THE SHERIDAN STORY
(A Non-Profit Corporation)

FINANCIAL STATEMENTS

Year Ended June 30, 2018
with Comparative Totals for 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

THE SHERIDAN STORY

We have audited the accompanying financial statements of The Sheridan Story (a nonprofit organization) which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets 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 statement, 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 The Sheridan Story as of June 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 is presented for the 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.

Report on Summarized Comparative Information

We have previously audited The Sheridan Story's 2017 financial statements, and we expressed a qualified audit opinion on those audited financial statements in our report dated November 16, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mayer Hoffman McCann P.C.

Minneapolis, Minnesota
September 20, 2018

THE SHERIDAN STORY

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	$ 178,595	$ 279,315
Pledges receivable	27,843	48,387
Inventory	142,840	97,153
Prepaid expenses	20,439	10,212
TOTAL CURRENT ASSETS	369,717	435,067
PROPERTY AND EQUIPMENT		
Office furniture and equipment	294,212	135,103
Construction in progress	-	51,026
Less accumulated depreciation	(118,556)	(73,155)
NET PROPERTY AND EQUIPMENT	175,656	112,974
OTHER ASSETS		
Deposits	2,763	8,763
TOTAL ASSETS	$ 548,136	$ 556,804
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 43,710	$ 28,716
Accrued expenses	11,372	-
Deferred revenue	247,927	313,112
TOTAL CURRENT LIABILITIES	303,009	341,828
LONG-TERM LIABILITIES		
Deferred rent	26,841	17,502
TOTAL LIABILITIES	329,850	359,330
NET ASSETS		
Unrestricted	186,194	197,474
Temporarily restricted	32,092	-
TOTAL NET ASSETS	218,286	197,474
TOTAL LIABILITIES AND NET ASSETS	$ 548,136	$ 556,804

See Notes to Financial Statements

THE SHERIDAN STORY

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2018 with Comparative Totals for 2017

	Unrestricted	Temporarily Restricted	Total 2018	Total 2017
SUPPORT AND REVENUE				
Partnership & sponsor revenue	$ 726,272	$ 32,092	$ 758,364	$ 569,041
Grants	155,379	-	155,379	209,183
Individual contributions	536,911	-	536,911	368,052
Donated goods and services	292,869	-	292,869	148,469
Other income	2,623	-	2,623	3,471
TOTAL SUPPORT AND REVENUE	1,714,054	32,092	1,746,146	1,298,216
FUNCTIONAL EXPENSES				
Program services	1,351,024	-	1,351,024	1,019,808
Management and general	231,846	-	231,846	182,716
Fund raising	142,464	-	142,464	102,525
TOTAL FUNCTIONAL EXPENSES	1,725,334	-	1,725,334	1,305,049
INCREASE (DECREASE) IN NET ASSETS	(11,280)	32,092	20,812	(6,833)
NET ASSETS, BEGINNING	197,474	-	197,474	204,307
NET ASSETS, END	$ 186,194	$ 32,092	$ 218,286	$ 197,474

See Notes to Financial Statements

THE SHERIDAN STORY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 20,812	$ (6,833)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	45,401	30,535
Donated food inventory	(47,042)	(16,249)
Donated property and equipment	(87,143)	(7,500)
Contributions restricted for purchase of property and equipment	(10,480)	(40,000)
Changes in operating assets and liabilities:		
Prepaid expenses	(10,227)	825
Pledges receivable	20,544	(7,641)
Inventory	1,355	(35,526)
Deposits	6,000	(6,263)
Accounts payable	14,994	8,835
Accrued expenses	11,372	(10,392)
Deferred revenue	(65,185)	107,213
Deferred rent	9,339	17,502
NET CASH FLOWS FROM OPERATING ACTIVITIES	(90,260)	34,506
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(20,940)	(87,377)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(20,940)	(87,377)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contribution restricted for purchase of property and equipment	10,480	40,000
NET CASH FLOWS FROM FINANCING ACTIVITIES	10,480	40,000
NET INCREASE (DECREASE)	(100,720)	(12,871)
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	279,315	292,186
END OF YEAR	$ 178,595	$ 279,315
SUPPLEMENTAL DISCLOSURES		
Interest paid	$ 301	$ -
Noncash investing and financing activities:		
Donated property and equipment	$ 87,143	$ 7,500

See Notes to Financial Statements

(1) Description of organization and summary of significant accounting policies

The Organization - The Sheridan Story (the Organization), based in Minneapolis, Minnesota, is a 501(c)(3) non-profit organization. Over 200,000 children in the state of Minnesota live in food insecurity and do not always know if they will receive their next meal. The Sheridan Story's purpose is to respond to this need by closing the weekend food gap between Friday and Monday, when children are not able to participate in the free or reduced meal programs at school.

