

THE SHERIDAN STORY
(A Non-Profit Corporation)

FINANCIAL STATEMENTS

Year Ended June 30, 2017
with Comparative Totals for 2016

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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, 2017, 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 qualified audit opinion.



Basis for Qualified Opinion

We did not observe the physical inventory (stated at \$45,378) taken as of June 30, 2016, since that date was prior to our initial engagement as auditors for the Organization. The Organization's records do not permit adequate retroactive tests of inventory quantities.

Qualified Opinion

In our opinion, except for the possible effects on the 2017 financial statements and the statements of activities and changes in net assets, and cash flows for the year ended June 30, 2017 of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of The Sheridan Story as of June 30, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion 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, except for the effect on the accompanying information of the qualified opinion on the financial statements as described above, 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 2016 statement of financial position, and we expressed a qualified opinion on that statement in our report dated May 5, 2017. We were engaged to audit the related statements of activities and changes in net assets and cash flows for the year ended June 30, 2016, but we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on those statements. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mayer Hoffman McCann P.C.

Minneapolis, Minnesota
November 16, 2017

THE SHERIDAN STORY

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 279,315	\$ 292,186
Pledges receivable	48,387	40,746
Inventory	97,153	45,378
Prepaid expenses	10,212	11,037
TOTAL CURRENT ASSETS	435,067	389,347
PROPERTY AND EQUIPMENT		
Office furniture and equipment	135,103	91,252
Construction in progress	51,026	-
Less accumulated depreciation	(73,155)	(42,620)
NET PROPERTY AND EQUIPMENT	112,974	48,632
OTHER ASSETS		
Deposits	8,763	2,500
TOTAL ASSETS	\$ 556,804	\$ 440,479
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 28,716	\$ 19,881
Accrued expenses	-	10,392
Deferred revenue	313,112	205,899
TOTAL CURRENT LIABILITIES	341,828	236,172
LONG-TERM LIABILITIES		
Deferred rent	17,502	-
TOTAL LIABILITIES	359,330	236,172
NET ASSETS		
Unrestricted	197,474	169,107
Temporarily restricted	-	35,200
TOTAL NET ASSETS	197,474	204,307
TOTAL LIABILITIES AND NET ASSETS	\$ 556,804	\$ 440,479

See Notes to Financial Statements

THE SHERIDAN STORY

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2017 with Comparative Totals for 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
<u>SUPPORT AND REVENUE</u>				
Partnership & sponsor revenue	\$ -	\$ 569,041	\$ 569,041	\$ 410,980
Grants	168,408	40,775	209,183	171,317
Individual contributions	360,223	7,829	368,052	162,191
Donated goods and services	148,469	-	148,469	129,447
Other income	3,471	-	3,471	1,461
Net assets released from restriction	652,845	(652,845)	-	-
 TOTAL SUPPORT AND REVENUE	 1,333,416	 (35,200)	 1,298,216	 875,396
<u>FUNCTIONAL EXPENSES</u>				
Program services	1,019,808	-	1,019,808	739,074
Management and general	182,716	-	182,716	62,433
Fund raising	102,525	-	102,525	41,370
 TOTAL FUNCTIONAL EXPENSES	 1,305,049	 -	 1,305,049	 842,877
 INCREASE (DECREASE) IN NET ASSETS	 28,367	 (35,200)	 (6,833)	 32,519
 NET ASSETS, BEGINNING	 169,107	 35,200	 204,307	 171,788
 NET ASSETS, END	 \$ 197,474	 \$ -	 \$ 197,474	 \$ 204,307

See Notes to Financial Statements

THE SHERIDAN STORY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (6,833)	\$ 32,519
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	30,535	23,753
Donated food inventory	(16,249)	(16,939)
Donated property and equipment	(7,500)	-
Contributions restricted for purchase of property and equipment	(40,000)	-
Changes in operating assets and liabilities:		
Prepaid expenses	825	(10,037)
Pledges receivable	(7,641)	(40,625)
Inventory	(35,526)	(15,599)
Deposits	(6,263)	-
Accounts payable	8,835	17,424
Accrued expenses	(10,392)	(317)
Deferred revenue	107,213	41,482
Deferred rent	17,502	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	34,506	31,661
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(87,377)	(14,847)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(87,377)	(14,847)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contribution restricted for purchase of property and equipment	40,000	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	40,000	-
NET INCREASE (DECREASE)	(12,871)	16,814
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	292,186	275,372
END OF YEAR	\$ 279,315	\$ 292,186
SUPPLEMENTAL DISCLOSURES		
Noncash investing and financing activities:		
Donated property and equipment	\$ 7,500	\$ -

See Notes to Financial Statements

THE SHERIDAN STORY

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, 2017 and 2016.

