

Michigan Potato Industry Commission

Financial Statements

June 30, 2020



Table of Contents

	Page
1 Independent Auditors' Report	1 - 1
2 Management's Discussion and Analysis	2 - 1
3 Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	3 - 1
Statement of Activities	3 - 2
Fund Financial Statements	
General Fund	
Balance Sheet	3 - 3
Reconciliation of the General Fund Balance Sheet to the Statement of Net Position	3 - 4
Statement of Revenues, Expenditures and Changes in Fund Balance	3 - 5
Reconciliation of the Change in Fund Balance of the General Fund to the Statement of Activities	3 - 6
Notes to the Financial Statements	3 - 7
4 Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	4 - 1
5 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 <i>Government Auditing Standards</i>	5 - 1
6 Schedule of Audit Findings and Responses	6 - 1

Independent Auditors' Report

To the Commission Board
Michigan Potato Industry Commission
East Lansing, Michigan

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Michigan Potato Industry Commission, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Michigan Potato Industry Commission, as of June 30, 2020, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matter in Independent Auditor's Report

The financial statements as of, and for the year ended, June 30, 2019, were audited by other auditors, whose report dated January 9, 2020 expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2020 on our consideration of the Michigan Potato Industry Commission'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Michigan Potato Industry Commission's 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 the Michigan Potato Industry Commission's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Lansing, Michigan
November 24, 2020

Michigan Potato Industry Commission
Management's Discussion and Analysis
June 30, 2020

As management of the Michigan Potato Industry Commission (Commission), we offer readers a narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

Financial Highlights

- Cash balances for 2016-2020 are as follows:

2016	2017	2018	2019	2020
\$ 245,282	\$ 435,150	\$ 408,027	\$ 342,163	\$ 327,023

- Assessment income from the 2019 crop was \$943,225.
- Total assessment income for the year was \$933,995.
- Interest income during the fiscal year 2020 ended at \$2,118.
- Miscellaneous income was \$13,251.
- Advertising and subscriptions income were \$29,571.
- Winter Potato Conference income was \$35,350.
- Sale of storage potatoes was \$42,767.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business, and therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the Commission's finances and revenues that have funded the full cost of providing the Commission's programs. The first two statements are government-wide and include the following:

- *The statement of net position* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.
- *The statement of activities* presents information showing how the Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave). The government-wide financial statements can be found on pages 3 - 1 and 3 - 2 of this report.

Michigan Potato Industry Commission
Management's Discussion and Analysis
June 30, 2020

Fund financial statements: A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Michigan Potato Industry Commission, like other commodity groups, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Commission's operations in more detail than the government-wide financial statements. These statements present a shorter-term view and tell how taxpayer resources were spent during the year.

General Fund: The General Fund is a *Governmental fund type* and is used to account for the essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements tell how the Commission's programs were financed in the short-term as well as what remains for future spending. Such information may be useful in evaluation of the Commission's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the *general fund* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Commission's near-term financing decisions. Both the general fund balance sheet and the statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the *general fund* and *governmental activities*.

The Commission adopts an annual appropriated budget for its general fund activity. A budgetary comparison schedule has been provided for the Commission's general fund activity. The basic general fund statements can be found on pages 3 - 3 and 3 - 5 of this report.

Financial Analysis of the Commission as a Whole

The following table shows, in condensed format, the net position of the Michigan Potato Industry Commission as of June 30, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Assets		
Current assets	\$ 586,705	\$ 671,469
Non-current capital assets	<u>159,335</u>	<u>184,757</u>
Total assets	<u><u>\$ 746,040</u></u>	<u><u>\$ 856,226</u></u>
Liabilities		
Current liabilities	\$ 22,580	\$ 138,296
Non-current liabilities	<u>12,164</u>	<u>5,194</u>
Total liabilities	<u><u>\$ 34,744</u></u>	<u><u>\$ 143,490</u></u>
Net Position		
Net investments in capital assets	\$ 159,335	\$ 184,757
Unrestricted	<u>551,961</u>	<u>527,979</u>
Total net position	<u><u>\$ 711,296</u></u>	<u><u>\$ 712,736</u></u>

Michigan Potato Industry Commission
Management's Discussion and Analysis
June 30, 2020

The Commission's net position was \$711,296 at June 30, 2020. Of this amount, \$551,961 was unrestricted. The unrestricted net position of the Commission represents the accumulated results of all past years' operations. It means that if the Commission had to pay off all its bills *today*, including all non-capital liabilities (compensated absences), it would have \$551,961 remaining.

