

The Pack Shack

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

The Pack Shack

December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
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, 2019 and 2018, 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
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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, 2019 and 2018, 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 Matters

As discussed in *Note 9* to the financial statements, subsequent to year end, the Board of Directors of The Pack Shack voted on August 21, 2020, to dissolve the Organization. Our opinion is not modified with respect to this matter.

As discussed in *Note 1* to the financial statements, the 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

BKD, LLP

Rogers, Arkansas
November 11, 2020

The Pack Shack
Statements of Financial Position
December 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash	\$ 104,745	\$ 23,451
Accounts receivable	24,181	49,182
Inventories	84,687	84,517
Prepaid expenses	<u>500</u>	<u>500</u>
Total current assets	<u>214,113</u>	<u>157,650</u>
Property and Equipment, Net of Accumulated Depreciation	<u>45,539</u>	<u>79,494</u>
Total assets	<u>\$ 259,652</u>	<u>\$ 237,144</u>

Liabilities and Net Assets

Current Liabilities		
Current maturities of long-term debt and capital lease obligation	\$ 18,530	\$ 17,533
Accounts payable	30,973	103,468
Accrued expenses	-	11,101
Deferred revenue	<u>38,976</u>	<u>2,500</u>
Total current liabilities	<u>88,479</u>	<u>134,602</u>
Long-term Debt and Capital Lease Obligation	<u>22,278</u>	<u>40,808</u>
Total liabilities	<u>110,757</u>	<u>175,410</u>
Net Assets Without Donor Restrictions	<u>148,895</u>	<u>61,734</u>
Total liabilities and net assets	<u>\$ 259,652</u>	<u>\$ 237,144</u>

The Pack Shack
Statements of Activities
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues, Gains and Other Support Without Donor Restrictions		
Donations - events	\$ 2,257,413	\$ 2,046,534
Donations - general	42,218	13,476
Be Neighborly App - Donations	-	2,046
Merchandise income	2,065	2,815
Other income	<u>4,838</u>	<u>12,609</u>
Total revenues, gains and other support without donor restrictions	<u>2,306,534</u>	<u>2,077,480</u>
Expenses and Losses		
Program expenses		
Ingredients	598,408	571,021
Be Neighborly App	21	13,996
Merchandise	400	4,555
Shipping	66,567	61,917
Supplies	102,416	58,952
Rent and facilities	121,922	119,123
Equipment	17,058	17,059
Transportation	101,774	98,229
Payroll and benefits	672,010	572,107
Other	<u>92,118</u>	<u>86,817</u>
Total program expenses	<u>1,772,694</u>	<u>1,603,776</u>
Fundraising expenses		
Marketing	15,302	11,673
Payroll and benefits	167,992	196,477
Other	<u>23,007</u>	<u>36,105</u>
Total fundraising expenses	<u>206,301</u>	<u>244,255</u>
Administrative expenses		
Depreciation	35,277	39,672
Contributions	4,938	150
Professional services	37,208	24,041
Payroll and benefits	124,213	145,307
Maintenance	40	-
Software	10,301	12,132
Interest expense	5,169	3,294
Other	<u>22,749</u>	<u>30,318</u>
Total administrative expenses	<u>239,895</u>	<u>254,914</u>
Other expenses (income)	<u>483</u>	<u>(3,993)</u>
Total expenses and losses	<u>2,219,373</u>	<u>2,098,952</u>
Increase (Decrease) in Net Assets Without Donor Restrictions	87,161	(21,472)
Net Assets Without Donor Restrictions, Beginning of Year	<u>61,734</u>	<u>83,206</u>
Net Assets Without Donor Restrictions, End of Year	<u>\$ 148,895</u>	<u>\$ 61,734</u>

The Pack Shack
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018 (Restated - Note 1)
Operating Activities		
Change in net assets without donor restrictions	\$ 87,161	\$ (21,472)
Item not requiring operating activities cash flows		
Depreciation	35,277	39,672
Changes in		
Accounts receivable	25,001	(13,416)
Inventories	(170)	(10,115)
Prepaid expenses	-	2,225
Accounts payable	(72,495)	54,030
Accrued expenses	(11,101)	(33,969)
Deferred revenue	36,476	2,500
	<u>100,149</u>	<u>19,455</u>
Investing Activities		
Purchase of property and equipment	(1,322)	(41,921)
	<u>(1,322)</u>	<u>(41,921)</u>
Financing Activities		
Principal payments on long-term debt	(15,759)	(12,996)
Principal payments on capital lease obligation	(1,774)	(1,600)
Proceeds from issuance of long-term debt	-	36,298
	<u>(17,533)</u>	<u>21,702</u>
Increase (Decrease) in Cash	81,294	(764)
Cash, Beginning of Year	23,451	24,215
Cash, End of Year	<u>\$ 104,745</u>	<u>\$ 23,451</u>
Supplemental Cash Flows Information		
Interest paid	\$ 5,169	\$ 3,294

The Pack Shack
Notes to Financial Statements
December 31, 2019 and 2018

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, 2019, 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, 2019 and 2018, 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.

