

**SOUTH MICHIGAN FOOD BANK**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**For the Years Ended December 31, 2020 and 2019**

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# SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
South Michigan Food Bank  
Battle Creek, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of South Michigan Food Bank (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 from 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 South Michigan Food Bank as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audits were 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 issued our report dated November 8, 2021, on our consideration of South Michigan Food Bank'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 South Michigan Food Bank's internal control over financial reporting and compliance.

*Seber Tans, PLC*

Seber Tans, PLC  
Kalamazoo, Michigan

November 8, 2021

**South Michigan Food Bank**  
**Statements of Financial Position**  
**December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 3,369,366	\$ 1,298,049
Certificates of deposit	111,110	709,424
Accounts receivable	177,411	309,707
Grants receivable	175,879	194,750
Beneficial interest in assets held by community foundations	38,857	14,314
Inventory	1,376,967	1,522,434
Prepaid expenses	40,190	20,219
Total Current Assets	<u>5,289,780</u>	<u>4,068,897</u>
Property and Equipment		
Land and improvements	82,630	82,630
Building and improvements	1,906,657	1,640,597
Equipment, furniture, and fixtures	997,850	928,265
Vehicles	898,909	685,031
Construction in progress	54,613	103,860
	<u>3,940,659</u>	<u>3,440,383</u>
Less: accumulated depreciation	<u>(2,383,055)</u>	<u>(2,510,633)</u>
Net Property and Equipment	<u>1,557,604</u>	<u>929,750</u>
Other Assets		
Beneficial interest in assets held by community foundations	89,572	85,967
Investments	1,466,449	1,231,899
Total Other Assets	<u>1,556,021</u>	<u>1,317,866</u>
<b>Total Assets</b>	<b><u>\$ 8,403,405</u></b>	<b><u>\$ 6,316,513</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 114,505	\$ 117,125
Accrued vacation and other payroll liabilities	42,896	23,130
Other accrued expenses	6,754	-
Donor designations to agencies	752,985	449,452
Deferral of paycheck protection program funds	218,700	-
Total Current Liabilities	<u>1,135,840</u>	<u>589,707</u>
Net Assets		
Net Assets without donor restrictions	6,575,829	5,255,615
Net assets with donor restrictions	691,736	471,191
Total Net Assets	<u>7,267,565</u>	<u>5,726,806</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 8,403,405</u></b>	<b><u>\$ 6,316,513</u></b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**South Michigan Food Bank**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended December 31, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support and Other Revenue</b>			
In-kind contributions - USDA	\$ 9,687,612	\$ -	\$ 9,687,612
In-kind contributions - other	11,263,424	-	11,263,424
United Way	160,687	116,575	277,262
Contributions and grants	2,460,712	534,261	2,994,973
Food Bank Council of Michigan	632,199	-	632,199
Program service fees	1,640,355	-	1,640,355
Investment income	38,335	-	38,335
Unrealized gain on investments	193,155	-	193,155
Realized gain on asset disposal	604	-	604
Change in beneficial interest	28,148	-	28,148
Miscellaneous	2,068	-	2,068
Total Support and Revenue	<u>26,107,299</u>	<u>650,836</u>	<u>26,758,135</u>
Net assets released from restrictions	430,291	(430,291)	-
Total Support, Revenue, and Reclassifications	<u>26,537,590</u>	<u>220,545</u>	<u>26,758,135</u>
<b>Expenses</b>			
Program services	24,362,037	-	24,362,037
Support services:			
Management and general	388,836	-	388,836
Fundraising	466,503	-	466,503
Total Expenses	<u>25,217,376</u>	<u>-</u>	<u>25,217,376</u>
<b>Change in Net Assets</b>	<b>1,320,214</b>	<b>220,545</b>	<b>1,540,759</b>
Net Assets at Beginning of Year	<u>5,255,615</u>	<u>471,191</u>	<u>5,726,806</u>
<b>Net Assets at End of Year</b>	<b><u>\$ 6,575,829</u></b>	<b><u>\$ 691,736</u></b>	<b><u>\$ 7,267,565</u></b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**South Michigan Food Bank**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended December 31, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support and Other Revenue</b>			
Food products donated	\$ 5,045,397	\$ -	\$ 5,045,397
In-kind contributions	9,189,706	-	9,189,706
United Way	175,547	121,250	296,797
Contributions and grants	638,013	180,839	818,852
Food Bank Council of Michigan	340,859	-	340,859
Fundraising	23,160	-	23,160
Program service fees	1,719,368	-	1,719,368
Investment income	94,082	-	94,082
Unrealized gain on investments	224,289	-	224,289
Change in beneficial interest	(747)	-	(747)
Miscellaneous	313	-	313
Total Support and Revenue	<u>17,449,987</u>	<u>302,089</u>	<u>17,752,076</u>
Net assets released from restrictions	<u>241,209</u>	<u>(241,209)</u>	<u>-</u>
Total Support, Revenue, and Reclassifications	<u>17,691,196</u>	<u>60,880</u>	<u>17,752,076</u>
<b>Expenses</b>			
Program services	16,397,285	-	16,397,285
Support services:			
Management and general	339,120	-	339,120
Fundraising	273,238	-	273,238
Total Expenses	<u>17,009,643</u>	<u>-</u>	<u>17,009,643</u>
<b>Change in Net Assets</b>	<b>681,553</b>	<b>60,880</b>	<b>742,433</b>
Net Assets at Beginning of Year	<u>4,574,062</u>	<u>410,311</u>	<u>4,984,373</u>
<b>Net Assets at End of Year</b>	<b><u>\$ 5,255,615</u></b>	<b><u>\$ 471,191</u></b>	<b><u>\$ 5,726,806</u></b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**South Michigan Food Bank**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2020**

