

The Pack Shack

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016



The Pack Shack

December 31, 2017 and 2016

Contents

Independent Auditor's Report..... 1

Financial Statements

Statements of Financial Position 3
Statements of Activities..... 4
Statements of Cash Flows 5
Notes to Financial Statements 6

Independent Auditor's Report

Board of Directors and Management
The Pack Shack
Cave Springs, Arkansas

We have audited the accompanying financial statements of The Pack Shack (the Organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits 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 of 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 organization'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 organization'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.

Board of Directors and Management
The Pack Shack
Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Pack Shack as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Rogers, Arkansas
November 15, 2018

The Pack Shack
Statements of Financial Position
December 31, 2017 and 2016

Assets

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash	\$ 24,215	\$ 226,328
Accounts receivable	35,766	64,809
Inventories	74,402	56,951
Prepaid expenses	2,725	5,365
Other current assets	-	1,000
	<u>137,108</u>	<u>354,453</u>
Property and Equipment, Net of Accumulated Depreciation	<u>77,245</u>	<u>72,669</u>
Total assets	<u>\$ 214,353</u>	<u>\$ 427,122</u>

Liabilities and Net Assets

Current Liabilities		
Current maturities of long-term debt and capital lease obligation	\$ 8,416	\$ 6,562
Accounts payable	49,438	19,001
Accrued expenses	45,070	2,385
Deferred revenue	-	20,000
	<u>102,924</u>	<u>47,948</u>
Long-term Debt and Capital Lease Obligation	<u>28,223</u>	<u>27,536</u>
Total liabilities	<u>131,147</u>	<u>75,484</u>
Unrestricted Net Assets	<u>83,206</u>	<u>351,638</u>
Total liabilities and net assets	<u>\$ 214,353</u>	<u>\$ 427,122</u>

The Pack Shack
Statements of Activities
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted Revenues, Gains and Other Support		
Donations - Events	\$ 1,574,363	\$ 1,299,775
Donations - General	10,002	13,496
Be Neighborly App - Donations	21,816	25,553
Merchandise income	6,235	13,490
Other income	129,580	20,339
	<u>1,741,996</u>	<u>1,372,653</u>
Total revenues, gains and other support		
Expenses and Losses		
Program expenses		
Ingredients	500,163	348,564
Be Neighborly App	42,081	16,536
Merchandise	5,964	6,867
Shipping	63,860	42,393
Supplies	122,909	84,764
Rent and facilities	101,111	22,768
Equipment	6,095	5,725
Transportation	79,987	51,876
Payroll and benefits	478,121	339,090
Commissioned sales	-	37,985
Other	75,943	50,704
Total program expenses	<u>1,476,234</u>	<u>1,007,272</u>
Fundraising expenses		
Marketing	14,952	19,153
Payroll and benefits	252,213	94,610
Other	35,284	13,171
Total fundraising expenses	<u>302,449</u>	<u>126,934</u>
Administrative expenses		
Depreciation	31,490	22,456
Contributions	3,005	14,528
Thank you gifts	-	645
Professional services	53,038	67,128
Payroll and benefits	89,045	53,505
Maintenance	918	473
Software	13,267	4,831
Other	20,255	19,304
Total administrative expenses	<u>211,018</u>	<u>182,870</u>
Other expenses	<u>20,727</u>	<u>1,904</u>
Total expenses and losses	<u>2,010,428</u>	<u>1,318,980</u>
(Decrease) Increase in Unrestricted Net Assets	(268,432)	53,673
Unrestricted Net Assets, Beginning of Year	<u>351,638</u>	<u>297,965</u>
Unrestricted Net Assets, End of Year	<u>\$ 83,206</u>	<u>\$ 351,638</u>

The Pack Shack
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Change in unrestricted net assets	\$ (268,432)	\$ 53,673
Item not requiring operating activities cash flows		
Depreciation and amortization	31,490	22,456
Gain on sale of equipment	-	(2,339)
Changes in		
Accounts receivable	29,043	(24,246)
Inventories	(17,451)	(27,572)
Prepaid expenses	2,640	(5,365)
Accounts payable	30,437	(784)
Accrued expenses	42,685	(16,874)
Deferred revenue	(20,000)	20,000
Other current assets and liabilities	1,000	(1,000)
	<u>(168,588)</u>	<u>17,949</u>
Net cash (used in) provided by operating activities		
Investing Activities		
Purchase of property and equipment	(26,466)	(61,776)
Proceeds from sale of property and equipment	-	13,500
	<u>(26,466)</u>	<u>(48,276)</u>
Net cash used in investing activities		
Financing Activities		
Principal payments on long-term debt	(6,561)	(14,232)
Principal payments on capital lease obligation	(498)	-
Proceeds from issuance of long-term debt	-	35,168
	<u>(7,059)</u>	<u>20,936</u>
Net cash (used in) provided by financing activities		
Decrease in Cash	(202,113)	(9,391)
Cash, Beginning of Year	<u>226,328</u>	<u>235,719</u>
Cash, End of Year	<u>\$ 24,215</u>	<u>\$ 226,328</u>
Supplemental Cash Flows Information		
Interest paid	\$ 1,507	\$ 483
Capital lease obligation incurred for equipment	\$ 9,600	\$ -

The Pack Shack
Notes to the Financial Statements
December 31, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Pack Shack (the Organization) is a not-for-profit organization headquartered in Lowell, Arkansas. The Organization focuses on bringing people together to pack meals for hunger relief groups. The Organization provides the ingredients, supplies and tools for each event and charges the participating individuals, companies, or other groups a standard fee for each meal that is packed. These meals are then donated free of charge to local organizations, such as food banks and food pantries, for them to distribute to people and/or other organizations in their area.