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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, 2019 and 2018.

Contributions

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Organization overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

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In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

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 statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Shipping and Handling Costs

Shipping and handling costs of \$66,567 and \$61,917 are included in program expenses for the years ended December 31, 2019 and 2018, 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.

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.

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Notes to Financial Statements
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Restatement

The 2018 statement of cash flows has been restated for clerical errors within operating activities. The restatement reduced net cash provided by operating activities and cash end of year by approximately \$43,000. The following financial statement line items were affected by the correction.

	As Restated	As previously reported	Effect of Change
Statement of Cash Flows			
Accounts payable	\$ 54,030	\$ 9,117	\$ 44,913
Accrued expenses	(33,969)	54,030	(87,999)
Net cash provided by operating activities	19,455	62,541	(43,086)
Increase (decrease) in cash	(764)	42,322	(43,086)
Cash, End of Year	23,451	66,537	(43,086)

Changes in Accounting Principles

Topic 958: Clarifying Contributions Received and Contributions Made

In 2019, the Organization adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* using a modified prospective basis to all agreements not completed as of January 1, 2019, or entered into after January 1, 2019. ASU 2018-08 clarifies existing guidance on determining whether a transfer of assets (or the reduction, settlement or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how the Organization determines whether a resource provider (including a foundation, a government agency or other) is receiving commensurate value in return for the resources transferred, and whether contributions are conditional or unconditional.

Adoption of ASU 2018-08 had no impact on the 2019 financial statements or on the previously reported 2018 financial statements.

Note 2: Inventories

Inventory held by the Company at December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Ingredients	\$ 59,276	\$ 60,003
Supplies	22,459	21,162
Merchandise	2,952	3,352
	<u>\$ 84,687</u>	<u>\$ 84,517</u>

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Note 3: Property and Equipment

Property and equipment at December 31, 2019 and 2018, consists of:

	<u>2019</u>	<u>2018</u>
Vehicles	\$ 101,946	\$ 101,946
Machinery and equipment	15,100	15,100
Computer equipment	27,228	25,906
Software	<u>25,000</u>	<u>25,000</u>
	169,274	167,952
Less accumulated depreciation	<u>123,735</u>	<u>88,458</u>
	<u>\$ 45,539</u>	<u>\$ 79,494</u>

Note 4: Long-term Debt

	<u>2019</u>	<u>2018</u>
Note payable, bank (A)	\$ 13,642	\$ 20,721
Capital lease obligation (B)	5,728	7,502
Note payable, bank (C)	<u>21,438</u>	<u>30,118</u>
	40,808	58,341
Less current maturities	<u>18,530</u>	<u>17,533</u>
	<u>\$ 22,278</u>	<u>\$ 40,808</u>

- (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.

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Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2019, are:

	Long-term Debt (Excluding Leases)	Capital Lease Obligation
2020	\$ 16,564	\$ 2,467
2021	16,063	2,467
2022	2,453	1,645
	\$ 35,080	6,579
Less amount representing interest		851
Present value of future minimum lease payments		\$ 5,728

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:

	2019	2018
Total financial assets at year-end		
Cash	\$ 104,745	\$ 23,451
Accounts receivable	24,181	49,182
Financial assets available to meet cash needs for general expenditures within one year	\$ 128,926	\$ 72,633

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, 2019 and 2018, the level of liquidity and reserves was managed within the policy requirements.

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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:

2020	\$ 116,976
2021	89,992
2022	90,295
2023	86,512
2024	74,182
Thereafter	<u>180,756</u>
Total minimum lease payments	<u>\$ 638,713</u>

Rental expense for all operating leases amounted to \$116,256 and \$112,848 for the years ended December 31, 2019 and 2018, 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 \$20,340 and \$14,749 for the years ended December 31, 2019 and 2018, respectively.

An immaterial revision has been made to the 2018 contribution amount. This revision had no effect on the change in net assets.

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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, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. The Organization is in the process of evaluating the effect the amendment will have on the financial statements.

Note 9: Subsequent Events

On April 16, 2020, the Organization received a loan in the amount of \$164,400 pursuant to the Payroll Protection Program. The note bears 1% interest with monthly payments of \$9,352 starting on November 16, 2020 with final payment due on April 16, 2022.

On April 22, 2020, the Organization received an Economic Injury Disaster Loan in the amount of \$235,100 from the U.S. Small Business Administration for working capital. The note bears interest of 2.75% with monthly payments of \$1,004 beginning 12 months from the date of the note. The balance of principal and interest will be payable thirty years from the date of the promissory note.

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, the state of Arkansas has measures around public gatherings and business operations to slow the spread of the virus. As a result of this guidance, the Organization has significantly curtailed its operations.

Due to the uncertainty surrounding COVID-19, on August 21, 2020, the Board of Directors voted to dissolve the Organization.

Subsequent events have been evaluated through November 11, 2020, which is the date the financial statements were available to be issued.