

Lowcountry Food Bank, Inc.

Financial Statements as of and for the
Years Ended December 31, 2014 and 2013,
and Independent Auditors' Report

Lowcountry Food Bank, Inc.
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Lowcountry Food Bank, Inc. which comprise the statements of financial position as of December 31, 2014 and 2013 and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lowcountry Food Bank, Inc. as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also included our report dated June 16, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lowcountry Food Bank, Inc.'s internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Greenville, South Carolina
June 16, 2015

Lowcountry Food Bank, Inc.
Statements of Financial Position
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Cash and cash equivalents	\$ 2,073,153	\$ 2,320,339
Inventories	1,356,819	1,762,076
Accounts receivable	132,738	171,892
Grants receivable	219,702	123,510
Prepaid expenses and other current assets	32,277	53,827
Unconditional promises to give, net	539,660	584,360
Property and equipment, net	5,522,024	5,473,291
Total assets	<u>\$ 9,876,373</u>	<u>\$ 10,489,295</u>
Liabilities and Net Assets		
Accounts payable	\$ 204,793	\$ 388,094
Accrued expenses	195,420	169,826
Deferred revenue	55,900	87,600
Note payable	2,185,014	2,322,824
Total liabilities	<u>2,641,127</u>	<u>2,968,344</u>
Net assets		
Unrestricted		
Board designated	6,850	6,850
Undesignated	6,356,135	6,505,780
Total unrestricted	<u>6,362,985</u>	<u>6,512,630</u>
Temporarily restricted	872,261	1,008,321
Total net assets	<u>7,235,246</u>	<u>7,520,951</u>
Total liabilities and net assets	<u>\$ 9,876,373</u>	<u>\$ 10,489,295</u>

The accompanying notes are an integral part of these financial statements.

Lowcountry Food Bank, Inc.
Statements of Activities
For the year ended December 31, 2014

	2014		
	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:			
Donated inventory	\$ 36,543,801	\$ -	\$ 36,543,801
Shared maintenance revenue	1,323,984	-	1,323,984
Grants and contributions	2,290,940	1,041,687	3,332,627
United Way affiliates support	93,741	-	93,741
Gifts in kind	245,635	-	245,635
Special events	425,371	-	425,371
Program fees	1,034,837	-	1,034,837
Rental income	155,745	-	155,745
Miscellaneous income	18,799	-	18,799
Interest income	1,763	-	1,763
	<u>42,134,616</u>	<u>1,041,687</u>	<u>43,176,303</u>
Net assets released from restrictions	<u>1,177,747</u>	<u>(1,177,747)</u>	<u>-</u>
Total revenue, gains and other support	<u>43,312,363</u>	<u>(136,060)</u>	<u>43,176,303</u>
Expenses:			
Food distribution	42,173,526	-	42,173,526
Management and general	618,520	-	618,520
Fundraising	669,962	-	669,962
Total expenses	<u>43,462,008</u>	<u>-</u>	<u>43,462,008</u>
Change in net assets	<u>(149,645)</u>	<u>(136,060)</u>	<u>(285,705)</u>
Net Assets, Beginning of Year	<u>6,512,630</u>	<u>1,008,321</u>	<u>7,520,951</u>
Net Assets, End of Year	<u>\$ 6,362,985</u>	<u>\$ 872,261</u>	<u>\$ 7,235,246</u>

The accompanying notes are an integral part of these financial statements.

Lowcountry Food Bank, Inc.
Statements of Activities
For the year ended December 31, 2013

	2013		
	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:			
Donated inventory	\$ 30,396,175	\$ -	\$ 30,396,175
Shared maintenance revenue	1,252,767	-	1,252,767
Grants and contributions	1,891,184	1,400,551	3,291,735
United Way affiliates support	107,342	-	107,342
Gifts in kind	86,725	-	86,725
Special events	354,399	-	354,399
Program fees	888,915	-	888,915
Rental income	169,988	-	169,988
Miscellaneous income	31,529	-	31,529
Interest income	1,784	-	1,784
	<u>35,180,808</u>	<u>1,400,551</u>	<u>36,581,359</u>
Net assets released from restrictions	<u>1,587,534</u>	<u>(1,587,534)</u>	<u>-</u>
Total revenue, gains and other support	<u>36,768,342</u>	<u>(186,983)</u>	<u>36,581,359</u>
Expenses:			
Food distribution	34,775,067	-	34,775,067
Management and general	749,549	-	749,549
Fundraising	609,349	-	609,349
Total expenses	<u>36,133,965</u>	<u>-</u>	<u>36,133,965</u>
Change in net assets	<u>634,377</u>	<u>(186,983)</u>	<u>447,394</u>
Net Assets, Beginning of Year	<u>5,878,253</u>	<u>1,195,304</u>	<u>7,073,557</u>
Net Assets, End of Year	<u>\$ 6,512,630</u>	<u>\$ 1,008,321</u>	<u>\$ 7,520,951</u>