	Program Services	Management & General	Fundraising	Total Expenses
Benefits	\$ 176,243	\$ 35,992	\$ 24,364	\$ 236,599
Communications	8,064	1,647	1,115	10,826
Conferences and meetings	2,254	460	311	3,025
Depreciation	144,812	11,626	7,870	164,308
Dues and subscriptions	22,274	4,549	-	26,823
In-kind contributions - USDA	9,884,130	-	-	9,884,130
Food - purchased	1,137,709	-	-	1,137,709
Fundraising	-	-	240,773	240,773
In-kind contributions - other	11,219,456	-	-	11,219,456
Insurance	27,781	5,674	3,841	37,296
Licenses	55,183	11,270	7,629	74,082
Maintenance	173,556	13,704	9,276	196,536
Miscellaneous	13,899	2,838	1,921	18,658
Office supplies	26,761	5,465	3,699	35,925
Outside services	125,389	25,607	17,334	168,330
Payroll taxes	69,302	14,153	9,580	93,035
Postage and shipping	15,984	4,570	3,093	23,647
Professional fees	-	50,818	-	50,818
Program supplies	207,433	-	-	207,433
Salaries	900,823	183,966	124,529	1,209,318
Travel and transportation	82,916	2,988	2,023	87,927
Utilities	68,068	13,509	9,145	90,722
<b>Total Expenses</b>	<b>\$ 24,362,037</b>	<b>\$ 388,836</b>	<b>\$ 466,503</b>	<b>\$ 25,217,376</b>

The Accompanying Notes are an Integral Part of These Financial Statements.