The following table shows, in a condensed format, the changes in net position of the Commission as of June 30, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Revenue		
Program revenue		
Assessments and program	\$ 1,054,934	\$ 1,031,773
General revenue		
Investment earnings	2,118	2,916
Grant revenues	119,004	180,681
Royalties and other	<u>6,566</u>	<u>26,747</u>
Total revenue	1,182,622	1,242,117
Program expenses		
Potato assessment programs	<u>1,184,062</u>	<u>1,338,792</u>
Change in net position	<u><u>\$ (1,440)</u></u>	<u><u>\$ (96,675)</u></u>

General Fund Budgeting and Operating Highlights

The Commission's fiscal year is July 1 to June 30; other programs, i.e., grant programs operate on a different fiscal calendar but are reflected in the overall budget. The Commission has an adopted policy related to financial planning and budgeting that the fund balance shall not drop below six months of the annual operating budget.

Total revenue of the General Fund was \$1,133,152, which is below the original budget estimates of \$1,267,190 and final budget estimates of \$1,237,090. The change from the original budget can be attributed to income from assessments, advertising, and sponsorships and timing of grant revenue.

Total expenditures of the General Fund were \$1,151,670, which is below the original budget estimates of \$1,283,904 and the final budget estimates of \$1,277,904. The major line items where actual costs were less than budgeted were promotion, storage operations, payroll, and consulting expenses.

The net change in fund balance was \$(18,518), a favorable difference of \$22,296 from the final budget estimates. This change was primarily a result of the following:

- Lower than budgeted expenditures in program areas and administrative costs

The budgetary Comparison Schedule on page 4 - 1 of the financial statements presents a summary of budgeted revenue and expense for the fiscal year ended June 30, 2020.

Michigan Potato Industry Commission
Management's Discussion and Analysis
June 30, 2020

Capital Asset and Debt Administration

At the end of fiscal year 2020, the Commission had \$159,335 (net of depreciation) invested in land, buildings and office equipment. There is not debt related to these assets.

Total additions for the year were \$2,578 for purchase of computers.

	2020	2019
Land	\$ 19,350	\$ 19,350
Buildings and improvements	556,006	556,006
Furniture and equipment	70,421	67,843
Less: accumulated depreciation	<u>(486,442)</u>	<u>(458,442)</u>
	<u>\$ 159,335</u>	<u>\$ 184,757</u>

Factors affecting the Commission's future

Financial Consideration

- The Commission increased the assessment rate for the 2019 to 2021 crops to \$0.06 per cwt. on the grower assessment. Continuing current programming at the increased assessment (6.0 cents per cwt.) would allow for us to maintain the following Fund balance projections:

2020	2021
<u>\$ 598,000</u>	<u>\$ 600,000</u>

- Amendments to the MPIC act (PA 29) to allow the MPIC to set the assessment fee on an annual basis to a maximum of 5.5 cents per cwt. As the grower assessment and maintain the shipper assessment at 1.5 cents per cwt., were signed into law in December 2013. Growers voted by referendum in March 2018 to give the authority to the Commission. While the Commission now has flexibility to adjust the assessment annually, it is in the best interest of Commission members to keep the rate as low as possible yet provide the necessary services to carry out the programs of the Commission.

