

LOWCOUNTRY FOOD BANK, INC.

CHARLESTON, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

McCay, Kiddy & Associates, LLC

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LOWCOUNTRY FOOD BANK, INC.
CHARLESTON, SOUTH CAROLINA
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McCay, Kiddy & Associates, LLC

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INDEPENDENT AUDITORS' REPORT

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 "Foodbank") as of December 31, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foodbank'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 of America. Those standards require that we plan and perform the audits 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 disclosure 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 Foodbank, as of December 31, 2007 and 2006, 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 May 12, 2008, on our consideration of the Foodbank'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 Foodbank taken as a whole. The accompanying schedule of expenditures of federal awards on page 22 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. The accompanying information on page 16 is presented for purposes of additional analysis 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.

McCay, Kiddy & Associates, LLC

McCay, Kiddy & Associates, LLC
May 12, 2008

LOWCOUNTRY FOOD BANK, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2007 AND 2006

ASSETS	<u>2007</u>	<u>2006</u>
Cash	\$ 470,032	\$ 325,152
Grants receivable	63,334	18,298
Accounts receivable	62,901	49,462
Inventories	1,069,803	1,254,606
Prepaid expenses	1,554	4,331
Other Assets	7,283	-
Property and equipment, net	3,859,301	105,093
Assets limited to use:		
Cash for capital campaign	769,956	169,761
Unconditional promises to give	<u>1,087,339</u>	<u>1,364,111</u>
TOTAL ASSETS	<u>\$ 7,391,503</u>	<u>\$ 3,290,814</u>
LIABILITIES		
Accounts payable	\$ 164,898	\$ 189,324
Accrued expenses	20,645	3,862
Deferred revenue	21,100	30,191
Refundable advance	153,375	163,315
Demand note payable	-	150,000
Compensated absences	41,091	23,087
Note payable	<u>3,700,000</u>	<u>-</u>
Total liabilities	<u>4,101,109</u>	<u>559,779</u>
NET ASSETS		
Unrestricted:		
Undesignated - inventory	1,069,803	1,254,606
Undesignated	<u>345,911</u>	<u>(57,443)</u>
Total unrestricted net assets	1,415,714	1,197,163
Temporarily restricted net assets	<u>1,874,680</u>	<u>1,533,872</u>
Total net assets	<u>3,290,394</u>	<u>2,731,035</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,391,503</u>	<u>\$ 3,290,814</u>

LOWCOUNTRY FOOD BANK, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Government grants	\$ 1,640,089	\$ -	\$ 1,640,089
Donated inventory	11,614,775	-	11,614,775
In-kind contributions	444,513	-	444,513
United Way	165,686	-	165,686
Contributions	778,257	616,230	1,394,487
Corporate and foundation grants	306,864	57,394	364,258
Special events	110,315	106,090	216,405
Shared maintenance revenue	649,636	-	649,636
Program service fee	22,345	-	22,345
Miscellaneous	32,080	-	32,080
Interest income	14,264	-	14,264
Releases from restrictions	438,906	(438,906)	-
	<u>16,217,730</u>	<u>340,808</u>	<u>16,558,538</u>
Total support and revenue			
Expenses			
Food distribution	15,183,419	-	15,183,419
Management and general	334,887	-	334,887
Fundraising	480,873	-	480,873
	<u>15,999,179</u>	<u>-</u>	<u>15,999,179</u>
Total expenses			
Change in net assets	218,551	340,808	559,359
Net assets, beginning	<u>1,197,163</u>	<u>1,533,872</u>	<u>2,731,035</u>
Net assets, ending	\$ <u>1,415,714</u>	\$ <u>1,874,680</u>	\$ <u>3,290,394</u>

