

# Lowcountry Food Bank, Inc.

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## Financial Statements

Years Ended December 31, 2017 and 2016

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## **Independent Auditors' Report**

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, 2017 and 2016 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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, 2017 and 2016, 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also included our report dated June 21, 2018 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 21, 2018**

**Lowcountry Food Bank, Inc.**  
**Statements of Financial Position**  
**December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Assets:		
Cash and cash equivalents	\$ 3,016,415	\$ 2,340,138
Inventories	1,212,025	1,499,433
Accounts receivable	157,959	98,489
Grants receivable	402,689	335,084
Prepaid expenses and other current assets	94,604	92,904
Unconditional promise to give, net	389,660	414,660
Property and equipment, net	<u>5,843,810</u>	<u>5,769,590</u>
Total assets	<u>\$ 11,117,162</u>	<u>\$ 10,550,298</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 332,911	\$ 230,828
Accrued expenses	305,028	237,109
Deferred revenue	28,200	46,200
Note payable	1,744,396	1,896,036
Capital lease payable	<u>19,708</u>	<u>-</u>
Total liabilities	<u>2,430,243</u>	<u>2,410,173</u>
Net assets:		
Unrestricted:		
Board designated	-	6,850
Undesignated	<u>7,743,017</u>	<u>7,469,712</u>
Total unrestricted	7,743,017	7,476,562
Temporarily restricted	<u>943,902</u>	<u>663,563</u>
Total net assets	<u>8,686,919</u>	<u>8,140,125</u>
Total liabilities and net assets	<u>\$ 11,117,162</u>	<u>\$ 10,550,298</u>

**Lowcountry Food Bank, Inc.**  
**Statement of Activities**  
**Year Ended December 31, 2017**

	2017		
	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:			
Donated inventory	\$ 42,871,051	\$ -	\$ 42,871,051
Shared maintenance revenue	1,288,963	-	1,288,963
Grants and contributions	3,328,149	2,061,990	5,390,139
United Way affiliates support	73,600	-	73,600
Gifts in kind	415,236	-	415,236
Special events	652,809	-	652,809
Program fees	1,952,533	-	1,952,533
Rental income	133,575	-	133,575
Miscellaneous income	9,503	-	9,503
Interest income	3,018	-	3,018
Gain on sale of assets	5,000	-	5,000
Total unrestricted	<u>50,733,437</u>	<u>2,061,990</u>	<u>52,795,427</u>
Net assets released from restrictions	<u>1,781,651</u>	<u>(1,781,651)</u>	<u>-</u>
Total revenue, gains and other support	<u>52,515,088</u>	<u>280,339</u>	<u>52,795,427</u>
Expenses and losses:			
Food distribution	50,314,222	-	50,314,222
Management and general	1,068,909	-	1,068,909
Fundraising	865,502	-	865,502
Total expenses	<u>52,248,633</u>	<u>-</u>	<u>52,248,633</u>
Change in net assets	<u>266,455</u>	<u>280,339</u>	<u>546,794</u>
Net assets, beginning of year	<u>7,476,562</u>	<u>663,563</u>	<u>8,140,125</u>
Net assets, end of year	<u>\$ 7,743,017</u>	<u>\$ 943,902</u>	<u>\$ 8,686,919</u>

See accompanying notes.

