Utah  
February 27, 2020

**FRIENDS OF SWITCHPOINT**  
**STATEMENT OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2019**

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**ASSETS**

Current Assets:	
Cash (Note 1)	\$ 1,064,556
Receivables	271,590
Prepaid Assets	6,668
Inventory	175,860
Total Current Assets	<u>1,518,674</u>
Fixed Assets (Note 2):	
Construction in Progress	-
Land, Buildings, & Improvements	1,069,605
Furniture, Fixtures and Equipment	122,031
Vehicles	10,549
Accumulated Depreciation	(169,611)
Total Fixed Assets	<u>1,032,574</u>
Other Assets:	
Riverwalk Land	500,000
Riverwalk Note Receivable	2,267,214
	<u>2,767,214</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 5,318,462</u></b>

**LIABILITIES AND NET ASSETS**

Current Liabilities:	
Accounts Payable	\$ 123,639
Payroll Liabilities	3,543
Current Portion of Long-Term Debt	94,895
Total Current Liabilities	<u>222,077</u>
Long Term-Debt:	
Notes Payable, net of current portion (Note 3)	1,317,605
Total Long-Term Debt	<u>1,317,605</u>
Net Assets:	
Without Donor Restrictions	3,778,780
With Donor Restrictions	-
Total Net Assets	<u>3,778,780</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 5,318,462</u></b>

The accompanying notes are an integral part of the financial statements

**FRIENDS OF SWITCHPOINT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Revenues, Gains and Other Support:			
Grant Income	\$ -	\$ 1,398,849	\$ 1,398,849
Donations-in-kind	3,410,282	-	3,410,282
Contributions	1,091,983	700,000	1,791,983
Thrift Store Sales	376,586	-	376,586
Animal Day Care Services	275,488	-	275,488
Other Income	14,051	-	14,051
Interest Income	9,372	-	9,372
Satisfaction of Temporary Restrictions	<u>2,519,478</u>	<u>(2,519,478)</u>	<u>-</u>
 Total Revenues, Gains, and Other Support	 <u>7,697,240</u>	 <u>(420,629)</u>	 <u>7,276,611</u>
Expenses:			
Program 1 - Food	2,552,067	-	2,552,067
Program 2 - Shelter	1,514,138	-	1,514,138
Thrift Store	731,984	-	731,984
Animal Day Care Services	345,207	-	345,207
Management and General	361,219	-	361,219
Fund-Raising	<u>12,440</u>	<u>-</u>	<u>12,440</u>
 Total Expenses	 <u>5,517,055</u>	 <u>-</u>	 <u>5,517,055</u>
 Change in Net Assets	 2,180,185	 (420,629)	 1,759,556
 Net Assets at Beginning of Period	 1,389,753	 420,629	 1,810,382
Prior Period Adjustment	<u>208,842</u>	<u>-</u>	<u>208,842</u>
 Net Assets at End of Period	 <u>\$ 3,778,780</u>	 <u>\$ -</u>	 <u>\$ 3,778,780</u>

The accompanying notes are an integral part of the financial statements

**FRIENDS OF SWITCHPOINT**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Expense Category	Program 1 Food	Program 2 Shelter	Thrift Store	Animal Day-Care	Management & General	Total
Advertising and Promotion	-	20,463	890	8,304	-	29,656
Bank Service Charges	-	2,001	6,003	6,289	-	14,294
Cost of Sales	-	-	376,586	-	-	376,586
Contract Labor	-	-	-	-	-	-
Depreciation Expense	29,415	11,031	-	-	5,515	45,961
Direct Client Costs	-	7,649	-	-	-	7,649
Dues and Subscriptions	-	24,972	281	842	1,964	28,058
Food Expense	2,444,755	-	-	-	-	2,444,755
Rent - Facilities	-	-	75,128	91,823	-	166,950
Equipment Lease	-	4,904	-	-	1,226	6,130
Insurance - Liability	869	10,953	1,738	1,738	2,085	17,384
Rental Assistance	-	361,098	-	-	-	361,098
Miscellaneous	-	-	-	-	-	-
Office Expense	886	4,875	1,773	886	443	8,863
Postage and Delivery	-	4,963	-	-	4,963	9,925
Professional Fees	-	23,803	-	-	-	23,803
Repairs and Maintenance	2,442	7,327	-	-	-	9,769
Salaries & Wages	40,835	721,422	176,952	163,341	258,623	1,361,173
Fringe	11,096	196,028	48,082	44,384	70,274	369,864
Travel	1,520	10,640	-	-	3,040	15,200
Training	1,558	10,905	-	-	3,116	15,578
Supplies	10,380	46,710	25,950	15,570	5,190	103,800
Telephone	475	10,915	791	633	3,006	15,819
Utilities	7,836	33,482	17,810	11,398	712	71,238
Interest	-	-	-	-	1,062	1,062
Total Program & Administrative	2,552,067	1,514,138	731,984	345,207	361,219	5,504,615
Fundraising Expenses	-	-	-	-	-	12,440
Total Functional Expenses	-	-	-	-	-	<u>5,517,055</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, 2019**

