

**LOWCOUNTRY FOOD BANK, INC.**

**REPORT ON FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2010 AND 2009**

**LOWCOUNTRY FOOD BANK, INC.**

**CONTENTS**

	<u>PAGE</u>
<b>REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS</b>	1
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position	2
Statements of Activities	3
Statement of Functional Expenses For the Year Ended December 31, 2010	4
Statement of Functional Expenses For the Year Ended December 31, 2009	5
Statements of Cash Flows	6
<b>NOTES TO FINANCIAL STATEMENTS</b>	7-16
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</b>	17-18
<b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</b>	19-20
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	21
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	22



## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors  
Lowcountry Food Bank, Inc.  
Charleston, South Carolina

We have audited the accompanying statements of financial position of Lowcountry Food Bank, Inc. (the "Organization") as of December 31, 2010 and 2009 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2010 and 2009, and the results of its operations, changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 3, 2011 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Elliott Davis, LLC*

Columbia, South Carolina  
June 3, 2011

**LOWCOUNTRY FOOD BANK, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

	December 31,	
	2010	2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,794,399	\$ 1,202,415
Inventories	1,724,362	1,292,332
Unconditional promises to give - restricted, net of allowance of \$144,820 and \$0, in 2010 and 2009, respectively	462,620	1,339,306
Accounts receivable	164,172	179,350
Grants receivable	100,510	59,197
Prepaid expenses and other	12,431	15,825
Total current assets	4,258,494	4,088,425
<b>LONG-TERM ASSETS</b>		
Unconditional promises to give - restricted, net	583,764	833,862
Property and equipment, net	5,698,328	5,155,872
Total assets	\$ 10,540,586	\$ 10,078,159
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 179,512	\$ 244,713
Refundable advances	82,924	80,072
Accrued compensated absences	55,854	46,142
Accrued expenses	54,244	20,283
Current portion of note payable	185,000	185,000
Deferred revenue	55,250	41,421
Total current liabilities	612,784	617,631
<b>LONG-TERM LIABILITIES</b>		
Interest rate swap	151,377	193,694
Note payable	2,990,833	3,175,833
Total long-term liabilities	3,142,210	3,369,527
Total liabilities	3,754,994	3,987,158
<b>NET ASSETS</b>		
Unrestricted	5,547,089	3,696,959
Temporarily restricted	1,238,503	2,394,042
Total net assets	6,785,592	6,091,001
Total liabilities and net assets	\$ 10,540,586	\$ 10,078,159

See notes to financial statements which are an integral part of these statements.

**LOWCOUNTRY FOOD BANK, INC.**  
**STATEMENTS OF ACTIVITIES**

	For the Years Ended December 31,	
	2010	2009
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Support and revenue		
Donated inventory	\$ 23,667,530	\$ 18,398,466
Contributions	1,319,218	1,201,071
Shared maintenance revenue	827,397	815,924
Government grants	694,527	626,083
Corporate and foundation grants	711,707	386,512
United Way	329,616	303,148
In-kind contributions	259,455	221,466
Program service fees	29,734	27,236
Miscellaneous	129,730	110,159
Gain on interest rate swap	42,317	65,137
Interest income	6,500	2,227
Total unrestricted support and revenue	28,017,731	22,157,429
Net assets released from restrictions	1,537,014	1,228,973
Total unrestricted support, revenue and reclassifications	29,554,745	23,386,402
Expenses		
Food distribution	26,130,796	21,253,952
Management and general	595,938	542,980
Fundraising	977,881	568,504
Total expenses	27,704,615	22,365,436
Change in unrestricted net assets	1,850,130	1,020,966
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Support and revenue		
Contributions	121,941	1,189,559
Corporate and foundation grants	119,627	89,946
Special events	136,511	135,846
Miscellaneous	3,396	1,349
Total temporarily restricted support and revenue	381,475	1,416,700
Net assets released from restrictions	(1,537,014)	(1,228,973)
Change in temporarily restricted net assets	(1,155,539)	187,727
Change in net assets	694,591	1,208,693
<b>NET ASSETS, BEGINNING OF YEAR</b>	6,091,001	4,882,308
<b>NET ASSETS, END OF YEAR</b>	\$ 6,785,592	\$ 6,091,001

See notes to financial statements which are an integral part of these statements.