Contacting the Michigan Potato Industry Commission

Questions regarding this report should be directed by mail to:

Kelly Turner, Executive Director, MPIC
3515 West Rd, Suite A
East Lansing, MI 48823

Michigan Potato Industry Commission
Statement of Net Position
June 30, 2020

Assets

Current assets

Cash	\$ 327,023
Accounts receivable	180,536
Grants receivable	72,428
Prepaid expenses	3,221
Other deposits	<u>3,497</u>

Total current assets	<u>586,705</u>
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Noncurrent Assets

Land	19,350
Capital assets	626,427
Less: accumulated depreciation	<u>(486,442)</u>

Total noncurrent assets	<u>159,335</u>
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Total assets	<u>746,040</u>
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Liabilities

Current Liabilities

Accounts payable	\$ 9,015
Salaries payable	12,392
Other payroll liabilities	<u>1,173</u>

Total current liabilities	22,580
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Noncurrent Liabilities

Compensated absences	<u>12,164</u>
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Total liabilities	<u>34,744</u>
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Net Position

Net investment in capital assets	159,335
Unrestricted	<u>551,961</u>

Total net position	<u>\$ 711,296</u>
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Michigan Potato Industry Commission
Statement of Activities
For the Year Ended June 30, 2020

Expenditures

Potato assessment programs	\$ 1,184,062
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Program Revenues

Assessments and program revenue	<u>1,054,934</u>
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Net program expenditures	<u>(129,128)</u>
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General Revenues

Investment earnings	2,118
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Grant revenues	119,004
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Royalties	<u>6,566</u>
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Total general revenues	<u>127,688</u>
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Change in net position	(1,440)
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Net position, beginning of year	<u>712,736</u>
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Net position, end of year	<u><u>\$ 711,296</u></u>
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Michigan Potato Industry Commission
Balance Sheet - General Fund
June 30, 2020

Assets

Cash	\$ 327,023
Accounts receivable	180,536
Grants receivable	72,428
Prepaid expenses	3,221
Other deposits	<u>3,497</u>

Total assets	<u><u>\$ 586,705</u></u>
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Liabilities, Deferred Inflows and Fund Balances

Accounts payable	\$ 9,015
Salaries payable	12,392
Other payroll liabilities	<u>1,173</u>

Total liabilities	<u>22,580</u>
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Deferred Inflows

Unavailable grant revenue	<u>50,470</u>
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Fund Balances

Nonspendable - prepaids	3,221
Restricted - programs	<u>510,434</u>

Total fund balances	<u>513,655</u>
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Total liabilities, deferred inflows and fund balances	<u><u>\$ 586,705</u></u>
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Michigan Potato Industry Commission
Reconciliation of the General Fund Balance Sheet
to the Statement of Net Position
June 30, 2020

Total General Fund Balance	\$ 513,655
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Amounts reported for program activities in the statement of net position
are different because:

Capital assets used in the general fund are not financial resources,
and are not reported in the funds.

The cost of the capital assets is	645,777
Accumulated depreciation is	<u>(486,442)</u>
	159,335

In the fund financial statements, grant revenues earned but not available are reported as deferred inflows of resources	50,470
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Long-term liabilities are not due and payable in the current period and are
not reported in the funds.

Compensated absences	<u>(12,164)</u>
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Net position of governmental activities	<u>\$ 711,296</u>
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Michigan Potato Industry Commission
Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund
For the Year Ended June 30, 2020

Revenues

Assessments	\$ 933,995
Grants	69,534
Storage potatoes	42,767
Winter Potato Conference	35,350
Advertising	29,571
Royalties	6,566
Investment income	2,118
Miscellaneous income	<u>13,251</u>
 Total revenues	 <u>1,133,152</u>

Expenditures

Payroll, taxes, benefits	299,748
Potato research technician	67,244
Promotion	50,848
Research	174,325
Grant expense	102,245
Winter Potato Conference	84,357
Grower relations	33,332
Storage operations	96,720
IUL Position	55,328
Consulting services	21,421
Office operations	43,017
Office rent	20,147
Insurance and buildings	5,166
Legal and audit	5,500
Bad debt expense (recovery)	(700)
Travel	48,199
Meetings	4,115
Miscellaneous expenses	47
National Potato Council	<u>40,611</u>
 Total expenditures	 <u>1,151,670</u>