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**Cash flows from operating activities:**

Cash received from contributors	\$ 1,791,983
Cash received from grants	1,232,738
Cash received from thrift store	376,586
Cash received from animal care services	275,488
Cash received from miscellaneous income	14,051
Cash received from interest	9,372
Cash paid to suppliers & staff	<u>(2,485,737)</u>
Net cash provided by operating activities	<u>1,214,481</u>

**Cash flows from investing activities:**

Cash received from City of St. George loans (Riverwalk)	750,000
Cash received from Riverwalk transfer	127,308
Cash used for purchase of fixed assets	(125,628)
Cash used for Riverwalk transfer	(446,221)
Cash loaned for Riverwalk transfer	<u>(1,373,624)</u>
Net cash used by investing activities	<u>(1,068,165)</u>

**Net increase / (decrease) in cash and cash equivalents** 146,316

Cash and cash equivalents, beginning of year 918,240

Cash and cash equivalents, end of year \$ 1,064,556

**Reconciliation of change in net assets to net cash provided  
by operating activities:**

Change in net assets	\$ 1,759,556
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	45,961
Donations in-kind, net	(633,102)
Changes in operating assets and liabilities:	
(Increase) / Decrease in receivables	(166,111)
(Increase) / Decrease in prepaid assets	(1,800)
Increase / (Decrease) in other liabilities	91,102
Increase / (Decrease) in accounts payable	<u>118,875</u>
Net cash provided by operating activities	<u><u>\$ 1,214,481</u></u>

The accompanying notes are an integral part of the financial statements



**FRIENDS OF SWITCHPOINT INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Friends of Switchpoint Inc., a not-for-profit corporation, was established under the laws of the state of Utah in 2013 as a nonprofit organization. The organization is dedicated to serving the homeless of the City of St. George, Utah.

**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 2019 include private and government grants.

**Income Taxes**

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**

Grant Revenue is recognized on a cost reimbursement basis. Grant amounts received by the organization through cost reimbursement contracts are deemed to be earned and are reported as revenues when the organization has incurred expenses in compliance with contract requirements. Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without restrictions if the restrictions are met during the year in which the contributions are recognized.

**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, 2019**

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**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 \$59,046 and \$116,813 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.

**Adoption of New Accounting Standard**

During the year ended September 30, 2019, the Organization adopted Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 are the net assets used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions, and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions.

**Cost Allocation**

These financial statements report certain categories of expenses that are attributable to more than one function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Accordingly, certain costs have been allocated among the functions benefitted.

**FRIENDS OF SWITCHPOINT INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**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 2019. 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

Changes in fixed assets for fiscal year 2019 are as follows:

	Balance <u>9/30/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustment</u>	Balance <u>9/30/2019</u>
<b><i>Capital Asset Not Being Depreciated</i></b>					
Construction in Progress	\$ 248,437	\$ 30,349	\$(487,628)	\$ 208,842	\$ -
<b><i>Capital Asset Being Depreciated</i></b>					
Landscaping	-	7,850	-	-	7,850
Buildings and Improvements	411,826	649,929	-	-	1,061,755
Furniture, Fixtures & Equipment	122,031	-	-	-	122,031
Vehicles	10,549	-	-	-	10,549
Total	<u>792,843</u>	<u>688,128</u>	<u>(487,628)</u>	<u>208,842</u>	<u>1,202,185</u>
Less Accumulated Depreciation	<u>(123,650)</u>	<u>(45,961)</u>	<u>-</u>	<u>-</u>	<u>(169,611)</u>
	<u>\$669,193</u>	<u>\$642,167</u>	<u>\$(487,628)</u>	<u>\$ 208,842</u>	<u>\$1,032,574</u>

**NOTE 3 – OPERATING LEASES**

In addition to the facilities provided by the City of St. George, the Organization has entered into a lease agreement with BOV-RAV Utah, LLC on December 3, 2015 for retail space to operate a thrift store. The lease is for 48 months ending on April 1, 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.