**South Michigan Food Bank**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2019**

	Program Services	Management & General	Fundraising	Total Expenses
Benefits	\$ 127,147	\$ 32,252	\$ 18,922	\$ 178,321
Communications	7,504	1,904	1,117	10,525
Conferences and meetings	10,144	2,573	1,510	14,227
Depreciation	147,590	12,664	7,430	167,684
Dues and subscriptions	25,498	6,468	-	31,966
In-kind contributions - USDA	4,507,715	-	-	4,507,715
Food - purchased	1,215,376	-	-	1,215,376
Fundraising	-	-	91,206	91,206
In-kind contributions - other	9,159,560	-	-	9,159,560
Insurance	32,695	4,698	2,756	40,149
Licenses	2,404	608	357	3,369
Maintenance	89,969	4,539	2,663	97,171
Miscellaneous	9,242	2,345	1,376	12,963
Office supplies	11,096	2,815	1,651	15,562
Outside services	190,047	48,207	28,282	266,536
Payroll taxes	51,836	13,148	7,714	72,698
Postage and shipping	14,698	2,843	1,668	19,209
Professional fees	-	22,380	-	22,380
Program supplies	24,737	-	-	24,737
Salaries	651,771	165,327	96,994	914,092
Travel and transportation	71,104	4,389	2,575	78,068
Utilities	47,152	11,960	7,017	66,129
<b>Total Expenses</b>	<b>\$ 16,397,285</b>	<b>\$ 339,120</b>	<b>\$ 273,238</b>	<b>\$ 17,009,643</b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**South Michigan Food Bank**  
**Statements of Cash Flows**  
**For the Year Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 1,540,078	\$ 742,433
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	164,308	167,684
Gain on beneficial interest in assets held by community foundations	(28,148)	(747)
Gain on sale of assets	(604)	-
Unrealized gain on investments	(193,155)	(224,289)
Change in:		
Accounts receivable	132,296	(156,919)
Grants receivable	18,871	(13,210)
Interest receivable	-	600
Inventory	145,467	(502,038)
Prepaid expenses	(19,971)	(5,347)
Accounts payable	(2,620)	36,736
Accrued vacation and other payroll liabilities	19,766	(73,396)
Other accrued expenses	6,754	(6,506)
Donor designations to agencies	303,533	39,329
Net Cash Provided by Operating Activities	<u>2,086,575</u>	<u>4,330</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(791,558)	(127,710)
Proceeds from sale of investments	598,995	1,200,000
Purchase of investments	(41,395)	(844,700)
Net Cash (Used In) Provided by Operating Activities	<u>(233,958)</u>	<u>227,590</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from paycheck protection program loan	218,700	-
<b>Net Change in Cash and Cash Equivalents</b>	<b>2,071,317</b>	<b>231,920</b>
Cash and Cash Equivalents at Beginning of Year	<u>1,298,049</u>	<u>1,066,129</u>
<b>Cash and Cash Equivalents at End of Year</b>	<b><u>\$ 3,369,366</u></b>	<b><u>\$ 1,298,049</u></b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**South Michigan Food Bank**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2020 and 2019**

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**NOTE A – Summary of Significant Accounting Policies**

Organization Purpose

The purpose of the South Michigan Food Bank (the “Organization”) is to glean, collect, warehouse and facilitate the distribution of food; to have the right to receive donations for the purpose of adequately conducting and maintaining such facilities; and to purchase, manage, own, lease or rent facilities that may be necessary or convenient for the purpose of operation as a community food bank. The Organization charges a shared maintenance fee for food distribution to other non-profit agencies within south-central Michigan. Shared maintenance fees are based on the operating costs of the food bank and are charged on a per-pound basis.

Basis of Presentation

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

*Net Assets Without Donor Restrictions* – Net assets available for use in general and not subject to donor (or certain grantor) restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization records donor restricted cash contributions that are received and expended in the same year as recorded as revenue without donor restrictions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash is defined as cash in checking, savings, and money market accounts, and investments with an initial maturity of less than three months.

The Organization has accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. Cash held by the Organization in bank accounts may at times exceed the FDIC coverage limit. The amount in excess of FDIC limits totaled approximately \$2,991,600 at December 31, 2020.

Accounts and Grants Receivable

Management considers all receivables to be fully collectible; accordingly, no allowance for uncollectible accounts is recorded. If amounts are determined to be uncollectible, they are charged to operations at that time. Uncollectible accounts are determined by management on a case-by-case basis. Based on management’s assessment of the credit history with customers having outstanding balances and current relationships with them, it has been concluded that there were no uncollectible accounts written off as bad debt expense for the year ended December 31, 2020.

**South Michigan Food Bank**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2020 and 2019**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Accounts and Grants Receivable (Continued)

The Organization does not require any collateral on its accounts receivable from member agencies throughout south-central Michigan.