LOWCOUNTRY FOOD BANK, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Government grants	\$ 1,734,026	\$ -	\$ 1,734,026
Donated inventory	10,662,454	-	10,662,454
In-kind contributions	370,000	-	370,000
United Way	144,433	-	144,433
Contributions	844,280	1,483,686	2,327,966
Corporate and foundation grants	180,136	-	180,136
Special events	90,659	-	90,659
Shared maintenance revenue	598,926	-	598,926
Program service fee	12,731	-	12,731
Miscellaneous	20,887	-	20,887
Interest income	4,536	-	4,536
	<u>14,663,068</u>	<u>1,483,686</u>	<u>16,146,754</u>
Expenses			
Food distribution	13,715,613	-	13,715,613
Management and general	227,174	-	227,174
Fundraising	653,355	-	653,355
	<u>14,596,142</u>	<u>-</u>	<u>14,596,142</u>
Change in net assets	66,926	1,483,686	1,550,612
Net assets, beginning	<u>1,130,237</u>	<u>50,186</u>	<u>1,180,423</u>
Net assets, ending	\$ <u>1,197,163</u>	\$ <u>1,533,872</u>	\$ <u>2,731,035</u>

See accompanying notes to financial statements and independent auditors' report.

LOWCOUNTRY FOOD BANK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2007

	<u>Food Distribution</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Commodities:				
Cost of commodities distributed	\$ 12,173,628	\$ -	\$ -	\$ 12,173,628
Cost of USDA commodities distributed	<u>1,133,728</u>	<u>-</u>	<u>-</u>	<u>1,133,728</u>
Total costs of commodities distributed	<u>13,307,356</u>	<u>-</u>	<u>-</u>	<u>13,307,356</u>
Compensation and related expenses:				
Compensation	745,428	118,902	168,536	1,032,866
Employee benefits	108,697	16,583	18,167	143,447
Payroll taxes	<u>57,217</u>	<u>13,769</u>	<u>10,795</u>	<u>81,781</u>
Total compensation and related expenses	<u>911,342</u>	<u>149,254</u>	<u>197,498</u>	<u>1,258,094</u>
Supplies	13,816	4,759	571	19,146
Insurance	-	29,428	-	29,428
Telephone	9,467	22,212	2,463	34,142
Postage	3,031	1,796	9,763	14,590
Occupancy	468,824	18,220	5,754	492,798
Equipment rental	424	15,857	-	16,281
Maintenance and repair	44,237	185	58	44,480
Transportation	250,314	-	-	250,314
Printing and publications	863	3,859	18,876	23,598
Computer expense	1,821	7,734	2,321	11,876
Professional fees	-	50,616	-	50,616
Travel and meetings	26,430	1,993	7,408	35,831
Dues and subscriptions	8,908	1,610	3,434	13,952
Depreciation	30,651	1,191	377	32,219
Direct program expense	95,103	-	-	95,103
Miscellaneous	8,171	8,702	861	17,734
Interest	-	5,743	-	5,743
Bank charges and other fees	-	7,089	2,424	9,513
Training	2,661	4,639	1,132	8,432
Development	<u>-</u>	<u>-</u>	<u>227,933</u>	<u>227,933</u>
Subtotal	<u>964,721</u>	<u>185,633</u>	<u>283,375</u>	<u>1,433,729</u>
Total functional expenses	<u><u>\$ 15,183,419</u></u>	<u><u>\$ 334,887</u></u>	<u><u>\$ 480,873</u></u>	<u><u>\$ 15,999,179</u></u>

See accompanying notes to financial statements and independent auditors' report.