Net change in fund balance	(18,518)
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Fund balance, beginning	<u>532,173</u>
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Fund balance, ending	<u><u>\$ 513,655</u></u>
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Michigan Potato Industry Commission
Reconciliation of the Change in Fund Balance of the General Fund
to the Statement of Activities
Year Ended June 30, 2020

Net change in fund balance - general fund	\$ (18,518)
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Amounts reported for program activities in the statement of activities are different because:

In the general fund, capital outlays are reported as expenditures and proceeds from sales of assets are reported as revenues. However, in the statement of activities, the cost of capital assets are allocated over their estimated useful lives as depreciation expense, and only the amount of gain or loss on the sale of an asset is recognized. In the current period, the amounts are:

Capital asset purchases	2,578
Depreciation expense	(28,000)

Certain grants have met revenue recognition in the current period, whereas in the prior year were considered deferred inflows of resources	(1,000)
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Certain grants are reported as revenue in the statement of activities, however because they were earned but not available, they are reported as deferred inflows of resources	50,470
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Compensated absences are reported on the accrual method in the statement of activities, and are only recorded in the general fund when they are actually paid out

Accrued compensated absences beginning of the year	5,194
Accrued compensated absences end of the year	<u>(12,164)</u>

Change in net position of governmental activities	<u>\$ (1,440)</u>
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Michigan Potato Industry Commission
Notes to the Financial Statements
June 30, 2020

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Michigan Potato Industry Commission (The Commission) was created under the State of Michigan P.A. 29, as amended, and within the Michigan Department of Agriculture. The Commission is governed by a nine-member board and engaged solely for the purpose of market development, research and consumer education, promotion and advertisement of the potato industry.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Commission, there are no component units to be included in the Commission's financial report.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on the Commission as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The Commission has no interfund activity because they maintain only one fund.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the general fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Investment earnings, royalty income and other items not properly included among program revenues are reported instead as *general revenues*.

The Commission considers restricted resources to be spent first when an expenditure is incurred for which both restricted and unrestricted net position are available.

The Commission uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Commission uses one type of fund, a governmental fund.

The General Fund is classified as a governmental entity fund type and is used to account for money or other resources provided to the Commission to support the programs and general operations of the Commission.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures

Michigan Potato Industry Commission
Notes to the Financial Statements
June 30, 2020

generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Assessments and other invoiced items associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Major revenue types for which receivables are recorded on the current accounting period's balance sheet include assessments and other invoiced items. An amount is also recorded for grants receivable; however, that amount is recorded as unavailable revenue because it does not meet revenue recognition criteria. All other revenue items are considered to be available only when cash is received by the Commission.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the Commission that is applicable to a future reporting period. The Commission has no items that qualified for reporting in this category.

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. The Commission reports deferred inflows of resources as a result of unavailable grant revenue.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the Commission values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15-20 years
Office furniture and equipment	3-15 years

Fund Equity

In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – assets that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

Michigan Potato Industry Commission
Notes to the Financial Statements
June 30, 2020

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government's policy is to consider restricted funds spent first.

Comparative Data

Comparative data is not included in the government's financial statements.

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, deferred outflows, liabilities, deferred inflows and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Budgetary Data

The Commission's management develops a budget for approval by the Board annually. The Commission is not required by state law to adopt an annual budget, and therefore, expenditures in excess of amounts budgeted are not a violation of Michigan Law.

Adoption of New Accounting Standards

Statement No. 92, *Omnibus 2020* enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: (1) The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports (2) Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan. (3) The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits. (4) The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements. (5) Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition. (6) Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers. (7) Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. (8) Terminology used to refer to derivative instruments.

Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic and provides postponement of effective dates for certain GASB Statements. This statement was effective upon issuance in May of 2020.