Beneficial Interests

In accordance with FAS 136, the Organization has recorded as an asset, a beneficial interest in endowment funds at Community Foundations because the Organization transferred cash to the Foundations to manage and is required to recognize its rights to the asset held by the Foundations.

The current spendable portion represents the amount the Foundation's have allocated to the Organization to use as grants upon the Organization's request.

In addition to the endowment funds created by the Organization, donations have been made by other contributors to the endowment funds at the Foundations and have designated the Organization as the beneficiary. The Foundations have variance power over these funds established by contributors and the Organization is not required to record these funds in their financial statements. Except for the current spendable portion that should be recorded as grant receivable and grant revenue in the year it is allocated but not distributed.

Inventories

Inventory of purchased food is stated at lower of cost or net realizable value, with cost determined on a first-in, first-out (FIFO) basis. Donated food inventory is valued annually at estimated fair value determined on a per-pound basis by utilizing national industry standards.

Property and Equipment

It is the Organization's policy to capitalize property and equipment over \$5,000. Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Property and equipment are depreciated using the straight-line method over their useful lives which range from three to fifteen years.

Investments

The investments of the Organization are reported at fair value in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

Donor Designations to Agencies

Donor designations to agencies are designations made by donors for the benefit of agency partners. Cash is held at the Organization to be used for future food services and operations.

**South Michigan Food Bank**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2020 and 2019**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Contributions

The Organization recognizes contributions as revenue when they are received or unconditionally pledged and records these revenues as with donor restrictions or without donor restrictions according to donor stipulations that limit the use of these assets due to either a time or purpose restriction. Contributions received with donor restrictions that are met in the year of receipt are recorded as revenues without donor restrictions. When a restriction expires or is met in a subsequent year, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets. Conditional contributions or promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts on multi-year pledges is recorded as additional contribution revenue as either with or without donor restrictions based on any donor-imposed restrictions, if any, on the related contributions.

Donated Services and Materials

No amounts have been reflected in the financial statements for donated professional services. The Organization pays for most services requiring specific expertise. However, volunteers donate many hours of services to the operation of the Organization including organizational mailings, packing of groceries, and other miscellaneous tasks.

Where applicable, donated materials are recorded as revenues and expenses at their estimated fair value at the date of the gift.

Functional Allocation of Expenses

The costs of providing the various programs and other 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. The expenses that are allocated include compensation and benefits, which are allocated based on their time and effort. Utilities are allocated using the square footage of the warehouse and office.

The following table summarized the nature of the expense and how it's allocated across programs and supporting functions:

<u>Percentage of Allocated Salaries</u>	<u>Percentage of Pounds Distributed</u>
- Contracted services	- Program supplies
- Depreciation – office/building	- Freight
- Insurance	- Repair and maintenance - warehouse
- Conferences	- Facility maintenance
- Telephone	- Dues and subscriptions
- Bank fees	- Depreciation – warehouse/equipment
- Office supplies	- Miscellaneous expenses

**South Michigan Food Bank  
Notes to Financial Statements  
For the Year Ended December 31, 2020 and 2019**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Income Taxes

The Internal Revenue Service has determined the Organization to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Management of Organization considers the likelihood of changes by taxing authorities in its exempt organization returns and discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed returns that require disclosure in the accompanying financial statements.

Affiliated Organizations

The Organization is a certified affiliate of Feeding America, a national network of food banks throughout the country, and is affiliated with the Food Bank Council of Michigan, an organization that supports member food banks through funding and food allocation. The Organization received a substantial amount of its food from Food Bank Council of Michigan (39% in 2020) and Feeding America (30% in 2020), at minimal cost which is distributed to other organizations for a service fee.

As an affiliate of Feeding America, the Organization is required to maintain a reserve fund equal to or greater than 25% of annual operating expenses.

Estimates

The Organization uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and report support, revenue and expenses. Actual results could differ from those estimates.

Changes in Accounting Principle

During the year ended December 31, 2020, the Organization adopted ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. The adoption of this new guidance was applied on a retrospective basis and did not have a material impact on the financial statements.