**Lowcountry Food Bank, Inc.**  
**Statement of Activities**  
**Year Ended December 31, 2016**

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Revenues, gains and other support:			
Donated inventory	\$ 40,786,966	\$ -	\$ 40,786,966
Shared maintenance revenue	1,313,186	-	1,313,186
Grants and contributions	2,967,913	1,399,554	4,367,467
United Way affiliates support	74,015	-	74,015
Gifts in kind	272,719	-	272,719
Special events	647,253	-	647,253
Program fees	1,645,077	-	1,645,077
Rental income	120,495	-	120,495
Miscellaneous income	9,782	-	9,782
Interest income	2,648	-	2,648
Gain on sale of assets	5,871	-	5,871
Total unrestricted	<u>47,845,925</u>	<u>1,399,554</u>	<u>49,245,479</u>
Net assets released from restrictions	<u>1,793,359</u>	<u>(1,793,359)</u>	<u>-</u>
Total revenue, gains and other support	<u>49,639,284</u>	<u>(393,805)</u>	<u>49,245,479</u>
Expenses:			
Food distribution	47,322,956	-	47,322,956
Management and general	919,316	-	919,316
Fundraising	830,064	-	830,064
Total expenses	<u>49,072,336</u>	<u>-</u>	<u>49,072,336</u>
Change in net assets	<u>566,948</u>	<u>(393,805)</u>	<u>173,143</u>
Net assets, beginning of year	<u>6,909,614</u>	<u>1,057,368</u>	<u>7,966,982</u>
Net assets, end of year	<u>\$ 7,476,562</u>	<u>\$ 663,563</u>	<u>\$ 8,140,125</u>

See accompanying notes.

**Lowcountry Food Bank, Inc.**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2017**

2017

	Program Services		Supporting Services		Total
	Food Distribution	Management and General	Fundraising	Total Supporting Services	
Contract services	\$ 75,586	\$ 79,889	\$ -	\$ 79,889	\$ 155,475
Development and marketing	12,326	363	432,326	432,689	445,015
Donated and purchased food distributed	45,889,414	-	-	-	45,889,414
Financial fees	436	8,230	20,911	29,141	29,577
Insurance	52,203	120,077	-	120,077	172,280
Miscellaneous	44,270	17,000	-	17,000	61,270
Occupancy	241,767	24,600	-	24,600	266,367
Office expense	58,808	15,921	-	15,921	74,729
Professional fees	-	31,750	-	31,750	31,750
Program expenses	278,793	-	-	-	278,793
Repairs and maintenance	97,960	967	-	967	98,927
Salaries and related expenses	2,860,602	566,075	144,067	710,142	3,570,744
Special events	82,986	14,503	261,880	276,383	359,369
Transportation	183,143	-	-	-	183,143
Total expenses before depreciation and interest	<u>49,878,294</u>	<u>879,375</u>	<u>859,184</u>	<u>1,738,559</u>	<u>51,616,853</u>
Depreciation	395,306	171,872	5,729	177,601	572,907
Interest	40,622	17,662	589	18,251	58,873
Total depreciation and interest	<u>435,928</u>	<u>189,534</u>	<u>6,318</u>	<u>195,852</u>	<u>631,780</u>
Total expenses	<u>\$ 50,314,222</u>	<u>\$ 1,068,909</u>	<u>\$ 865,502</u>	<u>\$ 1,934,411</u>	<u>\$ 52,248,633</u>

See accompanying notes.

**Lowcountry Food Bank, Inc.**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2016**

2016

	Program Services		Supporting Services		Total
	Food Distribution	Management and General	Fundraising	Total Supporting Services	
Contract services	\$ 90,328	\$ 66,602	\$ -	\$ 66,602	\$ 156,930
Development and marketing	11,140	-	473,726	473,726	484,866
Donated and purchased food distributed	43,237,205	-	-	-	43,237,205
Financial fees	17,777	8,024	-	8,024	25,801
Insurance	48,594	118,288	-	118,288	166,882
Miscellaneous	18,964	15,845	-	15,845	34,809
Occupancy	235,576	22,211	-	22,211	257,787
Office expense	45,599	28,972	-	28,972	74,571
Other loss	-	1,125	-	1,125	1,125
Professional fees	-	29,950	-	29,950	29,950
Program expenses	216,567	-	-	-	216,567
Repairs and maintenance	83,831	8,087	-	8,087	91,918
Salaries and related expenses	2,642,647	448,663	132,347	581,010	3,223,657
Special events	92,212	8,634	218,561	227,195	319,407
Transportation	207,811	-	-	-	207,811
Total expenses before depreciation and interest	<u>46,948,251</u>	<u>756,401</u>	<u>824,634</u>	<u>1,581,035</u>	<u>48,529,286</u>
Depreciation	331,006	143,915	4,797	148,712	479,718
Interest	43,699	19,000	633	19,633	63,332
Total depreciation and interest	<u>374,705</u>	<u>162,915</u>	<u>5,430</u>	<u>168,345</u>	<u>543,050</u>
Total expenses	<u>\$ 47,322,956</u>	<u>\$ 919,316</u>	<u>\$ 830,064</u>	<u>\$ 1,749,380</u>	<u>\$ 49,072,336</u>

See accompanying notes.