**LOWCOUNTRY FOOD BANK, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2010**

DESCRIPTION	Program	Supporting Services			Total
	Services	Management	Fundraising	Total Supporting	
	Food	and General		Services	
	Distribution				
Donated and purchased food distributed	\$ 24,118,924	\$ -	\$ -	\$ -	\$ 24,118,924
Salaries and related expenses	1,218,165	154,549	272,376	426,925	1,645,090
Development	236	-	333,513	333,513	333,749
Bad debt expense	9,090	-	237,820	237,820	246,910
Occupancy	159,432	32,922	5,334	38,256	197,688
Transportation	125,919	-	-	-	125,919
Insurance	68,830	28,629	1,235	29,864	98,694
Direct program expense	80,089	-	-	-	80,089
Repairs and maintenance	59,145	14,548	1,264	15,812	74,957
Special events expense	-	-	54,161	54,161	54,161
Supplies	40,661	4,079	1,563	5,642	46,303
Professional fees	23,989	21,757	-	21,757	45,746
Travel and meetings	25,131	7,578	9,717	17,295	42,426
Miscellaneous	11,299	26,113	1,542	27,655	38,954
Computer expense	2,721	29,457	4,247	33,704	36,425
Printing and publications	2,887	152	22,503	22,655	25,542
Telephone	15,984	5,988	2,162	8,150	24,134
Rent expense	2,521	19,767	-	19,767	22,288
Bank charges	-	9,492	5,593	15,085	15,085
Postage and freight	2,991	1,152	10,101	11,253	14,244
Dues and subscriptions	50	12,256	743	12,999	13,049
Training	1,426	4,107	1,002	5,109	6,535
Total expenses before interest and depreciation	25,969,490	372,546	964,876	1,337,422	27,306,912
Interest expense	-	162,443	-	162,443	162,443
Depreciation	161,306	60,949	13,005	73,954	235,260
Total interest and depreciation	161,306	223,392	13,005	236,397	397,703
Total expenses	\$ 26,130,796	\$ 595,938	\$ 977,881	\$ 1,573,819	\$ 27,704,615

See notes to financial statements which are an integral part of these statements.

**LOWCOUNTRY FOOD BANK, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2009**

DESCRIPTION	Program Services		Supporting Services		Total
	Food Distribution	Management and General	Fundraising	Total Supporting Services	
Donated and purchased food distributed	\$ 19,435,233	\$ -	\$ -	\$ -	\$ 19,435,233
Salaries and related expenses	1,093,432	118,661	204,944	323,605	1,417,037
Development	11,476	-	252,966	252,966	264,442
Bad debt expense	330	1,251	1,575	2,826	3,156
Occupancy	143,282	23,497	4,151	27,648	170,930
Transportation	85,774	-	-	-	85,774
Insurance	63,451	34,491	1,478	35,969	99,420
Direct program expense	106,262	-	-	-	106,262
Repairs and maintenance	96,259	13,935	2,048	15,983	112,242
Special events expense	-	-	38,908	38,908	38,908
Supplies	29,807	4,746	732	5,478	35,285
Professional fees	6,090	21,905	-	21,905	27,995
Travel and meetings	31,075	8,846	5,067	13,913	44,988
Miscellaneous	10,212	8,630	3,843	12,473	22,685
Computer expense	480	28,641	4,569	33,210	33,690
Printing and publications	5,270	1,262	17,360	18,622	23,892
Telephone	12,407	5,619	2,091	7,710	20,117
Rent expense	1,177	16,925	-	16,925	18,102
Bank charges	-	8,916	5,593	14,509	14,509
Postage and freight	3,801	1,322	13,197	14,519	18,320
Dues and subscriptions	-	10,688	405	11,093	11,093
Training	152	3,865	65	3,930	4,082
Loss on disposal of property and equipment	-	12,300	-	12,300	12,300
Total expenses before interest and depreciation	<u>21,135,970</u>	<u>325,500</u>	<u>558,992</u>	<u>884,492</u>	<u>22,020,462</u>
Interest expense	-	172,900	-	172,900	172,900
Depreciation	117,982	44,580	9,512	54,092	172,074
Total interest and depreciation	<u>117,982</u>	<u>217,480</u>	<u>9,512</u>	<u>226,992</u>	<u>344,974</u>
Total expenses	<u>\$ 21,253,952</u>	<u>\$ 542,980</u>	<u>\$ 568,504</u>	<u>\$ 1,111,484</u>	<u>\$ 22,365,436</u>