LOWCOUNTRY FOOD BANK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2006

	Food Distribution	Management and General	Fundraising	Total
Commodities:				
Cost of commodities distributed	\$ 10,579,139	\$ -	\$ -	\$ 10,579,139
Cost of USDA commodities distributed	<u>1,301,043</u>	<u>-</u>	<u>-</u>	<u>1,301,043</u>
Total costs of commodities distributed	<u>11,880,182</u>	<u>-</u>	<u>-</u>	<u>11,880,182</u>
Compensation and related expenses:				
Compensation	679,534	109,395	116,037	904,966
Employee benefits	99,547	15,942	16,259	131,748
Payroll taxes	<u>50,780</u>	<u>8,252</u>	<u>9,539</u>	<u>68,571</u>
Total compensation and related expenses	<u>829,861</u>	<u>133,589</u>	<u>141,835</u>	<u>1,105,285</u>
Supplies	20,863	2,275	1,490	24,628
Insurance	12,196	8,751	2,079	23,026
Telephone	19,782	930	2,210	22,922
Postage	9,099	2,618	2,542	14,259
Occupancy	447,843	14,690	4,605	467,138
Equipment rental	9,845	1,825	1,947	13,617
Maintenance and repair	37,204	190	60	37,454
Transportation	236,404	-	-	236,404
Printing and publications	1,474	1,765	316	3,555
Computer expense	8,422	1,436	1,476	11,334
Professional fees	500	14,160	-	14,660
Travel and meetings	26,607	4,205	4,773	35,585
Dues and subscriptions	8,606	2,662	-	11,268
Depreciation	36,279	1,412	442	38,133
Direct program expense	126,652	-	-	126,652
Miscellaneous	2,289	9,682	312	12,283
Interest	-	9,869	-	9,869
Bad debts	1,505	-	-	1,505
Bank charges and other fees	-	8,149	568	8,717
Training	-	8,966	-	8,966
Development	<u>-</u>	<u>-</u>	<u>488,700</u>	<u>488,700</u>
Subtotal	<u>1,005,570</u>	<u>93,585</u>	<u>511,520</u>	<u>1,610,675</u>
Total functional expenses	<u><u>\$ 13,715,613</u></u>	<u><u>\$ 227,174</u></u>	<u><u>\$ 653,355</u></u>	<u><u>\$ 14,596,142</u></u>

See accompanying notes to financial statements and independent auditors' report.

LOWCOUNTRY FOOD BANK, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 559,358	\$ 1,550,612
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	32,219	38,134
Inventories - noncash change	184,803	(336,356)
Loss on disposal of assets	700	-
Change in:		
Grants receivable	(45,036)	49,652
Accounts receivable	(13,439)	(6,879)
Prepaid expenses	2,777	29,617
Other assets	(7,283)	-
Restricted cash	(600,195)	(157,711)
Unconditional promises to give	276,772	(1,325,975)
Accounts payable	(24,426)	70,921
Accrued expenses	16,783	2,712
Deferred revenue	(9,091)	14,691
Refundable advance	(9,940)	47,179
Compensated absences	18,004	8,611
	<u>382,006</u>	<u>(14,792)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Purchases of property and equipment	(152,168)	(32,527)
	<u>(152,168)</u>	<u>(32,527)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds from (payments on) line of credit	(150,000)	106,000
Proceeds from note payable	65,042	-
	<u>(84,958)</u>	<u>106,000</u>
Net cash provided by (used in) financing activities		
Net increase in cash	144,880	58,681
Cash, beginning	<u>325,152</u>	<u>266,471</u>
Cash, ending	\$ <u>470,032</u>	\$ <u>325,152</u>

See accompanying notes to financial statements and independent auditors' report.

LOWCOUNTRY FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lowcountry Food Bank, Inc. (the "Foodbank"), a non-profit organization, was incorporated in August, 1983. Located in Charleston, Myrtle Beach and Yemassee, South Carolina, the Foodbank's purpose is food storage and distribution. The Foodbank takes in donated food and distributes the food to local agencies and churches that feed the hungry. The Foodbank charges a fee to the agencies and churches benefited in order to recover a portion of the costs associated with food collection. The Foodbank is supported primarily through donor contributions and grants. Approximately seventy seven percent (77%) and seventy four percent (74%) of support and revenue came from donated inventory for the years ended December 31, 2007 and 2006, respectively.

Accounting Methods

The Foodbank's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles, and accordingly reflect all significant receivables, payables, and other liabilities. Under this basis, revenue is recognized when earned and expenditures are recognized when incurred.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These 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 and assumptions.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foodbank 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 Foodbank 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 Foodbank and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foodbank. 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 Statement of Activities as net assets released from restrictions.

