

**PRESQUE ISLE ELECTRIC & GAS COMMUNITIES FIRST FUND**  
**ONAWAY, MICHIGAN**

**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**



**SCHULZE, OSWALD, MILLER & EDWARDS PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**989-354-8707**

**PRESQUE ISLE ELECTRIC & GAS COMMUNITIES FIRST FUND**  
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**PRESQUE ISLE ELECTRIC & GAS COMMUNITIES FIRST FUND**  
**BOARD OF DIRECTORS**

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DARYL BARTON	CHAIRPERSON
NAOMI DEO	VICE CHAIRPERSON
JACKIE ROBINSON	SECRETARY
ELIAS TARATUTA	TREASURER
GLORIA ADRIAN	DIRECTOR
ANN DOUGLAS	DIRECTOR
BARBARA HALL	DIRECTOR
DIANE LEWIS	DIRECTOR
SALLY WONG	DIRECTOR

# *Schulze Oswald Miller & Edwards PC*

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## **INDEPENDENT AUDITORS' REPORT**

To The Board of Directors of  
Presque Isle Electric & Gas Communities First Fund  
Onaway, Michigan 49765

We have audited the accompanying financial statements of the **Presque Isle Electric & Gas Communities First Fund**, a Michigan non-profit organization, which comprise the statement of financial position as of December 31, 2018, and the related statement of activities 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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 the Presque Isle Electric & Gas Communities First Fund as of December 31, 2018 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.

*Schulze, Oswald, Miller & Edwards PC*

**Schulze, Oswald, Miller & Edwards PC**  
Alpena, Michigan  
April 30, 2019

**PRESQUE ISLE ELECTRIC & GAS COMMUNITIES FIRST FUND**

**Statement of Financial Position**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018**

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	<u>December 31, 2018</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 95,896
Cash - restricted	3,000
Account receivable	<u>7,634</u>
Total current assets	<u>106,530</u>
 <b>NET ASSETS</b>	
Without Donor Restrictions	
Unrestricted	69,971
Board designated	33,559
Permanently restricted	<u>3,000</u>
Total net assets	<u>106,530</u>
 <b>TOTAL LIABILITIES &amp; NET ASSETS</b>	 <u><u>\$ 106,530</u></u>

The notes to the financial statements are an integral part of this statement.



**PRESQUE ISLE ELECTRIC & GAS COMMUNITIES FIRST FUND**

**Statement of Activities and Change in Net Assets  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018**

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	December 31, 2018
<b>Revenue</b>	
Contributions - members	\$ 51,184
Contributions - PIE&G	14,078
Interest	97
<b>TOTAL REVENUE</b>	<b>65,359</b>
<b>Expenses</b>	
Grants	38,756
Scholarships	13,500
Professional Fees	3,750
Program expense	8,983
Director's expense	1,345
<b>TOTAL EXPENSE</b>	<b>66,334</b>
<b>CHANGE IN NET ASSETS</b>	<b>(975)</b>
Net Assets - beginning of year	107,505
Net Assets - end of year	<b>\$ 106,530</b>

The notes to the financial statements are an integral part of this statement.

**PRESQUE ISLE ELECTRIC & GAS COMMUNITIES FIRST FUND**

**Statement of Cash Flows**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018**

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	<u>December 31, 2018</u>
<b>Cash Flows From Operating Activities:</b>	
Cash payments for grants and scholarships	\$ (55,924)
Cash payments for administrative and general expenses	<u>(14,078)</u>
Net Cash Used in Operating Activities	<u>(70,002)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Contributions	<u>65,262</u>
<b>Cash Flows From Investing Activities:</b>	
Interest on investments	<u>97</u>
NET INCREASE (DECREASE) IN CASH	<u>(4,643)</u>
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<u>103,539</u>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<u><u>\$ 98,896</u></u>
Cash as reported on the Statement of Financial Position	
Cash	\$ 95,896
Cash - restricted	<u>3,000</u>
	<u><u>\$ 98,896</u></u>

The notes to the financial statements are an integral part of this statement.

**PRESQUE ISLE ELECTRIC & GAS COMMUNITIES FIRST FUND**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2018

**NOTE 1 - NATURE OF OPERATIONS**

The Presque Isle Electric & Gas Communities First Fund (First Fund) was formed on March 18, 1997 as a nonprofit corporation under the Michigan Nonprofit Corporation Act, Act 162 Public Act of 1982, and is affiliated with Presque Isle Electric & Gas Co-op (The Co-op). The First Fund does not have authority to issue any shares of stock and is financed through voluntary contributions from The Co-op, its members and employees. All corporate powers are vested in a Board of Directors, which consists of nine people, each residing in one of the nine districts of The Co-op's service area as designated by the Board of Directors of The Co-op.