See notes to financial statements which are an integral part of these statements.

**LOWCOUNTRY FOOD BANK, INC.**  
**STATEMENTS OF CASH FLOWS**

	For the Years Ended	
	December 31,	
	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 694,591	\$ 1,208,693
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Donated property and equipment	(96,010)	(111,350)
Property and equipment in lieu of rent	(98,165)	-
Depreciation	235,260	172,074
Loss on disposal of property and equipment	-	12,300
Unrealized gain on interest rate swap	(42,317)	(65,137)
Increase in allowance for doubtful accounts	(144,820)	-
Changes in deferred and accrued amounts:		
Unconditional promises to give	1,271,604	(16,180)
Accounts receivable	15,178	(110,522)
Grants receivable	(41,313)	71,603
Inventory	(432,030)	45,483
Prepaid expenses and other	3,394	2,684
Accounts payable	(65,201)	50,036
Refundable advances	2,852	(119,188)
Accrued expenses and other	43,673	(37,709)
Deferred revenue	13,829	(9,523)
Net cash provided by operating activities	<u>1,360,525</u>	<u>1,093,264</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(583,541)	(365,132)
Net cash used for investing activities	<u>(583,541)</u>	<u>(365,132)</u>
<b>FINANCING ACTIVITIES</b>		
Payments on note payable	(185,000)	(185,000)
Net cash used for financing activities	<u>(185,000)</u>	<u>(185,000)</u>
Net increase in cash and cash equivalents	591,984	543,132
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,202,415</u>	<u>659,283</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 1,794,399</u></u>	<u><u>\$ 1,202,415</u></u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 163,177</u>	<u>\$ 224,171</u>
Noncash financing and investing activities		
Donated property and equipment	<u>\$ (96,010)</u>	<u>\$ (111,350)</u>
Property and equipment in lieu of rent	<u>\$ (98,165)</u>	<u>\$ -</u>

See notes to financial statements which are an integral part of these statements.

**LOWCOUNTRY FOOD BANK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - ORGANIZATION**

Lowcountry Food Bank, Inc. (the "Organization"), a non-profit organization, was incorporated in August 1983. Located in Charleston, Myrtle Beach and Yemassee, South Carolina, the Organization's purpose is food storage and distribution. The mission of the Organization is to gather, store, and distribute food through a network of private, non-profit agencies, to provide services through a variety of programs, to feed the needy in ten coastal counties of South Carolina, and to serve as an educational resource for hunger and hunger-related issues. The Organization serves as a collecting center for surplus and salvageable food obtained through donations from processors, wholesalers, retailers, and brokers. The food is then distributed to qualifying agencies. The Organization charges a fee to the agencies and churches benefited in order to recover a portion of the costs associated with food collection.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of accounting**

The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Use of estimates and assumptions**

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 results of operations during the reporting period. Actual results could differ from those estimates and assumptions.

**Basis of presentation**

The Organization's statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification. The Organization is required to report information regarding its financial position and activities according to three classes of net assets. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

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 Statements of Activities as net assets released from restriction. The Organization had no permanently restricted net assets at December 31, 2010 and 2009.