The accompanying notes are an integral part of these financial statements.

Lowcountry Food Bank, Inc.
Statements of Functional Expenses
For the year ended December 31, 2014

	2014				
	Program Services	Supporting Services			Total
	Food Distribution	Management and General	Fundraising	Total Supporting Services	
Contract services	\$ 44,085	\$ 63,669	\$ -	\$ 63,669	\$ 107,754
Development and marketing	40,337	-	378,007	378,007	418,344
Donated and purchased food distributed	38,824,558	-	-	-	38,824,558
Financial fees	55,267	9,662	-	9,662	64,929
Insurance	24,840	43,694	-	43,694	68,534
Miscellaneous	1,861	39,122	-	39,122	40,983
Occupancy	211,913	19,837	-	19,837	231,750
Office expense	48,750	12,589	-	12,589	61,339
Professional fees	-	38,110	-	38,110	38,110
Program expenses	101,086	-	-	-	101,086
Repairs and maintenance	97,419	-	-	-	97,419
Salaries and related expenses	2,198,195	277,400	117,401	394,801	2,592,996
Special events	39,492	1,460	150,441	151,901	191,393
Transportation	186,775	-	-	-	186,775
Total expenses before depreciation and interest	41,874,579	505,543	645,849	1,151,392	43,025,971
Depreciation	249,460	94,275	20,121	114,396	363,856
Interest	49,487	18,702	3,992	22,694	72,181
Total depreciation and interest	298,947	112,977	24,113	137,090	436,037
Total expenses	\$ 42,173,526	\$ 618,520	\$ 669,962	\$ 1,288,482	\$ 43,462,008

The accompanying notes are an integral part of these financial statements.

Lowcountry Food Bank, Inc.
Statements of Functional Expenses
For the year ended December 31, 2013

	2013				
	Program Services	Supporting Services			
	Food Distribution	Management and General	Fundraising	Total Supporting Services	Total
Contract services	\$ 29,207	\$ 85,530	\$ -	\$ 85,530	\$ 114,737
Development and marketing	17,615	-	352,735	352,735	370,350
Donated and purchased food distributed	31,778,961	-	-	-	31,778,961
Financial fees	15,786	3,780	-	3,780	19,566
Insurance	23,439	81,968	-	81,968	105,407
Miscellaneous	7,709	39,416	-	39,416	47,125
Occupancy	121,848	126,781	-	126,781	248,629
Office expense	53,233	20,162	-	20,162	73,395
Professional fees	-	27,128	-	27,128	27,128
Program expenses	136,097	-	-	-	136,097
Repairs and maintenance	129,631	490	-	490	130,121
Salaries and related expenses	2,010,672	257,162	120,826	377,988	2,388,660
Special events	2,398	-	112,929	112,929	115,327
Transportation	164,943	-	-	-	164,943
Total expenses before depreciation and interest	<u>34,491,539</u>	<u>642,417</u>	<u>586,490</u>	<u>1,228,907</u>	<u>35,720,446</u>
Depreciation	231,071	87,311	18,630	105,941	337,012
Interest	52,457	19,821	4,229	24,050	76,507
Total depreciation and interest	<u>283,528</u>	<u>107,132</u>	<u>22,859</u>	<u>129,991</u>	<u>413,519</u>
Total expenses	<u>\$ 34,775,067</u>	<u>\$ 749,549</u>	<u>\$ 609,349</u>	<u>\$ 1,358,898</u>	<u>\$ 36,133,965</u>

The accompanying notes are an integral part of these financial statements.