The Organization is an ever-growing network of weekend food programs, commonly called backpack programs, operating in multiple schools. The organizational model is unique in that The Sheridan Story provides logistical expertise and project execution while leveraging community partnerships for funding and volunteers. The organization works right here in Minnesota. Most of the work is in the Twin Cities area, but the Organization works in greater Minnesota, as well.

Description of program - The Organization provides food to close the weekend food gap between Friday and Monday, when children are not able to participate in the free or reduced meal programs at school.

Income tax status - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. The Organization is a non-private foundation and contributions to the Organization qualify as a charitable deduction by the contributor.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the years ended June 30, 2018 and 2017.

The Organization files Form 990 in the U.S. federal jurisdiction and the State of Minnesota. The Organization is generally no longer subject to examination by the Internal Revenue Service three years after the date of filing, including extensions.

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

(1) <u>Description of organization and summary of significant accounting policies</u> (continued)

Financial statement presentation - The Organization reports information regarding its financial position and activities according to three classes of net assets:

- **Unrestricted -** Resources over which the Board of Directors has discretionary control.
- **Temporarily restricted with respect to time or purpose -** Those resources subject to a donor-imposed restriction which will be satisfied by actions of the Organization or the passage of time.
- **Permanently restricted -** Those resources subject to a donor-imposed restriction that they be maintained permanently. At this time, the Organization has no such permanently restricted resources.

Revenue recognition - The Organization recognizes contributions, grants, and sponsorships as revenue when they are received or unconditionally pledged.

Support that is temporarily restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated goods and services - Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Cash and cash equivalents - The Organization considers cash in demand deposit accounts and temporary investments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents with high credit quality financial institutions. From time to time, the Organization’s balances in its bank accounts exceed Federal Deposit Insurance Corporation limits. The Organization periodically evaluates the risk of exceeding insurance levels and may transfer funds as it deems appropriate. The Organization has not experienced any losses with regards to balances in excess of insured limits or as a result of other concentrations of credit risk.

(1) Description of organization and summary of significant accounting policies (continued)

Pledges receivable - Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by the Organization. The Organization uses the allowance method to determine uncollectible promises to give (receivable). Management considers all receivables to be fully collectible at year-end and accordingly, an allowance for doubtful accounts has not been recorded.

Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using interest rates applicable to the years in which the promises are expected to be received.

Inventories - Inventories consist of both the food to make the bags, as well as finished bags that are ready to be distributed to schools. The food inventory is valued at the lower of cost or net realizable value. Cost has been determined on the first-in, first-out basis. The finished bags are recorded at the cost of the build-up of the cost of inventory included in the bags.

Property and equipment - The Organization capitalizes all expenditures of property and equipment with a cost in excess of $2,500, or similar property and equipment purchased together with a total cost in excess of $5,000. Property and equipment are recorded at cost or in the case of contributed property at the fair market value at the date of contribution. Depreciation is computed using the straight line method over estimated useful lives of three to five years. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred, whereas significant improvements are capitalized. For the years ended June 30, 2018 and 2017, depreciation expense amounted to approximately $45,000 and $31,000, respectively.

Deferred revenue - Conditional contributions received in advance of conditions being met are recorded as deferred revenue until the contribution becomes unconditional, at which time the support is recognized as contribution revenue.

Functional allocation of expenses - The costs of providing programs and services have been summarized on a functional basis. Accordingly, certain costs have been allocated between program and the supporting services benefited.

Advertising costs - For both years ended June 30, 2018 and 2017, advertising costs expensed totaled approximately $10,000.

Subsequent events policy - Subsequent events have been evaluated through September 20, 2018 which is the date the financial statements were available to be issued.

(2) Revolving line of credit

In fiscal year 2018, the Organization agreed to a promissory note (the "Agreement") with a bank that provides for line of credit borrowings of up to $50,000 subject to limitations specified in the Agreement. Interest is payable monthly at the Prime rate plus 2.0% (an effective rate of 7% at June 30, 2018). The Agreement matures October 24, 2018 at which time all outstanding principle plus accrued unpaid interest is to be paid in full. Borrowings are secured by certain assets as specified in the Agreement. There was no outstanding balance on the line of credit at June 30, 2018. In connection with the Agreement, the Organization has agreed to comply with various non-financial covenants.