**Cash and cash equivalents**

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less. At December 31, 2010 and 2009, cash equivalents consist of money market funds and certificates of deposit.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Inventory and donated food products**

The Organization receives food products governed by the United States Department of Agriculture (USDA) through the USDA's disbursing agent. The food products are valued using prices determined by the USDA. Other donated food products reflected in the financial statements are valued at a rate per pound, which is determined by management based on the rate per pound provided by Feeding America, the Organization's national affiliate. The donated inventory balance, and associated revenues and expenses, as of December 31, 2010 and 2009 related to Feeding America, have been adjusted to reflect a rate per pound of \$1.60 and \$1.58, respectively. Donated food products are recorded as revenue and support when received and recorded as expense when disbursed. Food products purchased are recorded at purchase price when received and disbursed at the same purchase price, if distinguishable. Certain purchased products are commingled and packaged with donated products; these items are revalued using the Feeding America rate per pound and disbursed at the Feeding America cost. Inventories are valued at the lower of cost, as determined above, or market.

**Promises to give**

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount rates used to determine the present value of the estimated future cash flows were 1.8% and 3.2% in 2010 and 2009, respectively.

The Organization uses the allowance method to determine uncollectible unconditional promises to give when deemed necessary. The allowance is based on prior years' experience and management's analysis of specific promises made. As of December 31, 2009, the Organization considered all promises to give to be collectible and no allowance was recorded in the Statements of Financial Position. The Organization has recorded an allowance for doubtful accounts of \$144,820 at December 31, 2010. During the years ended December 31, 2010 and 2009, the Organization wrote off \$93,000 and \$1,500, respectively, in uncollectible promises to give.

**Accounts and grants receivable and allowance for doubtful accounts**

Trade accounts receivable consist of agency maintenance fees for distributed food. Grants receivable consist mainly of amounts owed from government agencies. The Organization considers all receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been established.

**Property and equipment**

Property and equipment are stated at cost or, if donated, at the approximated fair value at the date of donation. Improvements which materially add to the value of productivity or extend the useful life of assets are capitalized. Other expenditures for repairs and maintenance are charged to operations in the year the costs are incurred. Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Transportation equipment	5 years
Warehouse equipment	5 years
Furniture and equipment	5-7 years
Buildings	31-39 years

**Compensated absences**

The Organization accounts for compensated absences (vacation pay and sick pay), whereby a liability is recorded for employees' vested rights to receive compensation for future absences attributable to services already performed. No liability for sick pay is recorded since the rights to receive such pay are contingent on future services.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Derivative instruments**

Derivative instruments are utilized to reduce interest rate risk on the Organization's debt, not for trading or speculative purposes. An interest rate swap agreement is used as part of the Organization's program to manage the fixed and floating interest rate mix of the Organization's total debt portfolio and overall cost of borrowing. The interest rate swap agreement involves the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and is recorded as an adjustment to interest expense. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest or interest receivable, when appropriate. The Organization does not use hedge accounting and therefore records the derivative instrument at fair market value at year-end as reflected on the statements of financial position, with changes in market value included in current change in net assets as a gain or loss on interest rate swap. Values are measured based on estimates of the amount needed to settle the agreements as calculated by the counterparties to the swap agreement. Such calculations were based on changes in market conditions and/or assumptions underlying valuation models. See Note 8 for financial instruments.

**Donated services**

Donated services are reported as contributions if the services either: a.) create or enhance nonfinancial assets, or b.) require specialized skills, are performed by people with those skills, and would otherwise be purchased. No amounts have been recorded for donated services because the recognition criteria have not been met.

**Donated property and equipment**

The Organization has recorded donated property and equipment as support at the estimated fair value at the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. When a temporary restriction expires, temporarily restricted net assets are released to unrestricted net assets. The Organization has recorded donated property and equipment totaling \$96,010 and \$111,350 for the years ended December 31, 2010 and 2009, respectively. The Organization also received donated property and equipment in lieu of rent totaling \$98,165 for the year ended December 31, 2010.

**Contributions**

Contributions are recognized when the donor makes a promise to give that, in substance, is unconditional. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. There were no conditional promises to give at December 31, 2010 and 2009.