Lowcountry Food Bank, Inc.
Statements of Cash Flows
For the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (285,705)	\$ 447,394
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	363,857	337,012
Loss on disposal of property and equipment	-	308
Donated inventory revenues	(36,543,801)	(30,396,175)
Donated food distribution expenses	36,499,584	29,643,974
Donated property and equipment	(66,206)	(112,694)
Changes in operating assets and liabilities:		
Unconditional promises to give	44,700	81,410
Accounts receivable	162,664	36,086
Grants receivable	(219,702)	(17,716)
Inventories	449,474	422,717
Prepaid expenses and other current assets	21,550	(29,410)
Accounts payable	(183,301)	132,330
Accrued expenses	25,594	71,523
Deferred revenue	(31,700)	44,100
Net cash provided by operating activities	<u>237,008</u>	<u>660,859</u>
Investing Activities		
Purchases of property and equipment	(346,384)	(311,727)
Proceeds from sale of property and equipment	-	350
Net cash used by investing activities	<u>(346,384)</u>	<u>(311,377)</u>
Financing Activities		
Payments on note payable	(137,810)	(133,484)
Net (decrease) increase in cash and cash equivalents	(247,186)	215,998
Cash and cash equivalents, beginning of year	<u>2,320,339</u>	<u>2,104,341</u>
Cash and cash equivalents, end of year	<u>\$ 2,073,153</u>	<u>\$ 2,320,339</u>
Supplemental Cash Flow Information		
Cash paid for interest	<u>\$ 72,181</u>	<u>\$ 76,507</u>
Non-Cash Financing and Investing Activities		
Donated property and equipment	<u>\$ 66,206</u>	<u>\$ 112,694</u>

The accompanying notes are an integral part of these financial statements.

Lowcountry Food Bank, Inc.
Notes to the Financial Statements
December 31, 2014 and 2013

1. Summary of Significant Accounting Policies

Nature of Activities

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 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 called shared maintenance revenue to the agencies and churches benefited in order to recover a portion of the costs associated with food collection.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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.

Donor-restricted support received 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 restriction. The Organization had no permanently restricted net assets at December 31, 2014 and 2013.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less.

Accounts and Grants Receivable and Allowance for Doubtful Accounts

Accounts receivable consist primarily of agency maintenance fees for distributed food. Grants receivable consist primarily of amounts due from government agencies. As of December 31, 2014 and 2013, the Organization considers all receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been established.

Lowcountry Food Bank, Inc.
Notes to the Financial Statements
December 31, 2014 and 2013

Inventory and Donated Food Products

The Organization receives food products governed by the United States Department of Agriculture (USDA) primarily through the USDA's state disbursing agent, the South Carolina Department of Social Services. The food products received through USDA programs 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 and for the years ended December 31, 2014 and 2013 related to Feeding America, have been adjusted to reflect a rate per pound of \$1.72 and \$1.69, respectively.

Donated food products are recorded as revenue and support when received and recorded as expense when disbursed. Food products purchased are recorded at cost 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.

Unconditional Promises to Give

Unconditional promises to give are recognized when the donor makes a promise to give that, in substance, is unconditional. Conditional promises to give are recognized as revenue when the specified conditions are substantially met and the promises become unconditional. There were no conditional promises to give at December 31, 2014 and 2013.

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 rate used to determine the present value of the estimated future cash flows was 1.9% and 2.6% in 2014 and 2013, respectively.

The Organization presents unconditional promises to give net of an allowance for uncollectibility when deemed necessary. The allowance is based on prior years' experience and management's analysis of specific promises made. During the years ended December 31, 2014 and 2013, the Organization wrote off \$0 and \$126,675, respectively, in uncollectible promises to give. As of December 31, 2014 and 2013, the Organization considers all unconditional promises to give 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. Expenditures for repairs and maintenance are charged to operations in the year the costs are incurred. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

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

Long-lived assets held and used by the Organization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. In the event that facts and circumstances indicate that cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

Lowcountry Food Bank, Inc.
Notes to the Financial Statements
December 31, 2014 and 2013

Contributions

Contributions are recognized as revenue when they are received. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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. When a temporary restriction expires, temporarily restricted net assets are released to unrestricted net assets.

Shared Maintenance Revenue and Expenses

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

The majority of the cost of shared maintenance revenue is related to the value of donated inventory received. 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 cost of food spoilage for the years ended December 31, 2014 and 2013 was approximately \$450,000 and \$423,000, respectively, and is included in food distribution expenses.