Upcoming Accounting and Reporting Changes

Statement No. 87, *Leases* increases the usefulness of the financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2022.

The Commission is evaluating the impact that the above GASB statement will have on its financial reporting.

Michigan Potato Industry Commission
Notes to the Financial Statements
June 30, 2020

Note 2 - Cash and Deposits

The Commission maintains a business checking account, a business money market account, and certificates of deposit.

The table presented below is designed to disclose the level of custodial credit risk assumed by the Commission based upon how its deposits were insured or secured with collateral at June 30, 2020.

Type of Deposit	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured	\$ 327,023	\$ 418,808
Uninsured	<u>-</u>	<u>-</u>
	<u>\$ 327,023</u>	<u>\$ 418,808</u>

The Commissions cash and deposits are recorded in the financial statements as follows:

General Fund	<u>\$ 327,023</u>
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Credit Risk - The Commission operates under Public Act 304 Section 290.422, which states that funds shall be deposited in banks or other forms of security as may be designated by the Commission. The Commission has no formal investment policy as a means of limiting its investment choices.

Concentration of Credit Risk - The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial Credit Risk - In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, The Commission did not have any bank deposits exposed to custodial credit risk because they were uninsured and uncollateralized.

Michigan Potato Industry Commission
Notes to the Financial Statements
June 30, 2020

Note 3 - Changes in General Capital Assets

A summary of capital assets of the Commission is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 19,350	\$ -	\$ -	\$ 19,350
Capital assets being depreciated:				
Buildings and improvements	556,006	-	-	556,006
Furniture and equipment	67,843	2,578	-	70,421
	<u>643,199</u>	<u>2,578</u>	<u>-</u>	<u>645,777</u>
Accumulated depreciation:				
Buildings and improvements	405,165	22,785	-	427,950
Furniture and equipment	53,277	5,215	-	58,492
	<u>458,442</u>	<u>28,000</u>	<u>-</u>	<u>486,442</u>
Net capital assets	<u>\$ 184,757</u>	<u>\$ (25,422)</u>	<u>\$ -</u>	<u>\$ 159,335</u>

Depreciation expense of \$28,000 was charged to the potato assessment program.

Note 4 - Compensated Absences

It is the Commission's policy to permit employees to accumulate 90 earned but not unused vacation days. Employees will be paid for unused vacation days at the salary or hourly rate at the time of termination. A liability for these amounts is reported in the Statement of Net Position.

Note 5 – Transactions with Affiliates and Related Parties

The Commission, related to Potato Growers of Michigan, Inc.(the "Organization") through common management, supports the Organization by providing administrative services. The Commission earned \$4,000 for the year ended June 30, 2020, for accounting and administrative services. At June 30, 2020 the Commission had a \$4,000 receivable due from the Organization.

Some Commission board members are also board members of the Potato Growers of Michigan, Inc.

Michigan Potato Industry Commission
Notes to the Financial Statements
June 30, 2020

Note 6 - Defined Contribution Plan

The Commission sponsors a SIMPLE IRA plan for all eligible employees. Eligibility is limited to employees who on January 1 have earned \$2,500 in the prior calendar year and are reasonably expected to receive at least \$5,000 in compensation for the current calendar year. The Commission contributes 3% of the gross wages under the plan for each qualified employee who contributes to the plan. Commission contributions totaled \$6,331 for the year ended June 30, 2020.

Note 7 - Operating Lease Agreements

The Commission leases office space. A new 5-year lease was entered into on April 17, 2018. The following is a schedule of expected future minimum lease payments required under the agreement:

Years Ending June 30,	Amount
2021	\$ 22,324
2022	22,772
2023	23,226
2024	7,792
Total	<u>\$ 76,114</u>

Lease expenditures for the year ended June 30, 2020 were \$20,147.

Note 8 - Economic Dependency

The Michigan Potato Industry Commission is a commodity group and is by nature reliant on revenues generated by the assessment on potato crops.