**Shared maintenance revenue**

Shared maintenance revenue represents the amount the Organization charges local agencies and churches to recover some of the costs associated with food collection and distribution.

**Functional allocation of expenses**

The costs of providing the various program and activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimate of the time spent by the individuals in each functional category as well as each department's allocation of expenses.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Income tax status**

The Organization is exempt from both federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has no provision for federal income taxes in the accompanying financial statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been determined by the Internal Revenue Service not to be a private foundation under Section 509(a)(2).

The Financial Accounting Standards Board (FASB) provides guidance on the Organization's evaluation of accounting for uncertainty in income taxes. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Organization is no longer subject to income tax examinations by the United States Federal, state or local taxing authorities for the years prior to 2007.

**Fair value measurements**

The Organization utilizes a three-tier fair value hierarchy that clarifies fair value as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Reclassifications**

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

**Subsequent events**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 3, 2011, the date the financial statements were available to be issued.

**NOTE 3 - INVENTORIES**

Inventories consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Non USDA commodities	\$ 1,386,696	\$ 1,073,915
USDA commodities	337,666	218,417
	<u>\$ 1,724,362</u>	<u>\$ 1,292,332</u>

**NOTE 4 – UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give are comprised of the following at December 31:

	<u>2010</u>	<u>2009</u>
Amounts due in:		
Less than one year	\$ 607,440	\$ 1,339,306
One to five years	424,130	618,579
More than five years	200,000	300,200
	<u>1,231,570</u>	<u>2,258,085</u>
Less present value discount	40,366	84,917
Less allowance for doubtful accounts	144,820	-
Total	<u><u>\$ 1,046,384</u></u>	<u><u>\$ 2,173,168</u></u>

**NOTE 5 - GRANTS RECEIVABLE**

The Organization has entered into several grant contracts that are accounted for on a cost reimbursement basis. These grants call for the Organization to spend its unrestricted funds conducting the program and then seek reimbursement from the grantor. As of December 31, 2010 and 2009, the following amounts have been spent but not yet been received through reimbursement:

	<u>2010</u>	<u>2009</u>
South Carolina Department of Social Services	\$ 68,580	\$ 17,235
Coastal Carolina United Way	31,930	-
Trident United Way	-	28,862
Good Cheer Fund	-	13,100
Total grants receivable	<u><u>\$ 100,510</u></u>	<u><u>\$ 59,197</u></u>

**NOTE 6 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Land	\$ 1,200,000	\$ 1,200,000
Building	3,857,100	3,556,909
Transportation equipment	544,959	404,928
Warehouse equipment	726,168	404,126
Furniture and office equipment	113,659	98,207
	<u>6,441,886</u>	<u>5,664,170</u>
Less accumulated depreciation	743,558	508,298
	<u><u>\$ 5,698,328</u></u>	<u><u>\$ 5,155,872</u></u>

Depreciation expense totaled \$235,260 and \$172,074 for the years ended December 31, 2010 and 2009, respectively.

**NOTE 7 - REFUNDABLE ADVANCES**

The Organization has entered into several grant contracts that are accounted for on an exchange transaction basis. The grantors provide funds in advance for the Organization to spend conducting a particular program or for a particular use. Amounts received in advance but not used by any period end are recorded as a liability until the program or use stipulation has been satisfied.

	<u>2010</u>	<u>2009</u>
Daniel Island Community Foundation	\$ 21,268	\$ 39,672
Sisters of Charity	61,656	-
Walmart Foundation	-	23,986
Lothman Family Fund	-	9,002
Wachovia Foundation	-	7,412
	<u>\$ 82,924</u>	<u>\$ 80,072</u>

**NOTE 8 - FINANCIAL INSTRUMENTS**

During November 2007, the Organization entered into an interest rate cap agreement, which was effective in December 2007, to reduce its exposure to fluctuations in interest rates with respect to \$1,200,000 of its variable rate note payable (See Note 9). In May 2008, the original interest rate cap agreement was modified to revise the settlement dates. The notional amount under the modified interest rate cap agreement, which terminates in May 2011, is equal to \$1,138,333, the balance of the agreement at the modification date, and requires settlement on a quarterly basis. All other terms of the interest rate cap agreement remained unchanged.