(3) Restricted net assets

At June 30, 2018 temporarily restricted net assets of $32,092 consists of sponsor funds that are time restricted for a future period. There were no temporarily restricted net assets at June 30, 2017.

(4) Net assets released from restrictions

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by the time restriction expiring for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Time restricted grants for future period	-	35,200
Total	$ -	$ 35,200

(5) Donated goods and services

The Organization received various donated goods and services as noted below. Support ranged from food, donated time, software and storage. The donated goods and services to the Organization for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Food	$ 47,042	$ 16,249
Consultants	35,000	12,682
Software subscription service	88,650	83,764
Storage	2,200	2,200
Transportation	23,888	24,938
Equipment	87,143	7,500
Other	8,946	1,136
Total	$ 292,869	$ 148,469

(6) Operating leases

The Organization leased an office and warehouse space under a non-cancellable operating lease agreement that expired June 2018. Monthly payments under this lease consisted of a base rent of $1,923 plus a share of operating costs. This office and warehouse space was being sub-leased under an agreement that expired June 2018. Monthly payments received under this sublease were $3,200. Rent expense for the years ended June 30, 2018 and 2017 for this lease amounted to approximately $37,000 and $29,000, respectively. Rental income for the years ended June 30, 2018 and 2017 for this lease amounted to approximately $38,000 and $29,000, respectively.

The Organization entered into a lease agreement for office and warehouse space beginning November 2016 which requires base monthly rent payments ranging from approximately $5,500 to $6,500 over the term of the lease. The lease expires in January 2022. In December of 2017, the Organization signed an agreement amending the above lease agreement. The amendment increased the space available to the Organization and extended the lease to May 2023. Required base monthly rent payments range from approximately $5,700 to $9,600 over the term of the lease. The Organization has an option to extend the lease for an additional 5 years.

Future minimum lease payments required are as follows:

Years Ended June 30,		
2019	$	100,800
2020		103,800
2021		106,800
2022		110,100
2023		113,100
Total	$	534,600

Rent expense for the years ended June 30, 2018 and 2017 was approximately $153,000 and $76,000, respectively.

(7) Retirement plan

The Organization established a Simple IRA plan for its employees who are eligible to participate at the beginning of their second year of employment. The Organization matches employee contributions up to three percent of an employee's salary. For the years ended June 30, 2018 and 2017, contributions made by the Organization were $11,000 and $7,000, respectively.

(8) Reclassifications

Certain reclassifications have been made to the financial statements for the year ended June 30, 2017 to conform to classifications of the current year. The reclassifications did not affect the Organization’s financial position or results of operations.

(9) Change in accounting principle

Effective July 1, 2017, the Organization changed its accounting method for reporting temporarily restricted contributions that are received and released in the same period. Subsequent to that date support that is temporarily restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. Prior to July 1, 2017 all support temporarily restricted by the donor was reported as an increase in temporarily restricted net assets and then released to unrestricted net assets when the restriction expired. The Organization believes this change is preferable in that it more effectively reports the financial results of the Organization and this method more closely follows the reporting used for internal management purposes. The change had no effect on the change in net assets, unrestricted net assets, temporarily restricted net assets, or total net assets for the year ended June 30, 2018.

SUPPLEMENTARY INFORMATION

THE SHERIDAN STORY

SCHEDULES OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018 with Comparative Totals for 2017

	Program Services	Management and General	Fund Raising	Total 2018	Total 2017
Salary	$ 378,075	$ 94,195	$ 70,515	$ 542,785	$ 365,121
Food purchases	490,005	-	-	490,005	423,082
Rent	179,294	4,416	2,583	186,293	141,447
Benefits and payroll taxes	81,218	16,751	13,381	111,350	69,203
Computer support	35,301	48,538	4,413	88,252	84,612
Other operating expenses	56,254	23,702	8,123	88,079	33,384
Contracted services	3,292	34,161	24,347	61,800	49,375
Transportation	44,596	261	1,140	45,997	42,208
Depreciation	45,401	-	-	45,401	30,535
Printing and postage	12,342	615	7,596	20,553	2,659
Utilities	9,632	3,432	-	13,064	9,534
Fund raising	-	2,702	6,901	9,603	9,956
Office supplies	7,401	455	440	8,296	21,136
Meeting and conferences	3,364	1,057	659	5,080	6,854
Staff training and travel	2,137	1,561	1,217	4,915	1,441
Program/sponsor support	2,712	-	1,149	3,861	14,502
	$ 1,351,024	$ 231,846	$ 142,464	$ 1,725,334	$ 1,305,049