The purpose of the First Fund shall be the accumulation and disbursement of funds for charitable purposes in the service area of The Co-op. Upon dissolution of the First Fund, any remaining funds shall be distributed only for charitable purposes.

Financial instruments which potentially subject the First Fund to concentration of significant credit risk consists of cash. The First Fund places its cash with a high quality financial institution. Although balances may exceed insured limits they are considered subject to minimal risk.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Presque Isle Electric & Gas Communities First Fund conform to generally accepted accounting principles of the United States of America as applicable to non-profit organizations. The following is a summary of the significant policies:

**Basis of Accounting.** The accompanying financial statements have been prepared on the accrual basis of accounting.

**Financial Statement Presentation.** The financial statements have been prepared on the accrual basis of accounting.

**Change in Accounting Principle.** In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, methods used to allocate costs, underwater endowments, and direction for consistency about the information provided about expenses and investment return. Presque Isle Electric & Gas Communities First Fund has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

Net assets have been reclassified due to the adoption of ASU 2016-14 as of December 31, 2018, as follows:

Net Asset Classification December 31, 2017	ASU 2016-14 Classifications		Total Net Assets
	Without Donor Restriction	With Donor Restriction	
Unrestricted	\$ 103,530	\$ -	\$ 103,530
Temporarily Restricted	-	-	-
Permanently Restricted	3,000	-	3,000
Net assets as previously presented	\$ 106,530	\$ -	\$ 106,530
Reclassification	-	-	-
Net assets as reported after adoption of ASU 2016-14	\$ 106,530	\$ -	\$ 106,530



**PRESQUE ISLE ELECTRIC & GAS COMMUNITIES FIRST FUND**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets with Donor Restrictions - The part of net assets of a not-for-profit entity that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

Net Assets without Donor Restrictions - The part of net assets of a not-for-profit entity that is not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

**Cash.** Cash is maintained in a money fund account.

**Designated Grants.** Grants payable in future periods, subject to routine performance requirements by the grantee, are not recorded until paid.

**Income Taxes.** The First Fund has been advised by the Internal Revenue Service that it qualifies as an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation by virtue of its qualification as a supporting organization under Section 509(a)(1) of the Internal Revenue Code and Revenue Ruling 76-401. Therefore, no provision for income taxes is reflected in the financial statements.

**Functional allocations of expenses.** The cost of providing the various programs and other activities have been summarized on a functional basis in the notes to the financial statements. Accordingly, certain costs have been allocated among charitable services and management and general.

**NOTE 3 - RECEIVABLES**

The receivable of \$7,634 is due from Presque Isle Electric & Gas Co-op at December 31, 2018, respectively, for contributions from member electric bills. The receivable represents amounts collected from members and held by Presque Isle Electric & Gas Co-op.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

Presque Isle Electric & Gas Co-op (The Co-op) is exempt under IRS code section 501(c)12 and has the sole authority to select the initial members of the Board of Directors of the First Fund.

The First Fund is required to report financial information to the Board of Directors of the Co-op on no less than an annual basis.

The Co-op furnishes all personnel, office space and other necessary operating items such as computer time for the First Fund's operations. The First Fund recognizes a contribution for the amount of services the Co-op provides, which totaled \$8,983 for 2018, respectively.

**PRESQUE ISLE ELECTRIC & GAS COMMUNITIES FIRST FUND****NOTES TO FINANCIAL STATEMENTS**

December 31, 2018

**NOTE 5 - GRANTS AND SCHOLARSHIPS**

Grant activity is summarized as follows:

	2018
Designated grants - beginning of year	\$ 17,950
Grant actions approved	51,383
Amount paid less than approved amount	(19)
Approved grants cancelled within the fiscal year	-
<b>SUBTOTAL</b>	<b>69,314</b>
Grant payments	(38,756)
Designated grants approved but not paid - end of year	<u><u>\$ 30,558</u></u>

Scholarship activity is summarized as follows:

Designated scholarships - beginning of year	\$ 16,500
Scholarships approved	-
Amount paid less than approved amount	-
<b>SUBTOTAL</b>	<b>16,500</b>
Scholarship payments	(13,500)
Designated scholarships approved but not paid - end of year	<u><u>\$ 3,000</u></u>

The total designated amount for grants and scholarships was \$38,756 for December 31, 2018, respectively.