LOWCOUNTRY FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Services

No amounts have been reflected in the statements for donated services inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the Foodbank's program services and in its fund-raising campaigns. The Foodbank received certain in-kind donations related to its major fundraising event, Chef's Feast. The Foodbank is unable to determine the value of these donations and no amount has been recognized as revenue or expenses in the Statement of Activities.

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to 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 Foodbank reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foodbank reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Also in accordance with this directive, the Foodbank values donated plant, property and equipment at fair market value. Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received.

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 discounts on those amounts are computed using a risk-free interest rate applicable to the years in which the promises are received.

The Foodbank uses the allowance method to determine uncollectible unconditional promises receivable when deemed necessary. The allowance is based on prior years' experience and management's analysis of specific promises made. As of December 31, 2007, all promises to give are considered collectible and no allowance has been recorded in the Statements of Financial Position.

Accounts and Grants Receivable and Allowance for Doubtful Accounts

Trade accounts receivable consist of agency shared maintenance fees for distributed food. Grants receivable consist mainly of amounts owed from governmental agencies. The Foodbank considers all receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made.

LOWCOUNTRY FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Donated food inventory comes from local community businesses, America's Second Harvest, a national food bank network, and the USDA. The 2007 valuation per pound of donated food was one dollar and fifty cents (\$1.50) for non-USDA food contributions. This value estimate was provided by America's Second Harvest National Food Bank's consultants. Beginning inventory was valued using the 2006 valuation of one dollar and fifty cents (\$1.50) per pound.

USDA inventory, food contributions and food distribution were valued using the current fair market values provided by the South Carolina Department of Social Services as of December 31, 2007 and 2006.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate 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.

Depreciation is provided over the estimated useful lives of the respective assets on a straight-line method. A summary of depreciable lives follows:

Transportation equipment	5 years
Warehouse equipment	5 years
Furniture and office equipment	5 - 7 years
Leasehold improvements	10 - 40 years

Assets Limited to Use

Cash and promises to give are restricted for the purpose of acquiring or renovating property to house the Foodbank.

Compensated Absences

Annual leave is earned at the rate of 3.33 hours per month or five (5) working days per year, for regular full-time employees for the first year of employment. Beginning on the employee's second year of full-time employment, such employee shall accrue annual leave at the rate of 6.67 hours per month, or ten (10) working days per year. Beginning on the employee's third year of full-time employment, such employee shall accrue annual leave at the rate of 10.00 hours per month, or fifteen (15) working days per year. Annual leave may not be carried over to future periods.

Sick leave is earned at the rate of 3.33 hours per month or five (5) working days per year, for regular full-time employees for the first year of employment and at the rate of 6.66 hours per month, or ten (10) working days per year, thereafter. Sick leave may be accumulated and carried over from one year to the next, but not in excess of 30 days per calendar year.

Shared Maintenance Revenue

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

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

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Expenses

The Foodbank allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with specific programs or support services are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical methods.

Income Tax Status

The Foodbank is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foodbank is also exempt from South Carolina income taxes. Therefore, no provision for income taxes has been provided for.

The Foodbank qualifies for the charitable contribution deduction under Section 170(b)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Budgets

The budget for the Foodbank is prepared in December for the following calendar year, based on estimated revenues and expenses for the various fiscal year grants and management operations. Budgetary control is alternatively achieved through the grant contracts which run on various fiscal years.

NOTE B - GRANTS RECEIVABLE

The Foodbank has entered into several grant contracts that are accounted for on a cost reimbursement basis. These grants call for the Foodbank to spend its unrestricted funds conducting the program and then seek reimbursement from the grantor. As of December 31, 2007 and 2006, the following amounts have been spent but not yet been received through reimbursement:

	2007	2006
SC Department of Social Services	\$ 16,376	\$ 13,214
Department of Health and Human Services	1,958	3,912
County of Charleston	20,000	1,172
Post and Courier	<u>25,000</u>	<u>-</u>
Total grants receivable	<u>\$ 63,334</u>	<u>\$ 18,298</u>

NOTE C - INVENTORIES

Inventories consisted of the following at December 31,:

	2007	2006
Non USDA commodities	\$ 948,334	\$ 1,112,772
USDA commodities	<u>121,469</u>	<u>141,834</u>
Total inventories	<u>\$ 1,069,803</u>	<u>\$ 1,254,606</u>

LOWCOUNTRY FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31,:

	2007	2006
Land	\$ 1,200,000	\$ -
Building	2,509,959	-
Transportation equipment	220,482	158,394
Warehouse equipment	152,507	146,673
Furniture and office equipment	67,580	73,811
Leasehold improvements	160,478	164,477
	<u>4,311,006</u>	<u>543,355</u>
Less: accumulated depreciation	<u>(451,705)</u>	<u>(438,262)</u>
Property and equipment, net	<u>\$ 3,859,301</u>	<u>\$ 105,093</u>

Depreciation expense for the years ended December 31, 2007 and 2006 totaled \$32,219 and \$38,133, respectively.

NOTE E - PROMISES TO GIVE

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

	2007	2006
Within one year	\$ 374,820	\$ 431,955
From one to five years	772,880	1,035,395
After five years	600	900
	<u>1,148,300</u>	<u>1,468,250</u>
Less: present value discount	<u>(60,961)</u>	<u>(104,139)</u>
Unconditional promises to give	<u>\$ 1,087,339</u>	<u>\$ 1,364,111</u>

NOTE F - REFUNDABLE ADVANCES

The Foodbank has entered into several grant contracts that are accounted for on an exchange transaction basis. The grantors provide funds in advance for the Foodbank 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.

LOWCOUNTRY FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE F - REFUNDABLE ADVANCES (continued)

As of December 31, 2007 and 2006 the following amounts have been received but not yet spent on its stated purpose:

	2007	2006
Sisters of Charity	\$ 110,833	\$ 79,372
Mary Reynolds Babcock	5,860	30,980
Cummins	23,440	-
Charleston County Council	4,052	-
Derthick	4,015	-
America's Second Harvest	3,175	-
Grace Episcopal Church	2,000	
Kraft Foods	-	18,738
Walmart	-	18,002
Hasbro	-	8,812
City of North Charleston	-	7,411
	<u> </u>	<u> </u>
Total refundable advances	<u>\$ 153,375</u>	<u>\$ 163,315</u>

NOTE G - DEMAND NOTES PAYABLE

Lowcountry Food Bank, Inc. has an unsecured \$10,000 overdraft line of credit with BB&T. Minimum monthly payments are computed based on the average daily balance, including interest at prime plus 2.25 percent per annum. The outstanding balance at December 31, 2007 and 2006 is zero.

Lowcountry Food Bank, Inc. maintained an unsecured \$150,000 line of credit with Southcoast Community Bank. Minimum monthly payments are computed based on the average daily balance, including interest at prime plus 2.25 percent per annum. The line of credit has an outstanding balance of zero and \$150,000 at December 31, 2007 and 2006, respectively. The line of credit is closed as of December 31, 2007.

NOTE H - NOTE PAYABLE

On December 21, 2007, the Foodbank signed a \$3,700,000 promissory note with Wachovia Bank. The note calls for principal of \$46,250 to be paid every three months, beginning April 2008. Interest is to be paid quarterly, beginning April 2008. The note carries an interest of one (1) month LIBOR plus 1.43% and is secured by real property. The note matures December 2012.

Scheduled principal repayments on the note for the next five years and in the aggregate at December 31, 2007 are as follows:

2008	\$ 185,001
2009	185,001
2010	185,001
2011	185,001
2012	<u>2,959,996</u>
	<u>\$ 3,700,000</u>

LOWCOUNTRY FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE I - 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 revenue not to equal the cost of shared maintenance revenue.

The cost of food spoilage for the years ended December 31, 2007 and 2006 is \$941,980 and \$801,661, respectively.

NOTE J - RELATED PARTY TRANSACTIONS

Lowcountry Food Bank, Inc. is affiliated with America's Second Harvest, a national food bank association. Food obtained through America's Second Harvest and affiliated food banks represents approximately 50% of the total amount of donated food received during 2007 and 2006. The Foodbank paid a membership fee to Second Harvest of \$8,908 and \$8,606 for the years ended December 31, 2007 and 2006, respectively, based on food received.