**South Michigan Food Bank**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2020 and 2019**

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**NOTE B – Liquidity and Availability**

The following reflects the Organization's financial assets as of December 31, 2020, reduced by amounts not available for general use within one year of the statement of financial position because of contractual, donor-imposed restriction or for assets that require board approval:

	<u>2020</u>	<u>2019</u>
Cash	\$ 3,369,366	\$ 1,298,049
Certificates of deposit	111,110	709,424
Grants receivable	59,303	73,500
Accounts receivable	293,987	430,957
Financial assets - at December 31, 2020	<u>3,833,766</u>	<u>2,511,930</u>
Less Financial assets unavailable for general expenditures within one year, due to:		
Donor imposed Restrictions	<u>(691,736)</u>	<u>(471,191)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,142,030</u>	<u>\$ 2,040,739</u>

The Organization receives significant unrestricted contributions and restricted grants each year from donors, which are central to meet the annual cash needs for general expenditures. The Organization manages its liquidity and reserves in order to operate within a prudent range of financial soundness and stability and to fund near term and long-term needs utilizing budgets and monthly monitoring.

**NOTE C – Beneficial Interest Held at Community Foundations**

Amounts shown as beneficial interest in assets held by the community foundation represent monies placed with the Battle Creek Community Foundation, Kalamazoo Community Foundation, and Jackson Community Foundation by the Organization, specifying itself as the beneficiary. The fund is an organizational endowment maintained for the organizational support for the South Michigan Food Bank, in which the South Michigan Food Bank maintains variance power.

Beneficial interest in assets is comprised of the following:

	<u>2020</u>	<u>2019</u>
Funds held at Battle Creek Community Foundation	\$ 45,390	\$ 23,745
Funds held at Kalamazoo Community Foundation	70,795	65,463
Funds held at Jackson Community Foundation	12,244	11,073
Financial assets - at December 31, 2020	<u>128,429</u>	<u>100,281</u>
Beneficial Interest - Beginning of Year	100,281	101,028
Unrealized gain	17,967	14,676
Current year activity:		
Deposits (withdrawals)	11,072	(14,666)
Administrative fees	(891)	(757)
Beneficial interest - End of Year	<u>\$ 128,429</u>	<u>\$ 100,281</u>

**South Michigan Food Bank**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2020 and 2019**

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**NOTE D – Endowments**

The Organization has endowment funds administered by various community foundations. These funds are irrevocably invested and are managed by the foundations for a fee. The principal balances, including earnings of these funds at December 31, 2020 amount to \$173,013. The foundations have variance power over the donor designated funds and may, at their discretion, vary the purpose, use, or method of administration of the funds. Earnings on these funds, as determined by the foundations, are available annually for distribution to the Organization for operations, at the discretion of the foundations, and therefore, are not reflected in the Organization’s financial statements until available for distribution.

**NOTE E – Fair Value Measurements**

The Organization follows the provisions of FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, the authoritative guidance for fair value measurements of investments that are recognized at fair value in the financial statements. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to measurements involving significant unobservable inputs (Level 3). The three levels of fair value hierarchy are as follows:

Level 1 Inputs—Fair value is determined by using quoted prices for identical assets in active markets.

Level 2 Inputs—Fair value is determined by using other than quoted prices that are observable for the asset (e.g. quoted prices for identical assets in inactive markets, quoted prices for similar assets in active markets, observable inputs other than quoted prices, and inputs derived principally from or corroborated by observable market data by correlation or other means).

Level 3 Inputs—Fair Value is determined by using inputs based on management assumptions that are not directly observable. The beneficial interest in assets held at the Kalamazoo Community Foundation is not actively traded and significant other observable inputs are not available. Thus, the fair value of beneficial interest is equal to the value reported by the Kalamazoo Community Foundation.