Note 9 - Coronavirus Pandemic

On March 11, 2020, the World Health Organization declared a pandemic due to the outbreak of a respiratory disease known as COVID-19. In addition, multiple jurisdictions in the U.S., including Michigan, have declared a state of emergency and issued shelter-in-place orders. It is anticipated that these impacts will continue for some time. In response to the pandemic, the Commission has temporarily closed its office, and began a remote work environment for all employees. The Commission continues to monitor the situation and currently, it is not possible to estimate the extent of any potential losses.

Note 10 - Subsequent Events

Subsequent events were evaluated through November 24, 2020, which is the date the financial statements were available to be used. There are no subsequent events to disclose in consideration of the evaluation.

Michigan Potato Industry Commission
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2020

	Original Budget	Final Amended Budget	Actual	Final to Actual
Revenues				
Assessments	\$ 990,000	\$ 959,400	\$ 933,995	\$ (25,405)
Grants	74,820	74,820	69,534	(5,286)
Storage potatoes	44,000	44,000	42,767	(1,233)
Winter Potato Conference	46,650	53,650	35,350	(18,300)
Advertising and promotion	40,000	36,500	29,571	(6,929)
Royalties	20,500	20,500	6,566	(13,934)
Administration fees	4,000	4,000	-	(4,000)
Investment income	3,420	3,420	2,118	(1,302)
Miscellaneous income	43,800	40,800	13,251	(27,549)
	<u>1,267,190</u>	<u>1,237,090</u>	<u>1,133,152</u>	<u>(103,938)</u>
Total revenue	<u>1,267,190</u>	<u>1,237,090</u>	<u>1,133,152</u>	<u>(103,938)</u>
Expenditures				
Payroll, taxes, benefits	318,346	318,346	299,748	(18,598)
Potato research technician	69,645	58,645	67,244	8,599
Promotion	79,925	79,925	50,848	(29,077)
Research	177,794	177,794	174,325	(3,469)
Grant expense	105,371	105,371	102,245	(3,126)
Winter Potato Conference	47,250	72,250	84,357	12,107
Grower relations	56,225	36,225	33,332	(2,893)
Storage operations	132,950	132,950	96,720	(36,230)
IUL Position	66,399	66,399	55,328	(11,071)
Consulting services	39,000	39,000	21,421	(17,579)
Office operations	42,688	42,688	43,017	329
Office rent	22,045	22,045	20,147	(1,898)
Insurance	6,416	6,416	5,166	(1,250)
Legal and audit	6,000	6,000	5,500	(500)
Bad debt	-	-	(700)	(700)
Travel	56,850	56,850	48,199	(8,651)
Meetings	7,500	7,500	4,115	(3,385)
Miscellaneous	-	-	47	47
National Potato Council	49,500	49,500	40,611	(8,889)
	<u>1,283,904</u>	<u>1,277,904</u>	<u>1,151,670</u>	<u>(126,234)</u>
Total expenditures	<u>1,283,904</u>	<u>1,277,904</u>	<u>1,151,670</u>	<u>(126,234)</u>
Net Change in Fund Balance	(16,714)	(40,814)	(18,518)	22,296
Fund Balances, Beginning	<u>532,173</u>	<u>532,173</u>	<u>532,173</u>	<u>532,173</u>
Fund Balances, Ending	<u>\$ 515,459</u>	<u>\$ 491,359</u>	<u>\$ 513,655</u>	<u>\$ 554,469</u>

**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***

Independent Auditors' Report

To the Commission Board
Michigan Potato Industry Commission
East Lansing, Michigan

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 governmental activities and the general fund of Michigan Potato Industry Commission, as of and for the year ended June 30, 2020 and the related notes to the financial statements which collectively comprise the Michigan Potato Industry Commission's basic financial statements, and have issued our report thereon dated November 24, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Michigan Potato Industry Commission'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 Michigan Potato Industry Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Michigan Potato Industry Commission'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule as 2020-01 that we consider to be a material weakness and certain deficiencies in internal control, described in the accompanying schedule as 2020-02 and 2020-03 that we consider to be significant deficiencies.