On October 21, 2019 the Southwest Behavioral Health Center for retail space to operate a retail space to operate a pet day-care establishment. The lease is for 48 months ending October 31, 2020.

**FRIENDS OF SWITCHPOINT INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**NOTE 3 – OPERATING LEASES (CONTINUED)**

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

FY 2020	\$ 144,325
FY 2021	58,343
FY 2022	45,000
FY 2023	<u>3,750</u>
Total	<u>\$ 251,418</u>

**NOTE 4 – NOTES PAYABLE**

Notes payable consisted of the following as of September 30, 2019:

Note payable to the City of St. George, this was provided by the City of St. George to Friends of Switchpoint as the guarantor of the Riverwalk development to be held in reserve and returned to the City along with interest that shall accrue at 2.9% per annum approximately six years after construction is completed. Should the reserve be used for operational purposes, Friends of Switchpoint will have up to 10 years to pay the amount used to the City. \$ 500,000

Note payable to the City of St. George, this was provided by the City of St. George to Friends of Switchpoint as the guarantor of the Riverwalk development and will be returned to the City along with interest that shall accrue at 2.9% per annum as construction milestones related to the development agreement are met. 250,000

Note payable to The Community Foundation of Utah with no interest. Payments shall not commence until the childcare income shall begin. 100,000

Note payable to Samuel Cris Fischer Trust for the purchase of property located in Hildale, Utah for \$645,000 with a deposit of \$7,500 and down payment of \$75,000 due at signing with interest of 5% per annum payable in 24 months of \$6,000 with the first payment due on November 1, 2019. 562,500

Total \$1,412,500

**FRIENDS OF SWITCHPOINT INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**NOTE 4 – NOTES PAYABLE (CONTINUED)**

Future maturities of notes payable are as follows:

<u>Years ending September 30,</u>	
2020	\$ 94,895
2021	99,749
2022	367,856
2023	100,000
2024	250,000
Thereafter	<u>500,000</u>
	<u>\$1,412,500</u>

**NOTE 5 – PRIOR PERIOD ADJUSTMENT**

In connection with the Riverwalk transfer (See Note 9) the Organization determined that several prior period entries that had been expensed should have been capitalized. This was done with a prior period adjustment. See the statement of activities.

**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. This line was renewed on January 30, 2019. The balance at September 30, 2019 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 2019 the Organization match amount totaled \$8,633.

**NOTE 8 – MANAGEMENT’S REVIEW**

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

**NOTE 9 – RIVERWALK**

The organization began construction of a 55-unit housing complex scheduled to be completed in September 2020. These units will be available for low income, chronically homeless and market rate individuals and families. On August 27, 2019, the organization transferred this project to a Utah Limited Liability Company (LLC) to complete and manage the development until the end of the “compliance period”. At that time the organization plans to exercise the “buyout option”.

**FRIENDS OF SWITCHPOINT INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**NOTE 10 – SUBSEQUENT EVENTS**

In October 2019, the organization purchased property for their childcare operation for \$872,296. The seller provided a \$270,000 donation and the organization obtained a mortgage of \$510,000 from RCB Bank.



Certified Public Accountants

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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 February 27, 2020.

**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.

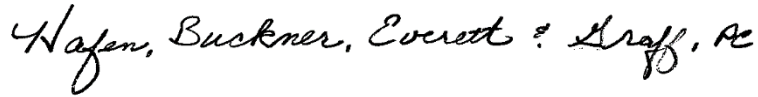
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in black ink that reads "Hafen, Buckner, Everett & Graff, PC". The signature is written in a cursive, flowing style.

Hafen, Buckner, Everett, & Graff, PC

St. George, Utah  
February 27, 2020