The Organization’s investment accounts include Level 1 securities. The Organization’s Level 1 securities consist of mutual funds and savings bonds. The following table summarizes the fair value of the Organization’s financial instruments by the aforementioned pricing categories at December 31, :

	<u>2020</u>	<u>2019</u>
U.S. Savings Bonds, Series EE	\$ 2,000	\$ 2,000
Mutual Funds	<u>1,464,449</u>	<u>1,229,899</u>
Total Investments	<u>\$ 1,466,449</u>	<u>\$ 1,231,899</u>



**South Michigan Food Bank  
Notes to Financial Statements  
For the Year Ended December 31, 2020 and 2019**

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**NOTE F – Inventory**

Inventories at December 31 include the following:

	<u>2020</u>	<u>2019</u>
Purchased inventory	\$ 102,505	\$ 112,928
In-kind contributions	556,306	476,787
Received from USDA	<u>718,156</u>	<u>932,719</u>
Balance at December 31	<u>\$ 1,376,967</u>	<u>\$ 1,522,434</u>

**NOTE G – Net Assets With Donor Restrictions**

The detail of net assets with donor restrictions at December 31 was as follows:

	<u>2020</u>	<u>2019</u>
Childhood hunger and backpack program	\$ 55,900	\$ 150,359
Food purchases	509,261	13,883
Warehouse improvements and transportation	-	170,172
Time restricted	<u>126,575</u>	<u>136,777</u>
Total Net Assets With Donor Restrictions	<u>\$ 691,736</u>	<u>\$ 471,191</u>

**NOTE H – Retirement Plan**

The Organization has a defined contribution 403(b) plan covering full time employees over age 21 who have attained 1,000 hours of service within a twelve-month period. Contributions are made at a percent determined annually by the Board of each employee's gross annual pay. For the year ended December 31, 2020 and 2019, the Organization's contribution rate was 4%. For 2020, the board approved a match of 100% for those employees deferring up to 6% of their wages. Contributions were approximately \$95,500 and \$59,400 for the years ended December 31, 2020 and 2019, respectively.

**NOTE I – Commitments and Contingencies**

Grants may require the fulfillment of certain conditions set forth in the agreement. Failure to fulfill the conditions may result in the return of the funds to grantor. Although this is a possibility, the Board of Directors considers the possibility remote, since by accepting the grants, it has accommodated the objectives of the Organization to the provisions of the grants.

The Organization has participated in several federally assisted grant programs. These programs are subject to financial and compliance audits by the grantor or their representatives, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Management believes that any liability for reimbursement that may arise as the result of these audits would not be material.

**South Michigan Food Bank**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2020 and 2019**

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**NOTE J – Uncertainties**

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. Since March 2020, there have been various government orders and restrictions that require indoor capacity limitations and social distancing. Even though the Organization was deemed an essential business during the State of Michigan COVID-19 shutdown and remained open, the pandemic caused the Organization to incur additional unexpected expenses.

In response to the COVID-19 pandemic, the United States federal government adopted the Coronavirus AID, Relief and Economic Security Act (“CARES Act”) which includes a Small Business Paycheck Protection Program (“PPP”) under the auspices of the federal Small Business Administration (“SBA”). These funds can be used for costs related to payroll, employee health care, rent, and utilities. On May 7, 2020, the Organization borrowed \$218,700 from a financial institution under the PPP. To the extent the funds are used for qualifying expenses under the program during the 24-week period beginning on the date of the loan origination, the Organization may apply for loan forgiveness. As of December 31, 2020, the outstanding balance of the borrowing is included with current liabilities on the Organization’s balance sheet.

Although the Organization cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse effect on the Organization’s results of future operations, financial position, and liquidity in fiscal year 2021.

**NOTE K – Subsequent Events**

Management has evaluated subsequent events through November 8, 2021, the date on which the financial statements were available to be issued.

On May 6, 2021, the Organization purchased a building for \$188,200 which will be used for additional food storage and operations.

On July 27, 2021, the Organization applied for and received approval from the SBA for forgiveness of the \$218,700 loan. The forgiveness will be recognized as revenue in the Organization’s statement of activities for the year ended December 31, 2021.

# SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

**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  
South Michigan Food Bank

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 the South Michigan Food Bank (the Organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities and changes in net assets, 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 November 8, 2021.

#### **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) as a basis for designing 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 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. 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies listed as 2020-001 and 2020-002.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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 financial statements. 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 results 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.