The Executive Director of the Lowcountry Food Bank, Inc. serves as Vice President of the South Carolina Food Bank Association. Lowcountry Food Bank, Inc. receives donated USDA food commodities and administrative grant funds from the South Carolina Food Bank Association. Lowcountry Food Bank, Inc. received \$800,379 and \$279,310, respectively in 2007 and \$978,714 and \$175,956, respectively, in 2006 from these revenue sources.

NOTE K - SUPPLEMENTAL CASH FLOW INFORMATION

During the years ended December 31, 2007 and 2006, the Foodbank received donated inventory of \$12,743,717 and \$11,616,179, respectively.

In December 2007, the Foodbank financed \$3,634,959 of the purchase price for property to house the Foodbank.

Cash paid for interest is \$5,743 and \$9,869 for the years ended December 31, 2007 and 2006, respectively.

NOTE L - EMPLOYEE BENEFIT PLAN

The Foodbank has a defined contribution salary deferral plan covering substantially all employees. Under the plan, the Foodbank contributes two percent of each eligible employee's salary and also matches dollar for dollar up to another two percent for each eligible employee's salary. Contributions to the plan by the Foodbank for years ended December 31, 2007 and 2006 are \$29,019 and \$23,276, respectively.

LOWCOUNTRY FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE M - OPERATING FACILITIES

The Foodbank leases its Charleston operating facilities at the former Charleston Naval Base at no charge. The lease, which expired in May 2005, requires the Foodbank to pay for maintenance and insurance. The Foodbank has been given a verbal extension of the lease until the Foodbank's new facility is ready for occupancy.

As the above described lease agreement is below market values, an additional in-kind rent contribution of ten dollars per square foot for the 37,000 square foot warehouse has been recorded to operations. In-kind contribution for building space for the years ended December 31, 2007 and 2006 is \$370,000.

The Foodbank leased Yemassee and Myrtle Beach operating facilities under two-year non-cancelable operating lease which expired in 2006. The Foodbank currently leases both facilities as a tenant-at-will. Monthly rental payments are \$5,000 and \$1,440, respectively. Rent charged to operations is \$77,280 and \$54,780 for the years ended December 31, 2007 and 2006, respectively.

NOTE N - CONCENTRATION OF CREDIT RISK

The Foodbank holds its cash accounts at various financial institutions in South Carolina. All accounts are insured by the Federal Depository Insurance Commission (FDIC) to the maximum amount allowed by law. The Foodbank has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents which may, at times, exceed federally insured limits. The aggregate cash risk of loss is approximately \$1,028,693 and \$259,119 for years ended December 31, 2007 and 2006, respectively.

NOTE O - TEMPORARILY RESTRICTED NET ASSETS

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

	2007	2006
Acquisition/renovation of facilities	\$ 1,857,295	\$ 1,533,872
Children's Feeding Programs	<u>17,385</u>	<u>-</u>
Total temporary restricted net assets	<u>\$ 1,874,680</u>	<u>\$ 1,533,872</u>

Releases from restriction are as follows for the years ended December 31,:

	2007	2006
Facilities	\$ 275,830	\$ -
Children's Feeding Programs	<u>163,076</u>	<u>-</u>
Total releases from restrictions	<u>\$ 438,906</u>	<u>\$ -</u>

SUPPLEMENTAL INFORMATION

LOWCOUNTRY FOOD BANK, INC.
CHANGE IN NET ASSETS, NET OF CHANGE IN INVENTORY
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Support and Revenue	\$ <u>16,558,538</u>	\$ <u>16,146,754</u>
Expenses	<u>15,999,179</u>	<u>14,596,142</u>
Change in net assets	559,359	1,550,612
(Increase) Decrease in inventory	<u>184,803</u>	<u>(336,356)</u>
Change in net assets, net of change in inventory	\$ <u><u>744,162</u></u>	\$ <u><u>1,214,256</u></u>

LOWCOUNTRY FOOD BANK, INC.
NOTES TO SUPPLEMENTAL INFORMATION

NOTE A - CHANGES IN NET ASSETS, NET OF INVENTORY CHANGE

The supplementary information presented on page 16 shows the change in net assets of the Foodbank net of any non-cash change in inventory. The change in net assets of the Foodbank is affected by the change in inventory levels due to the timing of revenue recognition and distribution of the inventory product.