Deferred Revenue

Deferred revenue consists of sponsorship and ticket sales received in advance of the events. The revenue is recognized in the period during which the event is held. Deferred revenue totaled \$55,900 and \$87,600, respectively, at December 31, 2014 and 2013.

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.

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).

Lowcountry Food Bank, Inc.
Notes to the Financial Statements
December 31, 2014 and 2013

Management evaluated the Organization's tax positions and concluded that the Organization does not have any significant uncertain tax positions resulting in unrecognized tax obligations or benefits as of December 31, 2014 and 2013. Generally, the Organization is no longer subject to income tax examinations by the United States federal, state or local taxing authorities for the years ending prior to 2011.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 16, 2015, the date the financial statements were available to be issued.

2. Inventories

Inventories consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Non-USDA commodities	\$ 963,372	\$ 1,555,149
USDA commodities	393,447	206,927
	<u>\$ 1,356,819</u>	<u>\$ 1,762,076</u>

3. Unconditional Promises to Give - Restricted, net

Unconditional promises to give are comprised of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Amounts due in:		
Less than one year	\$ 100,000	\$ 100,000
One to five years	450,000	500,000
	<u>550,000</u>	<u>600,000</u>
Less present value discount	(10,340)	(15,640)
Unconditional promises to give - restricted, net	<u>\$ 539,660</u>	<u>\$ 584,360</u>

Restrictions on unconditional promises to give represent time restrictions for amounts to be received in future periods and for designated purposes.

Lowcountry Food Bank, Inc.
Notes to the Financial Statements
December 31, 2014 and 2013

4. Property and Equipment, net

Property and equipment consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Building and improvements	\$ 4,103,977	\$ 3,929,108
Land	1,200,000	1,200,000
Warehouse equipment	901,201	840,975
Transportation equipment	726,557	687,557
Furniture and office equipment	105,491	66,104
Leasehold improvements	215,605	40,321
Construction in progress	-	87,134
	<u>7,252,831</u>	<u>6,851,199</u>
Less accumulated depreciation	<u>(1,730,807)</u>	<u>(1,377,908)</u>
Property and equipment, net	<u>\$ 5,522,024</u>	<u>\$ 5,473,291</u>

Depreciation expense totaled \$363,857 and \$337,012 for the years ended December 31, 2014 and 2013, respectively.

5. Note Payable

The Organization has a promissory note with a financial institution that accrues interest at a rate of 3.15% per annum and requires monthly payments of principal and interest in the amount of \$17,499 with a final balloon payment of \$1,498,060 due on August 28, 2019. The note is secured by a mortgage on the underlying real property.

The following table summarizes future principal payment requirements for the years ending December 31:

2015	\$ 143,296
2016	147,876
2017	152,602
2018	157,479
2019	<u>1,583,761</u>
	<u>\$ 2,185,014</u>

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Acquisition, renovation of facilities and time restrictions	\$ 539,660	\$ 584,360
Feeding programs	<u>332,601</u>	<u>423,961</u>
	<u>\$ 872,261</u>	<u>\$ 1,008,321</u>

Lowcountry Food Bank, Inc.
Notes to the Financial Statements
December 31, 2014 and 2013

Temporarily restricted net assets released from restrictions are as follows for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Acquisition, renovation of facilities and time restrictions	\$ 44,700	\$ 81,410
Feeding programs	<u>1,133,047</u>	<u>1,506,124</u>
	<u>\$ 1,177,747</u>	<u>\$ 1,587,534</u>

7. 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 6% and 7% of the total amount of donated food received during 2014 and 2013, respectively. The Organization paid a membership fee to Feeding America of \$12,158 and \$12,266, respectively, for the years ended December 31, 2014 and 2013 based on food received.

The President and Chief Executive Officer of the Organization serves on the Board of Directors of the South Carolina Food Bank Association. The Organization receives donated USDA food commodities and administrative grant funds under the Emergency Food Assistance Program from the South Carolina Food Bank Association. The Organization received \$3,035,206 and \$2,553,160 in 2014 and 2013, respectively, from these revenue sources.

At December 31, 2014 and 2013, total unconditional promises to give of \$550,000 and \$600,000, respectively, were due from a member of the Board of Directors.

8. Employee Benefit Plan

The Organization has a defined contribution salary deferral plan covering substantially all employees. Under the plan, the Organization contributes two percent of each eligible employee's salary and also matches up to another two percent for each eligible employee's salary. Contributions to the plan by the Organization for the years ended December 31, 2014 and 2013 were \$67,348 and \$34,498, respectively.