*Seber Tans, PLC*

Seber Tans, PLC  
Kalamazoo, Michigan

November 8, 2021

# SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors  
South Michigan Food Bank

### Report on Compliance for Each Major Federal Program

We have audited the South Michigan Food Bank's (the Organization) compliance with the types of compliance requirements described in the *OMB 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, 2020. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### Auditor's 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 each major federal program. 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 each of its major federal programs for the year ended December 31, 2020.

## 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 a 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.

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.

Seber Tans, PLC

Seber Tans, PLC  
Kalamazoo, Michigan

November 8, 2021

## **SUPPLEMENTARY INFORMATION**

**South Michigan Food Bank  
Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2020**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Project Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>			
<b>Food Distribution Cluster:</b>			
Passed through Food Bank Council of Michigan			
2019-2020 Emergency Food Assistance Program (Administrative Costs)			
The Emergency Food Assistance Program	10.568	N/A	\$ 45,711
CARES Act	10.568	N/A	205,107
Families First Coronavirus Response Act	10.568	N/A	<u>64,501</u>
Total 2019-2020 Emergency Food Assistance Program (Administrative Costs)			<u>315,319</u>
2020-2021 Emergency Food Assistance Program (Administrative Costs)			
The Emergency Food Assistance Program	10.568	N/A	<u>34,670</u>
2019-2020 Emergency Food Assistance Program (Food Commodities)			
The Emergency Food Assistance Program	10.569	N/A	2,377,581
Trade Mitigation	10.569	N/A	2,799,990
CARES Act	10.569	N/A	209,947
Families First Coronavirus Response Act	10.569	N/A	<u>82,844</u>
Total 2019-2020 Emergency Food Assistance Program (Food Commodities)			<u>5,470,362</u>
2020-2021 Emergency Food Assistance Program (Food Commodities)			
The Emergency Food Assistance Program	10.569	N/A	1,008,916
Trade Mitigation	10.569	N/A	1,010,947
CARES Act	10.569	N/A	274,836
Families First Coronavirus Response Act	10.569	N/A	<u>110,184</u>
Total 2020-2021 Emergency Food Assistance Program (Food Commodities)			<u>2,404,883</u>
<b>Total Food Distribution Cluster</b>			<u>8,225,234</u>
<b>Child Nutrition Cluster</b>			
Passed through Food Bank Council of Michigan			
2019-2020 Supplemental Nutrition Assistance Program Outreach			
	10.561	N/A	23,463
2020-2021 Supplemental Nutrition Assistance Program Outreach			
	10.561	N/A	<u>8,061</u>
<b>Total Child Nutrition Cluster</b>			<u>31,524</u>
Passed through Food Bank Council of Michigan			
Emergency Food Assistance Program (Administrative Costs)			
2019-2020 Trade Mitigation Administrative Costs	10.178	N/A	84,652
2020-2021 Trade Mitigation Administrative Costs	10.178	N/A	<u>29,047</u>
Total Emergency Food Assistance Program (Administrative Costs)			<u>113,699</u>
<b>Total U.S. Department of Agriculture</b>			<u>8,370,457</u>
<b>U.S. Department of the Treasury</b>			
Passed through Food Bank Council of Michigan			
2020-2021 COVID-19 - Coronavirus Relief Fund (Administrative Costs)			
	21.019	N/A	48,598
2020-2021 COVID-19 - Coronavirus Relief Fund (Food Commodities)			
	21.019	N/A	<u>332,103</u>
<b>Total U.S. Department of the Treasury</b>			<u>380,701</u>
<b>U.S. Department of Homeland Security</b>			
Passed through United Way			
Emergency Food and Shelter National Board Program			
	97.024	N/A	<u>3,229</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 8,754,387</u>

See Independent Auditors' Report and the Notes to the Schedule of Expenditures of Federal Awards.



**South Michigan Food Bank**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2020**

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**NOTE A – Basis of Presentation**

The accompany Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Organization under programs of the federal government for the year ended December 31, 2020. 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* (Uniform Guidance). 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.

**NOTE B – 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Pass-through entity identifying numbers are presented where available.