REPORTING UNDER *GOVERNMENT AUDITING STANDARDS*

McCay, Kiddy & Associates, LLC

MEMBERSHIPS

AMERICAN INSTITUTE OF CPA
SOUTH CAROLINA ASSOC. OF CPA

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBERS

GORDON L. McCAY, CPA, MBA
JUSTIN K. KIDDY, CPA, CFE

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

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

We have audited the financial statements of Lowcountry Food Bank, Inc. (the "Foodbank") as of and for the year ended December 31, 2007, and have issued our report thereon dated May 12, 2008. 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 the Foodbank'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 the Foodbank's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foodbank's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Foodbank's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Foodbank's financial statements that is more than inconsequential will not be prevented or detected by the Foodbank's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Foodbank's internal control.

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 the Foodbank'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, and 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.

McCay, Kiddy & Associates, LLC
McCay, Kiddy & Associates, LLC
May 12, 2008

REPORTING UNDER *OMB CIRCULAR A-133*

McCay, Kiddy & Associates, LLC

MEMBERSHIPS

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MEMBERS

GORDON L. McCAY, CPA, MBA
JUSTIN K. KIDDY, CPA, CFE

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON 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. (the "Foodbank") 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 its major federal program for the year ended December 31, 2007. The Foodbank's major federal program is 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 its major federal program is the responsibility of the Foodbank's management. Our responsibility is to express an opinion on the Foodbank'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 type 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 the Foodbank'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 of the Foodbank's compliance with those requirements.

In our opinion, the Foodbank 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, 2007.

Internal Control Over Compliance

The management of the Foodbank 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 the Foodbank'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 of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foodbank's internal control over compliance.

A control deficiency in the Foodbank's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Foodbank's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Foodbank's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Foodbank's internal control.

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 solely for the information and use of management, Board of Directors, and 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.

McCay, Kiddy & Associates, LLC

McCay, Kiddy & Associates, LLC

May 12, 2008

LOWCOUNTRY FOOD BANK, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2007

Federal Grantor			
Pass through Grantor			
Program Title	<u>*CFDA #</u>		<u>Expenditures</u>
Department of Agriculture			
South Carolina Department of Social Services			
South Carolina Food Bank Association			
Emergency Food Assistance Program (Administrative Costs)**	10.568	\$	279,310
Emergency Food Assistance Program (Food Commodities)**	10.569		859,671
South Carolina Department of Social Services			
Commodity Supplemental Food Program (Administrative Costs)**	10.565		72,910
Commodity Supplemental Food Program (Food Commodities)**	10.565		<u>274,057</u>
Total Department of Agriculture			<u>1,485,948</u>
Department of Homeland Security			
Emergency Food and Shelter National Board Program			
Emergency Food and Shelter Program	97.024		86,616
Department of Health and Human Services			
Community Food and Nutrition Program			
Hunger Bus Project	93.571		<u>34,072</u>
Total federal expenditures			\$ <u><u>1,606,636</u></u>

*Catalog of Federal Domestic Assistance

**Major Program

LOWCOUNTRY FOOD BANK, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal contracts and grants activity of Lowcountry Food Bank, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

**LOWCOUNTRY FOOD BANK, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2007**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable condition identified not considered to be material weakness?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Reportable condition identified not considered to be material weakness?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133,?	No

Programs tested as major programs include:

CFDA Number	Name of Federal Program or Cluster
10.568 and 10.569	Emergency Food Assistance Cluster
10.565	Community Supplemental Food Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Section IV - Summary of Prior Year Findings

None.