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Deposits

At December 31, 2017, the Organization's cash accounts did not exceed federally insured limits.

Accounts Receivable

Accounts receivable are stated at the amount billed to customers, which are ordinarily due 30 days after the issuance of the invoice, and are net of any allowance for doubtful accounts. The allowance is based upon historical losses and a review of past due accounts. As of December 31, 2017 and 2016, no allowance was recorded for doubtful accounts.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Vehicles	3-5 years
Machinery and equipment	1-3 years
Computer equipment	1-3 years
Software	3-5 years

The Pack Shack
Notes to the Financial Statements
December 31, 2017 and 2016

Long-lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2017 and 2016.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor 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. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Inventory

Inventories consist of ingredients, supplies and merchandise. Inventories are stated at lower of cost or net realizable value. Costs are determined using the historical average basis.

Shipping and Handling Costs

Shipping and handling costs of \$63,860 and \$42,393 are included in program expenses for the years ended December 31, 2017 and 2016, respectively.

Deferred Revenue

Payments received from organizations for future parties are deferred and recognized as revenue in the period in which the party occurs.

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization files tax returns in the U.S. federal jurisdiction.

The Pack Shack
Notes to the Financial Statements
December 31, 2017 and 2016

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, fundraising and administrative categories based on the proportional time spent.

Subsequent Events

Subsequent events have been evaluated through November 15, 2018, which is the date the financial statements were available to be issued.

Note 2: Inventories

Inventory held by the Organization at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Ingredients	\$ 56,004	\$ 43,031
Supplies	14,411	11,871
Merchandise	3,987	2,049
	<u>\$ 74,402</u>	<u>\$ 56,951</u>

Note 3: Property and Equipment

Property and equipment at December 31, 2017 and 2016, consists of:

Vehicles	\$ 67,700	\$ 67,700
Machinery and equipment	15,100	4,200
Computer equipment	23,530	7,563
Software	25,000	20,000
	<u>131,330</u>	<u>99,463</u>
Less accumulated depreciation	54,085	26,794
	<u>\$ 77,245</u>	<u>\$ 72,669</u>

The Pack Shack
Notes to the Financial Statements
December 31, 2017 and 2016

Note 4: Long-term Debt

	<u>2017</u>	<u>2016</u>
Note payable, bank (A)	\$ 27,537	\$ 34,098
Capital lease obligation (B)	9,102	-
	<u>36,639</u>	<u>34,098</u>
Less current maturities	<u>8,416</u>	<u>6,562</u>
	<u>\$ 28,223</u>	<u>\$ 27,536</u>

(A) Due October 2021; payable \$645 monthly with interest payable monthly at 3.80%; secured by property and equipment.

(B) Capital lease for a forklift for five years; payable \$206 monthly expiring August 31, 2022.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2017, are:

	Long-term Debt (Excluding Leases)	Capital Lease Obligation
2018	\$ 6,816	\$ 2,467
2019	7,079	2,467
2020	7,353	2,467
2021	6,289	2,467
2022	-	1,645
	<u>\$ 27,537</u>	<u>11,513</u>
Less amount representing interest		<u>2,411</u>
Present value of future minimum lease payments		<u>\$ 9,102</u>

The Pack Shack
Notes to the Financial Statements
December 31, 2017 and 2016

Property and equipment include the following property under capital lease at December 31:

	2017	2016
Machinery and equipment	\$ 9,600	\$ -
Less accumulated depreciation	-	-
	\$ 9,600	\$ -

Note 5: Operating Leases

Noncancellable operating leases for warehouse space and a truck expire in various years through 2026. These leases do not contain any provisions regarding automatic renewals.

Future minimum lease payments under operating leases are:

2018	\$ 112,848
2019	113,268
2020	89,568
2021	89,992
2022	86,083
Thereafter	328,813
Total minimum lease payments	\$ 820,572

Rental expense for all operating leases amounted to \$108,755 and \$22,768 for the years ended December 31, 2017 and 2016, respectively.

Note 6: Retirement Plan

The Organization has a Simple IRA, which covers all employees reasonably expected to earn more than \$5,000 in a year. For eligible employees, the Organization will match employee contributions up to 3% of the employee's wages. Expense recognized for the Simple IRA plan was \$20,893 and \$9,876 for the years ended December 31, 2017 and 2016, respectively.

The Pack Shack
Notes to the Financial Statements
December 31, 2017 and 2016

Note 7: Future Change in Accounting Principle

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019 (2018 for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2020 (2018 for not-for-profits that are conduit debt obligors). The Organization is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.