The Pack Shack

Independent Auditor’s Report and Financial Statements

December 31, 2018 and 2017

The Pack Shack
December 31, 2018 and 2017

Contents

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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, 2018 and 2017, 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.

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, 2018 and 2017, 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.

Emphasis of Matter

As described in *Note 8* to the financial statements, in 2019, the Organization adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities.* Our opinion is not modified with respect to this matter.

BKD, LLP

Rogers, Arkansas
October 25, 2019

The Pack Shack

Statements of Financial Position

December 31, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash	$ 23,451	$ 24,215
Accounts receivable	49,182	35,766
Inventories	84,517	74,402
Prepaid expenses	500	2,725
Total current assets	157,650	137,108
Property and Equipment, Net of Accumulated Depreciation	79,494	77,245
Total assets	$ 237,144	$ 214,353

Liabilities and Net Assets

	2018	2017
Current Liabilities		
Current maturities of long-term debt and capital lease obligation	$ 17,533	$ 8,416
Accounts payable	103,468	49,438
Accrued expenses	11,101	45,070
Deferred revenue	2,500	-
Total current liabilities	134,602	102,924
Long-term Debt and Capital Lease Obligation	40,808	28,223
Total liabilities	175,410	131,147
Net Assets Without Donor Restrictions	61,734	83,206
Total liabilities and net assets	$ 237,144	$ 214,353

The Pack Shack

Statements of Activities

Years Ended December 31, 2018 and 2017

	2018	2017
Revenues, Gains and Other Support Without Donor Restrictions		
Donations - events	$ 2,046,534	$ 1,574,363
Donations - general	13,476	10,002
Be Neighborly App - Donations	2,046	21,816
Merchandise income	2,815	6,235
Other income	12,609	129,580
Total revenues, gains and other support without donor restrictions	2,077,480	1,741,996
Expenses and Losses		
Program expenses		
Ingredients	571,021	500,163
Be Neighborly App	13,996	42,081
Merchandise	4,555	5,964
Shipping	61,917	63,860
Supplies	58,952	122,909
Rent and facilities	119,123	101,111
Equipment	17,059	6,095
Transportation	98,229	79,987
Payroll and benefits	572,107	478,121
Other	86,817	75,943
Total program expenses	1,603,776	1,476,234
Fundraising expenses		
Marketing	11,673	14,952
Payroll and benefits	196,477	252,213
Other	36,105	35,284
Total fundraising expenses	244,255	302,449
Administrative expenses		
Depreciation	39,672	31,490
Contributions	150	3,005
Professional services	24,041	53,038
Payroll and benefits	145,307	89,045
Maintenance	-	918
Software	12,132	13,267
Interest expense	3,294	1,507
Other	30,318	18,748
Total administrative expenses	254,914	211,018
Other expenses (income)	(3,993)	20,727
Total expenses and losses	2,098,952	2,010,428
Decrease in Net Assets Without Donor Restrictions	(21,472)	(268,432)
Net Assets Without Donor Restrictions, Beginning of Year	83,206	351,638
Net Assets Without Donor Restrictions, End of Year	$ 61,734	$ 83,206

The Pack Shack

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets without donor restrictions	$ (21,472)	$ (268,432)
Item not requiring operating activities cash flows		
Depreciation and amortization	39,672	31,490
Changes in		
Accounts receivable	(13,416)	29,043
Inventories	(10,115)	(17,451)
Prepaid expenses	2,225	2,640
Accounts payable	9,117	30,437
Accrued expenses	54,030	42,685
Deferred revenue	2,500	(20,000)
Other current assets and liabilities	-	1,000
Net cash provided by (used in) operating activities	62,541	(168,588)
Investing Activities		
Purchase of property and equipment	(41,921)	(26,466)
Net cash used in investing activities	(41,921)	(26,466)
Financing Activities		
Principal payments on long-term debt	(12,996)	(6,561)
Principal payments on capital lease obligation	(1,600)	(498)
Proceeds from issuance of long-term debt	36,298	-
Net cash provided by (used in) financing activities	21,702	(7,059)
Increase (Decrease) in Cash	42,322	(202,113)
Cash, Beginning of Year	24,215	226,328
Cash, End of Year	$ 66,537	$ 24,215
Supplemental Cash Flows Information		
Interest paid	$ 3,294	$ 1,507
Capital lease obligation incurred for equipment	$ -	$ 9,600

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 Rogers, 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, 2018, 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, 2018 and 2017, no allowance was recorded for doubtful accounts.