**Lowcountry Food Bank, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 546,794	\$ 173,143
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	572,907	479,718
Net gain on disposal of property and equipment	(5,000)	(4,746)
Donated inventory revenues	(42,871,051)	(40,786,966)
Donated food distribution expenses	42,605,650	39,707,715
Donated property and equipment	(91,914)	-
Changes in operating assets and liabilities:		
Unconditional promises to give	25,000	75,000
Accounts receivable	(59,470)	(8,618)
Grants receivable	(67,605)	47,840
Inventories	552,809	1,056,906
Prepaid expenses and other current assets	(1,700)	(5,358)
Accounts payable	102,083	28,212
Accrued expenses	67,919	31,702
Deferred revenue	(18,000)	(26,720)
Net cash provided by operating activities	<u>1,358,422</u>	<u>767,828</u>
Investing activities:		
Purchases of property and equipment	(530,848)	(590,810)
Proceeds from sale of property and equipment	5,000	10,871
Net cash used by investing activities	<u>(525,848)</u>	<u>(579,939)</u>
Financing activities:		
Payments on note payable	(151,640)	(146,706)
Payments on capital lease payable	(4,657)	-
Net cash used by financing activities	<u>(156,297)</u>	<u>(146,706)</u>
Net increase in cash and cash equivalents	676,277	41,183
Cash and cash equivalents, beginning of year	<u>2,340,138</u>	<u>2,298,955</u>
Cash and cash equivalents, end of year	<u>\$ 3,016,415</u>	<u>\$ 2,340,138</u>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	<u>\$ 58,873</u>	<u>\$ 63,332</u>
<b>Non-Cash Financing and Investing Activities</b>		
Donated property and equipment	<u>\$ 91,914</u>	<u>\$ -</u>
Equipment acquired through capital lease payable	<u>\$ 24,365</u>	<u>\$ -</u>

See accompanying notes.

## **Notes to Financial Statements**

### **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, 2017 and 2016.

#### ***Cash and Cash Equivalents***

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

***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, 2017 and 2016, the Organization considers all receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been established.

***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, 2017 and 2016 related to Feeding America, have been adjusted to reflect a rate per pound of \$1.73 and \$1.67, 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 Promise 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, 2017 and 2016.

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% in 2017 and 2016.

The Organization presents unconditional promise 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, 2017 and 2016, the Organization wrote off \$0 in uncollectible promise to give. As of December 31, 2017 and 2016, the Organization considers all unconditional promise 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, which range from 3 to 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 Financial Statements**

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***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. In accordance with accounting standards, donated services of \$33,542 and \$84,347 for the years ended December 31, 2017 and 2016, respectively, were recognized because these services require specialized skills and would otherwise be purchased by the Organization.

***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, 2017 and 2016 was approximately \$563,000 and \$1,065,000, 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 \$28,200 and \$46,200 at December 31, 2017 and 2016, respectively.

***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 and Statements of Functional Expenses. 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 Financial Statements**

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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, 2017.

***Subsequent Events***

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 21, 2018 the date the financial statements were available to be issued.

**2. Inventories**

Inventories consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Non-USDA commodities	\$ 951,372	\$ 877,516
USDA commodities	<u>260,653</u>	<u>621,917</u>
	<u>\$ 1,212,025</u>	<u>\$ 1,499,433</u>

**3. Unconditional Promise to Give, Net**

Unconditional promise to give are comprised of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 100,000	\$ 100,000
One to five years	<u>300,000</u>	<u>325,000</u>
	400,000	425,000
Less present value discount	<u>(10,340)</u>	<u>(10,340)</u>
Unconditional promises to give – restricted, net	<u>\$ 389,660</u>	<u>\$ 414,660</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 Financial Statements**

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**4. Property and Equipment, Net**

Property and equipment consisted of the following at December 31, 2017 and 2015:

	<u>2017</u>	<u>2016</u>
Building and improvements	\$ 4,739,746	\$ 4,520,080
Land	1,200,000	1,200,000
Warehouse equipment	1,109,245	1,035,643
Transportation equipment	1,454,044	1,255,661
Furniture and office equipment	182,254	134,374
Leasehold improvements	21,397	19,194
Software	152,853	144,678
Software in progress	<u>44,400</u>	<u>-</u>
	<b>8,903,939</b>	<b>8,309,630</b>
Less accumulated depreciation	<u>(3,060,129)</u>	<u>(2,540,040)</u>
Property and equipment, net	<u><b>\$ 5,843,810</b></u>	<u><b>\$ 5,769,590</b></u>

Depreciation expense totaled \$572,907 and \$479,718 for the years ended December 31, 2017 and 2016, 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.

Future principal payment requirements are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2018	\$ 147,765
2019	<u>1,596,631</u>
	<u><b>\$ 1,744,396</b></u>

**Lowcountry Food Bank, Inc.**  
**Notes to Financial Statements**

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**6. Capital Lease Payable**

During 2017, the Organization entered into a capital lease agreement that contains a \$1 purchase option at the end of the lease term for certain office equipment. The capitalized cost of the equipment under capital lease of \$24,365 and accumulated depreciation of \$812 is included in the statement of financial position as property and equipment as of December 31, 2017. Depreciation expense reported in the statement of activities includes \$812 for the equipment under capital lease.

Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>		
2018	\$	5,412
2019		5,412
2020		5,412
2021		5,412
2022		<u>3,157</u>
Total minimum lease payments		24,805
Less amount representing interest at 9.8%		<u>(5,097)</u>
Present value of minimum lease payments	\$	<u>19,708</u>

**7. Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Acquisition, renovation of facilities and time restrictions	\$ 389,660	\$ 414,660
Feeding programs	<u>554,242</u>	<u>248,903</u>
	<u>\$ 943,902</u>	<u>\$ 663,563</u>

Temporarily restricted net assets released from restrictions are as follows for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Acquisition, renovation of facilities and time restrictions	\$ 25,000	\$ 75,000
Feeding programs	<u>1,756,651</u>	<u>1,718,359</u>
	<u>\$ 1,781,651</u>	<u>\$ 1,793,359</u>

## **8. Related Party Transactions**

The Organization is affiliated with Feeding America, a national food bank association. Food obtained through Feeding America and affiliated food banks represents approximately 12% of the total amount of donated food received during 2017 and 2016. The Organization paid a membership fee to Feeding America of \$13,136 and \$12,916 for the years ended December 31, 2017 and 2016, respectively, based on food received. At December 31, 2017 and 2016, the Organization had an outstanding payable due to Feeding America in the amount of \$17,843 and \$31,357, respectively.

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 \$2,427,381 and \$3,148,487 in 2017 and 2016, respectively, from these revenue sources.

At December 31, 2017 and 2016, total unconditional promise to give of \$400,000 and \$425,000, respectively, were due from a member of the Board of Directors.

## **9. Employee Benefit Plan**

The Organization sponsors 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. Effective December 1, 2017, the Organization matches up to five percent for each eligible employee's salary. Contributions to the plan by the Organization for the years ended December 31, 2017 and 2016 were \$76,475 and \$62,735, respectively.

## **10. Operating Facilities**

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

The Organization leases the Myrtle Beach operating facility under an operating lease agreement requiring monthly rental payments of \$5,600 and \$5,400 during 2017 and 2016, respectively. The lease agreement expires December 31, 2018.

Rent charged to operations was \$84,480 and \$82,080 for the years ended December 31, 2017 and 2016.

The Organization subleases office space to tenants-at-will, with monthly rental payments of \$11,161, subject to escalation ranging from 1.5% to 3% and expiring through March 2021. Total rental income recognized for the years ended December 31, 2017 and 2016 was \$133,575 and \$120,495, respectively. As of December 31, 2017, the total cost and accumulated depreciation of the facility and improvements of which a portion is leased is approximately \$4,740,000 and \$1,175,000, respectively. Future minimum lease income under these leases is as follows:

2018	\$	136,000
2019		139,000
2020		142,000
2021		22,000
		<hr/>
	\$	439,000

**11. 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.

**12. Subsequent Events**

On June 21, 2018, the Board of Directors authorized the Organization to enter into an operating lease agreement for the new Myrtle Beach operating facility, requiring monthly rental payments of \$7,250 that increase 2% annually through the initial 5-year term of July 1, 2018 through July 1, 2023. The lease agreement has two 5-year option renewal periods.