In June 2008, the Organization entered into an interest rate swap agreement with a major financial institution. This agreement became effective in May 2008 and expires in May 2012. This agreement effectively converts \$2,500,000 of its note payable (See Note 9) to a fixed rate of 6.38% and requires settlement on a quarterly basis. The difference in interest between the fixed rate and effective LIBOR interest rate is recognized as an adjustment to interest expense in the period incurred.

The Organization does not use hedge accounting and therefore records the derivative instruments at fair market value at year-end as reflected on the statements of financial position, with changes in market value included in current change in net assets as a gain or loss on derivatives. Values are measured based on estimates of the amount needed to settle the agreements as calculated by the counterparties to the swap agreements. Such calculations were based on changes in market conditions and/or assumptions underlying valuation models. See Note 17 for fair value disclosure.

**NOTE 9 - NOTE PAYABLE**

On December 21, 2007, the Organization signed a \$3,700,000 promissory note with a bank payable every four months with principal payments of \$61,667, beginning April 2008. Interest payments are payable at a rate equal to the 1-month LIBOR (0.26% at December 31, 2010) plus 1.43% beginning April 2008. In May 2008, the promissory note was modified requiring quarterly principal payments of \$46,250 in July 2008, with a maturity in May 2012. All other terms of the note remained the same.

**NOTE 9 - NOTE PAYABLE, CONTINUED**

Maturities of the note payable in each of the years following December 31, 2010 are as follows:

2011	\$ 185,000
2012	<u>2,990,833</u>
	<u>\$ 3,175,833</u>

**NOTE 10 - COST OF SHARED MAINTENANCE REVENUE**

The majority of the cost of shared maintenance revenue is related to the value of donated inventory, which is given away prior to the point of spoilage. Although the expense consists mainly of the value of donated inventory, there are other costs associated with the distribution of the food such as shared maintenance paid to other food banks to obtain the food, transportation of the food, and value added product purchases. The change in inventory levels and the above additional expenses cause donated inventory not to equal the cost of shared maintenance revenue.

The cost of food spoilage for the years ended December 31, 2010 and 2009 was approximately \$681,000 and \$943,000, respectively, and is included in food distribution expenses.

**NOTE 11 - RELATED PARTY TRANSACTIONS**

Lowcountry Food Bank, Inc. is affiliated with Feeding America, a national food bank association. Food obtained through Feeding America and affiliated food banks represents approximately 18% and 25% of the total amount of donated food received during 2010 and 2009, respectively. The Organization paid a membership fee to Feeding America of \$10,058 and \$9,128 for the years ended December 31, 2010 and 2009, respectively, based on food received.

The Executive Director of the Organization serves as President of the South Carolina Food Bank Association. The Organization receives donated USDA food commodities and administrative grant funds from the South Carolina Food Bank Association. The Organization received \$3,409,395 and \$439,484, respectively, in 2010 and \$3,304,580 and \$371,916, respectively, in 2009 from these revenue sources.

At December 31, 2010 and 2009, total promises to give of \$816,495 and \$71,800, respectively, were due from related parties.

**NOTE 12 - EMPLOYEE BENEFIT PLAN**

The Organization has a defined contribution salary deferral plan covering substantially all employees. Under the plan, the Organization contributes two percent (2%) of each eligible employee's salary and also matches dollar for dollar up to another two percent (2%) for each eligible employee's salary. Contributions to the plan by the Organization for years ended December 31, 2010 and 2009 are \$32,215 and \$29,790, respectively.

**NOTE 13 - OPERATING FACILITIES**

The Organization leases the Yemassee operating facility as a tenant-at-will, with monthly rental payments of \$1,400. In October 2010, the Organization entered into a three year operating lease for the Myrtle Beach facility. Future minimum lease payments under operating leases that have remaining terms in excess of one year as of December 31, 2010, are as follows:

2011	\$	60,000
2012		60,000
2013		60,000
		<u>60,000</u>
	\$	<u>180,000</u>

Rent charged to operations is \$78,480 and \$77,280 for the years ended December 31, 2010 and 2009, respectively.

