

LOWCOUNTRY FOOD BANK, INC.

CHARLESTON, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

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LOWCOUNTRY FOOD BANK, INC.
CHARLESTON, SOUTH CAROLINA
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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. as of December 31, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Lowcountry Food Bank, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 Lowcountry Food Bank, Inc., as of December 31, 2006 and 2005, 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 April 11, 2007, on our consideration of Lowcountry Food Bank, Inc.'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 Lowcountry Food Bank, Inc. 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. The accompanying information on page 15 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
April 11, 2007

LOWCOUNTRY FOOD BANK, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2006 AND 2005

ASSETS	<u>2006</u>	<u>2005</u>
Cash	\$ 325,152	\$ 266,471
Grants receivable	18,298	67,950
Accounts receivable	49,462	42,583
Inventories	1,254,606	918,250
Prepaid expenses	4,331	33,948
Property and equipment, net	105,093	110,700
Assets limited to use:		
Cash for capital campaign	169,761	12,050
Unconditional promises to give	<u>1,364,111</u>	<u>38,136</u>
TOTAL ASSETS	<u>\$ 3,290,814</u>	<u>\$ 1,490,088</u>
 LIABILITIES		
Accounts payable	\$ 189,324	\$ 118,403
Accrued expenses	3,862	1,150
Deferred revenue	30,191	15,500
Refundable advance	163,315	116,136
Demand note payable	150,000	44,000
Compensated absences	<u>23,087</u>	<u>14,476</u>
 Total Liabilities	 <u>559,779</u>	 <u>309,665</u>
 NET ASSETS		
Unrestricted:		
Undesignated - inventory	1,254,606	918,250
Undesignated	<u>(57,443)</u>	<u>211,987</u>
 Total Unrestricted Net Assets	 1,197,163	 1,130,237
Temporarily Restricted Net Assets	<u>1,533,872</u>	<u>50,186</u>
 Total Net Assets	 <u>2,731,035</u>	 <u>1,180,423</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,290,814</u>	<u>\$ 1,490,088</u>

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

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>
Total Support and Revenue			
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>
Total Expenses			
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>

LOWCOUNTRY FOOD BANK, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Government grants	\$ 2,011,989	\$ -	\$ 2,011,989
Donated inventory	11,092,259	-	11,092,259
In-kind contributions	370,000	-	370,000
United Way	165,913	-	165,913
Contributions	493,183	50,186	543,369
Corporate and foundation grants	145,384	-	145,384
Special events	78,232	-	78,232
Shared maintenance revenue	504,278	-	504,278
Program service fee	7,575	-	7,575
Miscellaneous	20,080	-	20,080
Interest income	2,362	-	2,362
	<u>14,891,255</u>	<u>50,186</u>	<u>14,941,441</u>
Total Support and Revenue			
Expenses			
Food distribution	14,495,605	-	14,495,605
Management and general	277,602	-	277,602
Fundraising	450,651	-	450,651
	<u>15,223,858</u>	<u>-</u>	<u>15,223,858</u>
Total Expenses			
Change in Net Assets	(332,603)	50,186	(282,417)
Net Assets, beginning	<u>1,462,840</u>	<u>-</u>	<u>1,462,840</u>
Net Assets, ending	\$ <u>1,130,237</u>	\$ <u>50,186</u>	\$ <u>1,180,423</u>

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

	<u>Food Distribution</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
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>\$ 13,715,613</u>	<u>\$ 227,174</u>	<u>\$ 653,355</u>	<u>\$ 14,596,142</u>

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

LOWCOUNTRY FOOD BANK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2005

	<u>Food Distribution</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Commodities:				
Cost of commodities distributed	\$ 11,347,613	\$ -	\$ -	\$ 11,347,613
Cost of USDA commodities distributed	<u>1,512,522</u>	<u>-</u>	<u>-</u>	<u>1,512,522</u>
Total costs of commodities distributed	<u>12,860,135</u>	<u>-</u>	<u>-</u>	<u>12,860,135</u>
Compensation and related expenses:				
Compensation	481,787	169,919	106,054	757,760
Employee benefits	104,125	31,204	19,476	154,805
Payroll taxes	<u>43,229</u>	<u>15,247</u>	<u>9,516</u>	<u>67,992</u>
Total compensation and related expenses	<u>629,141</u>	<u>216,370</u>	<u>135,046</u>	<u>980,557</u>
Supplies	21,188	2,572	1,605	25,365
Insurance	13,185	4,650	2,902	20,737
Telephone	9,690	3,418	2,133	15,241
Postage	4,793	1,690	1,055	7,538
Occupancy	458,214	17,807	5,624	481,645
Equipment rental	11,673	-	-	11,673
Maintenance and repair	53,409	198	64	53,671
Transportation	209,123	-	-	209,123
Printing and publications	667	235	147	1,049
Computer expense	13,529	8,016	2,978	24,523
Professional fees	-	12,153	-	12,153
Travel and meetings	21,431	5,818	3,631	30,880
Dues and subscriptions	9,221	364	227	9,812
Depreciation	40,669	1,581	499	42,749
Interest	-	-	214	214
Direct program expense	127,178	-	-	127,178
Miscellaneous	12,359	2,730	1,433	16,522
Development	<u>-</u>	<u>-</u>	<u>293,093</u>	<u>293,093</u>
Subtotal	<u>1,006,329</u>	<u>61,232</u>	<u>315,605</u>	<u>1,383,166</u>
Total Functional Expenses	<u>\$ 14,495,605</u>	<u>\$ 277,602</u>	<u>\$ 450,651</u>	<u>\$ 15,223,858</u>