## **Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On an Audit Of the Financial Statements Performed In Accordance With *Government Auditing Standards***

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

We have audited, 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, the financial statements of Lowcountry Food Bank, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 21, 2018

### **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 (internal control) 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.

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

Our consideration of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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 result of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**Greenville, South Carolina  
June 21, 2018**



## **Independent Auditors' Report On Compliance For Each Major Federal Program and on Internal Control Over Compliance Required By The Uniform Guidance**

Management and 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) *Compliance Supplement* that could have a direct and material effect on the Organization's major federal programs for the year ended December 31, 2017. The Organization's major federal programs are 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 federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 programs. However, our audit does not provide a legal determination of the Organization's compliance.

### ***Opinion on Each 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 programs for the year ended December 31, 2017.

**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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance 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. However, material weaknesses may exist that have not been identified.

***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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**Greenville, South Carolina  
June 21, 2018**

**Lowcountry Food Bank, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2017**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass- Through Grantor's Number	Total Federal Expenditures	Passed through to Subrecipients
<b>U.S. Department of Agriculture</b>				
<b>Passed through from the SC Department of Social Services</b>				
<b>Food Distribution Cluster</b>				
Emergency Food Assistance Program (Administrative Costs)	10.568	5000011130	\$ 249,000	\$ -
Emergency Food Assistance Program (Food commodities)	10.569	5000011130	2,550,685	2,550,685
Commodity Supplemental Food Program (Administrative Costs)	10.565	5000011131	121,045	-
Commodity Supplemental Food Program (Food commodities)	10.565	5000011131	<u>508,609</u>	<u>508,609</u>
<b>Total Food Distribution Cluster</b>			<u>3,429,339</u>	<u>3,059,294</u>
Supplemental Nutrition Assistance Program	10.551	4400017394/ 4400014564	355,816	-
Child and Adult Care Food Program	10.558	C11135F	753,196	-
Summer Food Service Program for Children	10.559	SF-6366	<u>102,799</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>4,641,150</u>	<u>3,059,294</u>
<b>U.S. Department of Homeland Security</b>				
<b>Passed through from the SC Department of Social Services</b>				
Food and Emergency Shelter National Board Program	97.024	746600- 005/740800- 007/738800- 015/738400- 008	<u>157,392</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 4,798,542</u>	<u>\$ 3,059,294</u>

## **Notes to Schedule of Expenditures of Federal Awards**

### **1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Lowcountry Food Bank, Inc. (the "Organization") under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

### **2. Summary of Significant Account Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Organization has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Lowcountry Food Bank, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2017**

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**Section I – Summary of Auditors’ Results**

Financial Statements

Type of auditors’ report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:  
 Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_ X \_\_\_\_\_ No  
 Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes \_\_\_\_\_ X \_\_\_\_\_ None reported  
 Noncompliance material to financial statements noted? \_\_\_\_\_ Yes \_\_\_\_\_ X \_\_\_\_\_ No

Federal Awards

Internal control over major program:  
 Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_ X \_\_\_\_\_ No  
 Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes \_\_\_\_\_ X \_\_\_\_\_ None reported

Type of auditors’ report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 200.516(a) of Uniform Guidance? \_\_\_\_\_ Yes \_\_\_\_\_ X \_\_\_\_\_ No

Identification of major federal program:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
10.568, 10.569, and 10.565	Food Distribution Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \_\_\_\_\_ \$750,000 \_\_\_\_\_

Auditee qualified as low-risk auditee? \_\_\_\_\_ X \_\_\_\_\_ Yes \_\_\_\_\_ No

**Section II – Financial Statement Findings**

There are no matters that are required to be reported for the year ended December 31, 2017.

**Section III – Federal Award Findings and Questioned Costs**

There are no matters that are required to be reported for the year ended December 31, 2017.