**NOTE 14 - OPERATING LEASE COMMITMENTS**

The Organization leases office space to a tenant under a non-cancelable operating lease, which expires in December 2012. The following is a schedule by years of future minimum rentals under the lease at December 31, 2010:

2011	\$	55,313
2012		71,250
		<u>71,250</u>
	\$	<u>126,563</u>

The Organization leases office space to a tenant-at-will, with monthly rental payments of \$6,250. Total rental receipts received for the years ended December 31, 2010 and 2009 totaled \$113,904 and \$83,523, respectively.

**NOTE 15 - CONCENTRATION OF CREDIT RISK**

The Organization maintains its cash deposit accounts at various financial institutions which, at times, may exceed federally insured limits. All accounts are insured by the Federal Depository Insurance Commission (FDIC) to the maximum amount allowed by law. The Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk related to cash and cash equivalents. The aggregate cash risk of loss is approximately \$213,000 and \$600,000 for years ended December 31, 2010 and 2009, respectively.

**NOTE 16 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Acquisition, renovation of facilities and time restriction	\$ 1,191,204	\$ 2,330,262
Children's feeding programs	47,299	63,780
Total	<u>\$ 1,238,503</u>	<u>\$ 2,394,042</u>

**NOTE 16 - TEMPORARILY RESTRICTED NET ASSETS, CONTINUED**

Temporarily restricted net assets released from restrictions are as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Acquisition, renovation of facilities and time restriction	\$ 1,205,481	\$ 914,860
Children's feeding programs	331,533	314,113
Total	<u>\$ 1,537,014</u>	<u>\$ 1,228,973</u>

**NOTE 17 - FAIR VALUE DISCLOSURES**

The Organization determines fair value measurements in accordance with a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Unconditional promises to give are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Unconditional promises that are expected to be collected in more than one year are reported at fair value initially and in subsequent periods because the Organization elected the fair value option in accordance with generally accepted accounting principles. Management believes that the use of fair value reduces the cost of measuring unconditional promises to give in periods subsequent to their receipt and provides equal or better information to users of its financial statements than if those promises were measured using present value techniques and historical discount rates.

**NOTE 17 - FAIR VALUE DISCLOSURES, CONTINUED**

When estimating the fair value of unconditional promises to give, management considers promises of \$100,000 or more individually. The relationship with the donor, the donor's past history of making timely payments, and the donor's overall creditworthiness are considered and incorporated into a fair value measurement computed using present value techniques. Unconditional promises to give less than \$100,000 are measured in the aggregate using present value techniques that consider historical trends of collection, the type of donor (individual or corporation/foundation), general economic conditions in the geographic area in which the majority of the Organization's donors live, and the Organization's policies concerning enforcement of promises to give. The interest element resulting from amortization of the discount for the time value of money, computed using the effective interest rate method, is reported as contribution revenue.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis:

	<b>December 31, 2010</b>			
	<b>Balance</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Interest rate swap	\$ 151,377	\$ -	\$ 151,377	\$ -
Certificates of deposit	251,677	-	251,677	-
Unconditional promises to give	1,046,384	-	-	1,046,384

  

	<b>December 31, 2009</b>			
	<b>Balance</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Interest rate swap	\$ 193,694	\$ -	\$ 193,694	\$ -
Unconditional promises to give	2,173,168	-	-	2,173,168

The table below presents information about the changes in unconditional promises to give:

	<b>2010</b>	<b>2009</b>
Beginning balance	\$ 2,173,168	\$ 2,156,988
Collections	(951,721)	(1,130,622)
Contribution revenue	62,757	1,146,802
Allowance for doubtful accounts	(144,820)	-
Write-offs	(93,000)	-
Ending balance	<u>\$ 1,046,384</u>	<u>\$ 2,173,168</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS***