Compliance and Other Matters

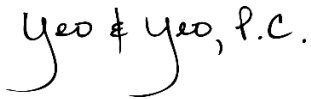
As part of obtaining reasonable assurance about whether Michigan Potato Industry Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Management's Response to Findings and Corrective Action Plan

Michigan Potato Industry Commission's response to the findings identified in our audit is described in the accompanying schedule of audit findings and responses. Michigan Potato Industry Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Yeo & Yeo, P.C.".

Lansing, Michigan
November 24, 2020

Michigan Potato Industry Commission
Schedule of Findings and Responses
June 30, 2020

Finding 2020-01 – Material Weakness - Preparation of Financial Statements

Criteria: All MDA Commodity Groups are required to prepare financial statements in accordance with generally accepted principles (GAAP). This is the responsibility of the Commission's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: The Commission has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process as well as rely on the external auditors to propose year-end adjustments as necessary. Accordingly, the Commission's ability to prepare financial statements in accordance with GAAP is based, in part on its reliance on its external auditors, who cannot by definition be considered part of the Commission's internal controls.

Cause: The condition was caused by the Commission's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than it incur the added time and expense of obtaining the necessary training for its staff, or contracting a third party to perform the task.

Effect: The result of this condition is that the Commission lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with the task.

Recommendation: The Commission should continue to evaluate the cost benefit of outsourcing the preparation of the financial statements and related notes.

View of responsible officials: The Commission will continue to evaluate the cost vs benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP. In addition, the Commission will carefully review the draft financial statements and notes prior to approving them and accept responsibility for their content and presentation.

Current status: During fiscal year 2021, the Commission has hired a new business manager, that management believes has the skills, knowledge, and experience to ensure the preparation of accurate financial statements in accordance with GAAP. Management believes this hiring has improved internal controls and will address this finding.

Finding 2020-02 – Significant Deficiency - Personal Use of Commission Credit Card

Criteria: Commission credit cards are to only be used by eligible staff for Commission business. Personal use of Commission credit cards is explicitly prohibited.

Condition: During the year an employee used their Commission credit card for personal expenses of \$959. The personal expenses made on the credit card were found by management and the employee was terminated. Management was able to collect \$800 back from the terminated employee. The remaining \$159 was expensed in the current year.

Cause: The condition was the result of credit card transactions not being able to be reviewed timely by management, as the employee in question deliberately impeded this review.

Effect: The result of this condition is that the Commission did not have an established process to allow it to timely uncover improper use of Commission credit cards.

Michigan Potato Industry Commission
Schedule of Findings and Responses
June 30, 2020

Recommendation: The Commission should develop formal internal control procedures for the use of Commission credit cards, as well as procedures for initiating and approving charges to credit cards. At a minimum it is also recommended that management review credit card statements monthly.

View of responsible officials: The Commission is in agreement with the finding and is in the process of incorporating formal policies and procedures relating to the use of employee credit cards and the review of related transactions. Management believes the implementation of such procedures will mitigate the occurrence of similar issues in the future.

Finding 2020-03 – Significant Deficiency - Documentation of Policies and Procedures

Criteria: The Commission should require as a best practice, formal documentation of all policy and procedures. Having such a manual helps to ensure consistency in the event of unexpected employee turnover and can serve as a documented set of guidelines to hold employees accountable to.

Condition: The Commission did not have a written policy and accounting procedure manual.

Cause: The Commission's policies and procedures were communicated informally.

Effect: The result of the condition are added inefficiencies during periods of employee transition and potential for breakdown in the internal controls that could lead to financial statement errors.

Recommendation: The Commission should create a formal document with the Commission's policies and procedures.

View of responsible officials: The Commission is in agreement with the finding and is in the process of writing a formal policies and procedures document which is in working copy form.