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

LOWCOUNTRY FOOD BANK, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,550,612	\$ (282,417)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	38,134	42,749
Inventories - noncash change	(336,356)	135,180
Change in:		
Grants receivable	49,652	(22,539)
Accounts receivable	(6,879)	(15,240)
Employee advances	-	433
Prepaid expenses	29,617	(30,265)
Restricted cash	(157,711)	(12,050)
Unconditional promises to give	(1,325,975)	(38,136)
Accounts payable	70,921	69,599
Accrued expenses	2,712	(6,858)
Deferred revenue	14,691	6,100
Refundable advance	47,179	116,136
Compensated absences	8,611	6,445
	<u>(14,792)</u>	<u>(30,863)</u>
Cash flows from investing activities:		
Equipment purchases	<u>(32,527)</u>	<u>(25,366)</u>
Net cash used in investing activities	<u>(32,527)</u>	<u>(25,366)</u>
Cash flows from financing activities:		
Proceeds from line of credit	<u>106,000</u>	<u>44,000</u>
Net cash provided in financing activities	<u>106,000</u>	<u>44,000</u>
Net increase (decrease) in cash	58,681	(12,229)
Cash, beginning	<u>266,471</u>	<u>278,700</u>
Cash, ending	\$ <u>325,152</u>	\$ <u>266,471</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 four percent and eighty-five percent of support and revenue came from donated inventory for the years ended December 31, 2006 and 2005, 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.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. 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, which have not 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.

Conditional promises are recognized when the condition has been met or lifted, and are in substance, unconditional. In November 2006, a donor made a conditional promise to give \$1 (up to \$200,000) for every \$2 the Foodbank raises in new promises. As of December 31, 2006, the condition was partially met and the Foodbank recognized \$100,000 in contribution revenue in the Statement of Activities. The remaining balance of the conditional promise to give has not been recorded as revenue in the Statement of Activities for the year ended December 31, 2006.

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, 2006, all promises to give are considered collectible.

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 has not experienced any uncollectible receivables in past years. The Foodbank uses the allowance method to determine uncollectible accounts and grants receivable when deemed necessary. The allowance is based on prior years' experience and management's analysis of specific accounts.

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 2006 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 2005 valuation of one dollar and forty-nine (\$1.49) 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, 2006 and 2005.

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 property to house the Foodbank in the Charleston area.

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.

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.

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.

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

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

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, 2006 and 2005 the following amounts have been spent but not yet been received through reimbursement:

	2006	2005
SC Department of Social Services	\$ 13,214	\$ 20,931
SC Food Bank Association	-	41,266
US Department of Agriculture	3,912	5,753
County of Charleston	<u>1,172</u>	<u>-</u>
Total grants receivable	<u>\$ 18,298</u>	<u>\$ 67,950</u>

NOTE C - INVENTORIES

Inventories consisted of the following at December 31,:

	2006	2005
Non USDA commodities	\$ 1,112,772	\$ 755,897
USDA commodities	<u>141,834</u>	<u>162,353</u>
Total inventories	<u>\$ 1,254,606</u>	<u>\$ 918,250</u>

LOWCOUNTRY FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE D - PROPERTY AND EQUIPMENT

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

	2006	2005
Transportation equipment	\$ 158,393	\$ 134,536
Warehouse equipment	182,080	178,762
Furniture and office equipment	73,811	68,459
Leasehold improvements	<u>129,071</u>	<u>129,071</u>
	543,355	510,828
Less: accumulated depreciation	<u>(438,262)</u>	<u>(400,128)</u>
Property and equipment, net	<u>\$ 105,093</u>	<u>\$ 110,700</u>

Depreciation expense for the years ended December 31, 2006 and 2005 totaled \$38,133 and \$42,749, respectively.