To the Board of Directors  
Lowcountry Food Bank, Inc.  
Charleston, South Carolina

We have audited the financial statements of Lowcountry Food Bank, Inc. as of and for the year ended December 31, 2010, and have issued our report thereon dated June 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Lowcountry Food Bank, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lowcountry Food Bank, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lowcountry Food Bank, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lowcountry Food Bank, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Elliott Davis, LLC*

Columbia, South Carolina  
June 3, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Lowcountry Food Bank, Inc.  
Charleston, South Carolina

**Compliance**

We have audited the compliance of Lowcountry Food Bank, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each major federal program for the year ended December 31, 2010. Lowcountry Food Bank, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each major federal program is the responsibility of Lowcountry Food Bank, Inc.'s management. Our responsibility is to express an opinion on Lowcountry Food Bank, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lowcountry Food Bank, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lowcountry Food Bank, Inc.'s compliance with those requirements.

In our opinion, Lowcountry Food Bank, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2010.

**Internal Control Over Compliance**

The management of Lowcountry Food Bank, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lowcountry Food Bank, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lowcountry Food Bank, Inc.'s internal control over compliance.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Elliott Davis, LLC*

Columbia, South Carolina

June 3, 2011

**LOWCOUNTRY FOOD BANK, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended December 31, 2010**

Federal Grantor/Pass-through Grantor/Program Title	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b><i>Emergency Food Assistance Program Cluster:</i></b>		
U.S. Department of Agriculture SC Department of Social Services The Emergency Food Assistance Program (Administrative costs)	10.568	\$ 328,815
U.S. Department of Agriculture SC Department of Social Services The Emergency Food Assistance Program (Food commodities)	10.569	3,292,049
U.S. Department of Agriculture SC Department of Social Services The Emergency Food Assistance Program American Recovery and Reinvestment Act of 2009 (Administrative costs)	10.568	110,669
U.S. Department of Agriculture SC Department of Social Services The Emergency Food Assistance Program American Recovery and Reinvestment Act of 2009 (Food commodities)	10.569	<u>106,177</u>
<b><i>Total Emergency Food Assistance Program Cluster</i></b>		<u><u>3,837,710</u></u>
U.S. Department of Agriculture SC Department of Social Services The Commodity Supplemental Food Program (Administrative costs)	10.565	101,049
U.S. Department of Agriculture SC Department of Social Services The Commodity Supplemental Food Program (Food commodities)	10.565	<u>486,189</u>
		<u>587,238</u>
<b>Total U.S Department of Agriculture</b>		<u><u>4,424,948</u></u>
Federal Emergency Management Agency Department of Homeland Security The Emergency Food and Shelter National Board Program	97.024	<u>97,330</u>
		<u><u>\$ 4,522,278</u></u>

NOTE: The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

**LOWCOUNTRY FOOD BANK, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
***For The Year Ended December 31, 2010***

**SUMMARY OF AUDITORS' RESULTS**

- A. An unqualified opinion has been issued on the financial statements of Lowcountry Food Bank, Inc. for the year ended December 31, 2010.
- B. No significant deficiencies in internal control were identified as a result of the audit of the financial statements.
- C. The audit identified no instances of noncompliance which are material to the financial statements.
- D. No significant deficiencies in internal control over its major programs were identified.
- E. The report on compliance for major programs expressed an unqualified opinion.
- F. All findings for which the auditor is required to report are noted herein.
- G. For the year ended December 31, 2010, the following programs were considered to be major programs:
  - The Emergency Food Assistance Program                      CFDA Number 10.569 and 10.568
  - The Commodity Supplemental Food Program                      CFDA Number 10.565
- H. The threshold for distinguishing Type A Programs was \$300,000.
- I. Lowcountry Food Bank, Inc. was determined to be a low-risk auditee.

**FINDINGS IN RELATION TO THE AUDIT OF THE FINANCIAL STATEMENTS**

None

**STATUS OF KNOWN FINDINGS AND RECOMMENDATIONS FROM PREVIOUS AUDITS**

Not applicable