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.

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NOTES TO FINANCIAL STATEMENTS

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

All 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.

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NOTES TO FINANCIAL STATEMENTS

(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, 2017 and 2016, depreciation expense amounted to approximately \$31,000 and \$24,000, 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 the years ended June 30, 2017 and 2016, advertising costs expensed totaled \$9,956 and \$4,422, respectively.

Subsequent events policy - Subsequent events have been evaluated through November 16, 2017 which is the date the financial statements were available to be issued.

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NOTES TO FINANCIAL STATEMENTS

(2) Restricted net assets

There were no temporarily restricted net assets at June 30, 2017. At June 30, 2016 temporarily restricted net assets of \$35,200 consists of grants that are time restricted for a future period.

(3) 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, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Sponsor funds	\$ 569,041	\$ 410,980
Time restricted grants for future period	35,200	75,711
Property and equipment	40,000	-
Other	8,604	-
Total	<u>\$ 652,845</u>	<u>\$ 486,691</u>

(4) 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, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Food	\$ 16,249	\$ 16,939
Consultants	12,682	-
Software subscription service	83,764	88,650
Storage	2,200	7,760
Transportation	24,938	16,098
Equipment	7,500	-
Other	1,136	-
Total	<u>\$ 148,469</u>	<u>\$ 129,447</u>

(5) Operating leases

The Organization leases an office and warehouse space under a non-cancellable operating lease agreement expiring in June 2018. Monthly payments under this lease are base rent of \$1,923 plus a share of operating costs. This office and warehouse space is being sub-leased under an agreement expiring in June 2018. Monthly payments to be received under this sublease are \$3,200.

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NOTES TO FINANCIAL STATEMENTS

(5) Operating leases and subsequent events (continued)

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. Subsequent to year end, 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. The future minimum lease payments for this amended lease are reflected below.

The Organization entered into two temporary lease agreements for warehouse space that expired August 2016 and November 2016. The terms of these leases called for base monthly rent payments totaling \$3,155.

Future minimum lease payments required under these leases are as follows:

Years Ended June 30,

2018	\$ 116,300
2019	100,800
2020	103,800
2021	106,800
2022	78,000
Thereafter	<u>31,900</u>
Total	<u>\$ 537,600</u>

The above lease expense will be offset by payments due under the previously described sublease as follows:

Years Ended June 30,

2018	<u>\$ 38,400</u>
Total	<u>\$ 38,400</u>

Rent expense for the years ended June 30, 2017 and 2016 was approximately \$76,000 and \$25,000, respectively.

(6) 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, 2017 and 2016, contributions made by the Organization were \$7,000 and \$3,000, respectively.

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NOTES TO FINANCIAL STATEMENTS

(7) Reclassifications

Certain reclassifications have been made to the financial statements for the year ended June 30, 2016 to conform with classifications of the current year. The reclassifications did not affect the Organization's financial position of results of operations.

(8) Subsequent event

Subsequent to year end the Organization entered into a line of credit agreement with a bank in the amount of \$50,000. Interest is charged at the Prime Rate plus 2% and payments of interest are due monthly. The note matures on October 24, 2018. The note is secured by all assets of the Organization. The Organization must also comply with various non-financial covenants.

SUPPLEMENTARY INFORMATION

THE SHERIDAN STORY

SCHEDULES OF FUNCTIONAL EXPENSES

Years Ended June 30, 2017 with Comparative Totals for 2016

	Program Services	Management and General	Fund Raising	Total 2017	Total 2016
Food purchases	\$ 423,082	\$ -	\$ -	\$ 423,082	\$ 300,391
Salary	213,462	93,996	57,663	365,121	154,546
Rent	134,005	5,129	2,313	141,447	135,067
Computer support	53,183	21,173	10,256	84,612	80,822
Benefits and payroll taxes	43,197	16,324	9,682	69,203	30,274
Transportation	41,410	343	455	42,208	28,063
Depreciation	30,535	-	-	30,535	23,753
Other operating expenses	23,385	9,159	840	33,384	19,838
Program/sponsor support	14,502	-	-	14,502	12,785
Contracted services	13,967	28,141	7,267	49,375	17,711
Office supplies	13,285	5,289	2,562	21,136	16,019
Utilities	8,909	420	204	9,533	9,801
Fund raising	-	-	9,956	9,956	4,422
Meeting and conferences	4,308	1,715	831	6,854	4,799
Printing and postage	1,672	666	322	2,660	2,161
Staff training and travel	906	361	174	1,441	2,425
	<u>\$ 1,019,808</u>	<u>\$ 182,716</u>	<u>\$ 102,525</u>	<u>\$ 1,305,049</u>	<u>\$ 842,877</u>

See Independent Auditor's Report