**NOTE 6 - RESTRICTED NET ASSETS**

The By-Laws require the retention of \$3,000 at all times. If, at any time, the assets of the First Fund fall below \$3,000, the First Fund shall be dissolved. Under the implementation of ASU 2016-14 this amount still is classified as "Without Donor Restrictions."

**NOTE 7 - FUNCTIONAL ALLOCATION OF EXPENSES**

The functional allocation of the First Fund's expenses as they are related to charitable services and management and general are listed below.

	2018
Charitable services	\$ 52,256
Management and general	14,078
<b>Total expenses</b>	<u><u>\$ 66,334</u></u>

**PRESQUE ISLE ELECTRIC & GAS COMMUNITIES FIRST FUND**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018**

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**NOTE 8 - SUBSEQUENT EVENTS**

Management has evaluated the impact of subsequent events as they related to the financial statements through April 30, 2019.

**NOTE 9 - RECENT ACCOUNTING PRONOUNCEMENTS**

On June 21, 2018, the FASB issued ASU 2018-08, Clarifying the Scope of the Accounting for Contributions Received and Contributions Made. The standard is intended to address questions stemming from FASB ASU 2014-09, Revenue from Contracts with Customers, regarding its implication on grants and contracts of not-for-profit organizations. Specifically, it includes decision trees to assist in evaluating a transaction if a new revenue standard would apply or it more appropriately classifies as a contribution, which would exclude it from the scope of ASU 2017-09 and instead require the application of contribution guidance. Standards will be effective for annual reporting periods beginning after December 15, 2018. Management is evaluating the effect of the amended revenue recognition guidance on Presque Isle Electric & Gas Communities First Fund's financial statements.



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## **COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT THE CONCLUSION OF THE AUDIT**

April 30, 2019

Board of Directors  
Presque Isle Electric & Gas Communities First Fund

We have audited the financial statements of Presque Isle Electric & Gas Communities First Fund for the year ended December 31, 2018, and have issued our report thereon dated **April 30, 2019**. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 26, 2019. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Presque Isle Electric & Gas Communities First Fund are described in Note 2 to the financial statements. FASB ASU 2016-14, Presentation of Financial Statements of Not-For-Profit Entities, was adopted for year ended December 31, 2018. We noted no transactions entered into by Presque Isle Electric & Gas Communities First Fund during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were capital asset depreciation and the allowance for bad debts.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statements users. The disclosures in the financial statements are neutral, consistent, and clear.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.



**Disagreements with Management**

For the purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased that no such disagreements arose during the course of our audit.

**Management Representation**

We have requested certain representations from management that are included in the management representation letter associated with the audit for the year ended December 31, 2018.

**Management's Consultations with Other Independent Accountants**

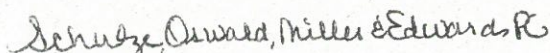
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to our retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We wish to thank the staff of Presque Isle Electric & Gas Communities First Fund for their assistance during the audit.

This information is intended solely for the use of the Board of Directors of Presque Isle Electric & Gas Communities First Fund, Management, and others within the Organization and is not intended to be, and should not be, used by anyone other than these specified parties.



Schulze, Oswald, Miller & Edwards PC  
Alpena, Michigan  
April 30, 2019





## **COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES**

To the Board of Directors of  
Presque Isle Electric & Gas Communities First Fund

In planning and performing our audit of the financial statements of Presque Isle Electric & Gas Communities First Fund as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Presque Isle Electric & Gas Communities First Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A 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 Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiency in Presque Isle Electric & Gas Communities First Fund's internal control to be a significant deficiency:

### **FINANCIAL REPORTING**

- ❖ Preparing financial statements in accordance with generally accepted accounting principles, (GAAP), is the responsibility of the Organization's management. The preparation of financial statements in accordance with GAAP requires internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).

As is the case with many small not-for-profits, the Organization 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. Accordingly, the Organization'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 a part of the Organization's internal controls.



This condition was caused by the Organization's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Organization to perform this task internally. The Organization has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

As a result of this condition, the Organization 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 this task.

We wish to thank Presque Isle Electric & Gas Communities First Fund for their assistance during the audit.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the opportunity to serve Presque Isle Electric & Gas Communities First Fund. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

*Schulze, Oswald, Miller & Edwards PC*

Schulze, Oswald, Miller & Edwards PC  
Alpena, Michigan  
April 30, 2019