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

**NOTE C – Food Commodities**

Nonmonetary assistance is reported based on the commodities received and disbursed. The value per pound is established by guidelines published by Feeding America, a nationally recognized food donation charity.

**NOTE D – Pass-Through Entities**

The Organization receives certain federal grants as subawards from non-federal entities. Pass-through entities, when applicable, have been identified in the schedule.

**NOTE E – Subrecipients**

No amounts were provided to subrecipients.

**South Michigan Food Bank  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2020**

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**SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? No

Significant deficiency identified that is not considered to be a material weakness? Yes

Noncompliance material to financial statements noted? No

Federal Awards

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

Internal control over major programs:

Material weakness identified? No

Significant deficiency identified that is not considered to be a material weakness? No

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR Section 500.516(a)? No

**Major programs:**

**CFDA Number**

10.568 & 10.569

**Name of Federal Program or Cluster**

Food Distribution Cluster

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

Auditee qualified as low-risk auditee? No

**South Michigan Food Bank  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2020**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2020-001: Significant Deficiency – Segregation of Duties**

Condition and Criteria:

Receipts are processed under single control and the master cash receipts worksheet is kept in an unsecured computer file allowing access by multiple individuals.

Cause and Effect:

There appeared to be lack of segregation of duties relating to receipts. There was also a lack of security relating to the master cash receipts worksheet which could result in unauthorized changes to the file prior to review by a second individual. There were no misstatements noted during the audit relating to these conditions.

Recommendation:

We recommend that the Organization establish safeguards to limit access to the master cash receipts worksheet file, as well as adding a second person to review the worksheet and compare it to copies of receipts. We further recommend that the processing of incoming receipts be under dual control.

Management Response:

Management became aware of this weakness in late 2020 and added additional controls by the end of the year to ensure compliance.

**2020-002: Significant Deficiency – Documentation of Non-Cash Disbursements Processes**

Condition and Criteria:

There are no documented procedures available for cash distributions or product disbursements. Lack of written procedures can create potential for internal controls to not be followed by individuals involved in the process.

Cause and Effect:

Lack of written procedures can create potential for internal controls to not be followed by individuals involved in the process. Testing of inventory performed resulted in no discrepancies and no adjustments for distributions were noted. The client representative was able to verbally explain process for distribution; however, no actual written processes were available.

Recommendation:

We recommend that the Organization create and maintain written procedures relating to cash distributions and product disbursements.

Management Response:

Management became aware of this weakness in late 2020 and added additional controls by the end of the year to ensure compliance.

**South Michigan Food Bank  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2020**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None noted.

**South Michigan Food Bank  
Summary Schedule of Prior Audit Findings  
For the Year Ended December 31, 2020**

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**2019-001 – Significant Deficiency – Segregation of Duties**

Criteria:

A good system of internal controls provides for a proper segregation of duties throughout the year to reduce the risk of human error, deter fraud, and improve the chances of detecting accounting errors.

Condition:

Receipts are processed under single control and the master cash receipts worksheet is kept in an unsecured computer file allowing access by multiple individuals.

Cause and Effect:

There appeared to be lack of segregation of duties relating to receipts. There was also a lack of security relating to the master cash receipts worksheet which could result in unauthorized changes to the file prior to review by a second individual. There were no misstatements noted during the audit relating to these conditions.

Status:

Corrected in the subsequent year. The Organization hired a new Chief Financial Officer to address this issue but was not hired until late 2020 which left the issue uncorrected for more of the year. As a result, this finding will be repeated, see current year finding 2020-001.

**2019-002 – Significant Deficiency – Documentation of Non-Cash Disbursements Processes**

Criteria:

Lack of written procedures can create potential for internal controls to not be followed by individuals involved in the process.

Condition:

There are no documented procedures available for non-cash disbursements or distributions.

Cause and Effect:

Testing of inventory performed resulted in no discrepancies and no adjustments for distributions were noted.

Status:

Corrected in the subsequent year. The Organization adopted a policy which documents the non-cash disbursements which was approved by the board in February 2021. However, since it was still not corrected during the audit period, this finding will be repeated, see current year finding 2020-001.