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.

Property and Equipment

Property and equipment acquisitions over $500 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 amortized over the short of the lease term or 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

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, 2018 and 2017.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 revenue and net assets without donor restrictions.

Shipping and Handling Costs

Shipping and handling costs of $61,917 and $63,860 are included in program expenses for the years ended December 31, 2018 and 2017, 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.

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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. The statement of activities presents the natural classification detail of expenses by function. 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 October 25, 2019, which is the date the financial statements were available to be issued.

Note 2: Inventories

Inventory held by the Company at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Ingredients	$ 60,003	$ 56,004
Supplies	21,162	14,411
Merchandise	3,352	3,987
	$ 84,517	$ 74,402

Note 3: Property and Equipment

Property and equipment at December 31, 2018 and 2017, consists of:

	2018	2017
Vehicles	$ 101,946	$ 67,700
Machinery and equipment	15,100	15,100
Computer equipment	25,906	23,530
Software	25,000	25,000
	167,952	131,330
Less accumulated depreciation	88,458	54,085
	$ 79,494	$ 77,245

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Notes to Financial Statements
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Note 4: Long-term Debt

	2018	2017
Note payable, bank (A)	$ 20,721	$ 27,537
Capital lease obligation (B)	7,502	9,102
Note payable, bank (C)	30,118	-
	58,341	36,639
Less current maturities	17,533	8,416
	$ 40,808	$ 28,223

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

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

(C) Due March 2022; payable $853 monthly including interest at 5.95%; secured by property and equipment

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2018, are:

	Long-term Debt (Excluding Leases)	Capital Lease Obligation
2019	$ 15,759	$ 2,467
2020	16,564	2,467
2021	16,063	2,467
2022	2,453	1,645
	$ 50,839	9,046
Less amount representing interest		1,544
Present value of future minimum lease payments		$ 7,502

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Notes to Financial Statements

December 31, 2018 and 2017

Note 5: Liquidity and Availability

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are:

	2018	2017
Total financial assets at year-end		
Cash	$ 23,451	$ 24,215
Accounts receivable	49,182	35,766
Financial assets available to meet cash needs for general expenditures within one year	$ 72,633	$ 59,981

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 15 days operating expenses. The Organization has a policy to target a year-end balance of reserves without donor restriction and which are undesignated by the board to meet 15 to 45 days of expected expenditures. To achieve these targets, the Organization forecasts its future cash flows and monitors its liquidity bi-weekly, and monitors its reserves annually. During the years ended December 31, 2018 and 2017, the level of liquidity and reserves was managed within the policy requirements.

Note 6: Operating Leases

The Organization has noncancellable operating leases for warehouse space and a truck expiring in various years through 2026. These leases do not contain any provisions regarding automatic renewals.

Future minimum lease payments under operating leases are:

2019	$ 116,676
2020	89,568
2021	89,992
2022	86,083
2023	73,876
Thereafter	254,938
Total minimum lease payments	$ 711,133

Rental expense for all operating leases amounted to $112,848 and $108,755 for the years ended December 31, 2018 and 2017, respectively.

Note 7: 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 $28,083 and $20,893 for the years ended December 31, 2018 and 2017, respectively.

Note 8: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Organization is in the process of evaluating the effect the amendment will have on the financial statements.

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 statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities 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, 2020, and any interim periods within annual reporting periods that begin after December 15, 2021. The Organization is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Note 9: Change in Accounting Principle

In 2019, the Organization adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Activities

- Expenses are reported by both nature and function in one location.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the Statement of Financial Position.

This change had no impact on previously reported total change in net assets.