9. Operating Facilities

The Organization leases the Yemassee operating facility as a tenant-at-will, with monthly rental payments of \$1,440.

In January 2011, the Organization entered into a three year operating lease for the Myrtle Beach facility. The Organization extended the lease through December 31, 2015, requiring monthly payments of \$5,200 during the one year term.

Rent charged to operations was \$79,680 and \$77,280 for the years ended December 31, 2014 and 2013, respectively.

The Organization subleases office space to tenants-at-will, with monthly rental payments of \$12,979. Total rental income recognized for the years ended December 31, 2014 and 2013 was \$155,745 and \$169,988, respectively.

10. Concentration of Credit Risk

The Organization maintains its cash deposit accounts at various financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). At times, the Organization may maintain bank account balances in excess of the FDIC insured limit. The Organization has not experienced losses in such deposit accounts and believes it is not exposed to any significant credit risk in this regard.



**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***

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

We have audited, in accordance with the 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, the financial statements of Lowcountry Food Bank, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2014, and the statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 16, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any material weaknesses or significant deficiencies.

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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Greenville, South Carolina
June 16, 2015



**Independent Auditors' Report On Compliance with Requirements
For Each Major Program and on Internal Control
over Compliance Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Lowcountry Food Bank, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2014. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. 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 the Organization'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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the

auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Organization as of and for the year ended December 31, 2014, and have issued our report thereon dated June 16, 2015, which contained an unqualified opinion on those financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Greenville, South Carolina
June 16, 2015

Lowcountry Food Bank, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

	<u>Federal CFDA Number</u>	<u>Pass-through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture (passed through from the SC Department of Social Services)			
Food Distribution Cluster			
Emergency Food Assistance Program (Administrative costs)	10.568	5000011130	\$ 249,000
Emergency Food Assistance Program (Food commodities)	10.569	5000011130	2,786,206
Commodity Supplemental Food Program (Administrative costs)	10.565	5000011131	124,640
Commodity Supplemental Food Program (Food commodities)	10.565	5000011131	<u>482,154</u>
Total Food Distribution Cluster			<u>3,642,000</u>
Summer Food Service Program for Children	10.559	C11101F	126,455
Child and Adult Care Food Program	10.558	C11135F	<u>391,580</u>
Total U.S. Department of Agriculture			<u>4,160,035</u>
U.S. Department of Homeland Security			
Passed through from the Federal Emergency Management Agency Emergency Food and Shelter National Board Program	97.024	738800-015	<u>33,009</u>
Total Federal Expenditures			<u>\$ 4,193,044</u>

Basis of Presentation

The accompanying Schedule of expenditures of Federal Awards (the Schedule) includes the federal contracts and grant activity of the Lowcountry Food Bank, Inc. under programs of the federal government for the year ended December 31, 2014. 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*. Because the Schedule presents only a selected portion of the operations of Lowcountry Food Bank, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Lowcountry Food Bank, Inc.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Lowcountry Food Bank, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

Section I - Summary of Auditors' Results

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Significant deficiencies identified not considered to be material weaknesses? No

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of *OMB Circular A-133*? No

Identification of major programs:

CFDA Numbers Name of Federal Program or Cluster

Food Distribution Cluster:

10.565 Commodity Supplemental Food Program

10.568 Emergency Food Assistance Program (Administrative Costs)

10.569 Emergency Food Assistance Program (Food Commodities)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee: No

Lowcountry Food Bank, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

Section II – Financial Statement Findings

There were no Financial Statement Findings for the year ended December 31, 2014.

Lowcountry Food Bank, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

Section III – Federal Award Findings and Questioned Costs

There are no matters that are required to be reported for the year ended December 31, 2014.

Lowcountry Food Bank, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

Section IV – Summary Schedule of Prior Year Findings

2013-1 Finding: Prior Period Adjustment

Status: Corrected in the current year.

2013-2 Finding: Accounting for Donated Food Inventory

Status: Corrected in the current year.

2013-3 Finding: Food Inventory Distribution Records

Status: Corrected in the current year.

2013-3 Finding: Lack of Review of Reports and Support for Eligibility of Recipient Agencies

Status: Corrected in the current year.