NOTE E - PROMISES TO GIVE

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

	2006	2005
Within one year	\$ 431,955	\$ 40,000
From one to five years	1,035,395	-
After five years	<u>900</u>	<u>-</u>
	1,468,250	40,000
Less: present value discount	<u>(104,139)</u>	<u>(1,864)</u>
Unconditional promises to give	<u>\$ 1,364,111</u>	<u>\$ 38,136</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, 2006 and 2005 the following amounts have been received but not yet spent on its stated purpose:

	2006	2005
Sisters of Charity	\$ 79,372	\$ 64,630
Mary Reynolds Babcock	30,980	-
Kraft Foods	18,738	51,506
Walmart	18,002	-
Hasbro	8,812	-
City of North Charleston	<u>7,411</u>	<u>-</u>
Total refundable advances	<u>\$ 163,315</u>	<u>\$ 116,136</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. At December 31, 2006 and 2005, no amount was used.

Lowcountry Food Bank, Inc. has 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 \$150,000 and \$44,000 at December 31, 2006 and 2005, respectively.

NOTE H - 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, 2006 and 2005 is \$801,661 and \$477,031, respectively.

NOTE I - RELATED PARTY TRANSACTIONS

Lowcountry Food Bank, Inc. is affiliated with Second Harvest, a national food bank association. Food obtained through Second Harvest and affiliated food banks represents approximately 50% of the total amount of donated food received during 2006 and 2005. Lowcountry Food Bank, Inc. paid a membership fee to Second Harvest of \$8,606 and \$8,190 in 2006 and 2005 respectively, based on food received.

LOWCOUNTRY FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE I - RELATED PARTY TRANSACTIONS (continued)

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 \$978,714 and \$175,956, respectively in 2006 and \$1,264,059 and \$217,222, respectively, in 2005 from these revenue sources.

NOTE J - SUPPLEMENTAL CASH FLOW INFORMATION

During the years ended December 31, 2006 and 2005, the Foodbank received donated inventory of \$11,616,179 and \$12,602,037, respectively.

NOTE K - 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 January 2008. The Foodbank has not secured a replacement location or an extension of the lease beyond January 2008.

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 feet warehouse has been recorded to operations. In-kind contribution for building space for the years ended December 31, 2006 and 2005 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 current leases both facilities as a tenant-at-will. Monthly rental payments are \$5,500 and \$1,440, respectively. Rent charged to operations is \$54,780 and \$69,780 for the years ended December 31, 2006 and 2005, 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. Plan expenses incurred by the Foodbank for years ended December 31, 2006 and 2005 are \$23,276 and \$21,004, respectively.

NOTE M - 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 \$259,119 and \$187,839 for year ended December 31, 2006 and 2005, respectively.

LOWCOUNTRY FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE N - TEMPORARILY RESTRICTED NET ASSETS

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

	2006	2005
Acquisition of facilities	\$ <u>1,533,872</u>	\$ <u>50,186</u>

SUPPLEMENTAL INFORMATION

LOWCOUNTRY FOOD BANK, INC.
CHANGE IN NET ASSETS, NET OF CHANGE IN INVENTORY
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Support and Revenue	\$ <u>16,146,754</u>	\$ <u>14,941,441</u>
Expenses	<u>14,596,142</u>	<u>15,223,858</u>
Change in net assets	1,550,612	(282,417)
(Increase) Decrease in inventory	<u>(336,356)</u>	<u>135,180</u>
Change in net assets, net of change in inventory	\$ <u><u>1,214,256</u></u>	\$ <u><u>(147,237)</u></u>

LOWCOUNTRY FOOD BANK, INC.
NOTES TO SUPPLEMENTAL INFORMATION

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

The above referenced 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 organization is effected 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

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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, 2006, and have issued our report thereon dated April 11, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance

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*.

We noted certain matters that we reported to management of the Foodbank in a separate letter dated April 11, 2007.

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
April 11, 2007

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 each of its major federal program for the year ended December 31, 2006. 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 each of 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 non-compliance 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 each of its major federal programs for the year ended December 31, 2006.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to material weaknesses.

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

April 11, 2007

LOWCOUNTRY FOOD BANK, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2006

Federal Grantor			
Pass through Grantor			
<u>Program Title</u>	<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	\$	171,493
Emergency Food Assistance Program (Food Commodities)**	10.569		1,004,015
South Carolina Department of Social Services			
Commodity Supplemental Food Program (Administrative Costs)	10.565		56,996
Commodity Supplemental Food Program (Food Commodities)	10.565		297,028
Commodity Food Projects (Growing Food Locally)	10.225		<u>62,797</u>
Total Department of Agriculture			<u>1,592,329</u>
Department of Housing and Urban Development			
Charleston County, South Carolina			
Community Development Block Grant	14.218		18,828
Department of Homeland Security			
Emergency Food and Shelter National Board Program			
Emergency Food and Shelter Program	97.024		72,230
Department of Health and Human Services			
Community Food & Nutrition Program			
Hunger Bus Project	93.571		<u>10,575</u>
Total Federal Expenditures		\$	<u><u>1,693,962</u></u>

*Catalog of Federal Domestic Assistance

**Major Program

LOWCOUNTRY FOOD BANK, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2006

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, 2006**

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 Program Cluster

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.