

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

FINANCIAL STATEMENTS

JUNE 30, 2017

(With Independent Auditor's Report Thereon)

**THE HEAT AND WARMTH FUND
(A Nonprofit Organization)**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Heat and Warmth Fund
(A Nonprofit Organization)

Report on the Financial Statements

We have audited the accompanying financial statements of The Heat and Warmth Fund (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Organization'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 Organization'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 Heat and Warmth Fund (a nonprofit organization) as of June 30, 2017, and the results of its changes in net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Heat and Warmth Fund's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 25, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects with the audited financial statements from which it has been derived.

Other Matters - Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) 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 October 10, 2017, on our consideration of The Heat and Warmth Fund's (a nonprofit organization) 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 The Heat and Warmth Fund's (a nonprofit organization) internal control over financial reporting and compliance.

Doeren Mayhew

Troy, Michigan
October 10, 2017

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents (note 1)	\$ 8,690,359	\$ 4,715,647
Marketable securities (notes 1 and 2)	1,004,153	-
Accounts receivable (note 1)	974,355	1,468,586
Prepaid expenses and other current assets	33,928	21,998
Total current assets	10,702,795	6,206,231
Equipment and software:		
At cost, less accumulated depreciation of \$747,159 in 2017 and \$642,287 in 2016 (notes 1 and 3)	431,972	536,844
Total assets	<u>\$ 11,134,767</u>	<u>\$ 6,743,075</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 31,206	\$ 240,936
Accrued liabilities	423,408	205,187
Total current liabilities	454,614	446,123
Deferred leasehold incentive (note 3)	180,045	227,014
Net assets:		
Unrestricted	4,455,439	4,701,867
Temporarily restricted (notes 1 and 9)	6,044,669	1,368,071
Total net assets	10,500,108	6,069,938
Total liabilities and net assets	<u>\$ 11,134,767</u>	<u>\$ 6,743,075</u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	2017	2016
Revenue and support from operations:				
Public and corporate support	\$ 2,070,321	\$ 52,471	\$ 2,122,792	\$ 2,243,974
DTE Energy	191,775	1,299,372	1,491,147	171,297
DTE Gas	-	4,250,000	4,250,000	-
Consumers Gas	-	376,000	376,000	-
Grant revenue	-	-	-	655,708
Federal grants	159,318	8,825,000	8,984,318	8,541,032
Other foundation support	51,250	184,306	235,556	97,275
Interest income	6,469	-	6,469	2,039
Fundraising revenue	-	93,000	93,000	60,000
Miscellaneous income	23,367	-	23,367	126
	<u>2,502,500</u>	<u>15,080,149</u>	<u>17,582,649</u>	<u>11,771,451</u>
Total revenue and support from operations				
Functional expenses:				
Program services	11,689,145	-	11,689,145	14,887,834
Supporting services	1,505,674	-	1,505,674	1,601,840
	<u>13,194,819</u>	<u>-</u>	<u>13,194,819</u>	<u>16,489,674</u>
Total functional expenses (note 1)				
Release of net assets from restrictions	10,403,551	(10,403,551)	-	-
(Decrease) increase in net assets before in-kind contributions	(288,768)	4,676,598	4,387,830	(4,718,223)
In-kind contributions (note 1)	42,340	-	42,340	40,207
(Decrease) increase in net assets	(246,428)	4,676,598	4,430,170	(4,678,016)
Net assets - beginning	4,701,867	1,368,071	6,069,938	10,747,954
Net assets - ending	<u>\$ 4,455,439</u>	<u>\$ 6,044,669</u>	<u>\$ 10,500,108</u>	<u>\$ 6,069,938</u>

See accompanying notes to financial statements

**THE HEAT AND WARMTH FUND
(A Nonprofit Organization)**

**STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017**

WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

	Program Services	Supporting Services			2017	2016
		Management and General	Fundraising	Total Supporting Services		
Salaries and fringes	\$ 1,695,993	\$ 460,481	\$ 242,264	\$ 702,745	\$ 2,398,738	\$ 2,446,459
Assistance to individuals (note 6)	8,857,314	-	-	-	8,857,314	12,046,475
Promotional	773	-	62,230	62,230	63,003	130,558
Printing and postage	75,984	859	95,144	96,003	171,987	137,083
Contractual services	530,015	237,799	79,544	317,343	847,358	747,809
Travel and meetings	8,393	20,167	8,456	28,623	37,016	45,636
Depreciation	62,126	26,229	16,517	42,746	104,872	82,046
Applicant screening/referral	39,600	-	-	-	39,600	72,600
Telephone	113,560	11,118	9,340	20,458	134,018	135,855
Space rental (note 7)	149,587	40,413	15,201	55,614	205,201	223,438
Supplies	45,769	6,250	3,157	9,407	55,176	43,185
License and fees	-	20	365	385	385	296
Equipment and software	23,687	15,156	15,271	30,427	54,114	32,662
Web expense	74,746	1,138	600	1,738	76,484	52,436
Dues and subscriptions	345	1,667	300	1,967	2,312	6,854
Support maintenance services	4,458	2,229	2,229	4,458	8,916	39,485
Bank fees	-	9,618	15,641	25,259	25,259	20,833
Insurance	6,601	2,000	1,000	3,000	9,601	9,302
Bad debt expense	-	-	-	-	-	8,921
Miscellaneous	194	1,869	56,618	58,487	58,681	167,534
Charitable contributions	-	1,640	804	2,444	2,444	-
In-kind expense (note 1)	-	-	42,340	42,340	42,340	40,207
Total functional expenses	\$ 11,689,145	\$ 838,653	\$ 667,021	\$ 1,505,674	\$ 13,194,819	\$ 16,489,674

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 4,430,170	\$ (4,678,016)
Adjustments:		
Depreciation	104,872	82,046
Amortization of deferred leasehold incentive	(46,969)	(43,054)
Bad debt expense	-	8,922
Changes in assets and liabilities:		
Decrease in pledges receivable	-	391,078
Decrease in grants receivable	-	5,000,000
Decrease (increase) in accounts receivable	494,231	(961,776)
(Increase) decrease in prepaid expenses and other current assets	(11,930)	22,524
Decrease in accounts payable	(209,730)	(5,409,850)
Increase in accrued liabilities	218,221	95,042
Total adjustments	548,695	(815,068)
Net cash provided from (used in) operating activities	4,978,865	(5,493,084)
Cash flows from investing activities:		
Investments made in marketable securities	(1,004,153)	-
Purchase of equipment and software	-	(36,055)
Net cash used in investing activities	(1,004,153)	(36,055)
Net increase (decrease) in cash and cash equivalents	3,974,712	(5,529,139)
Cash and cash equivalents - beginning	4,715,647	10,244,786
Cash and cash equivalents - ending	\$ 8,690,359	\$ 4,715,647

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Activities

The Heat and Warmth Fund (“THAW”) (a nonprofit organization) is a community organization that was established in December 1985 to provide utility assistance for Michigan residents in need. THAW (a nonprofit organization) collaborates with their partners to deliver services that support long-term energy solutions.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America as applied to non-profit organizations. Under these principles, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of THAW (a nonprofit organization) and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met either by actions of THAW (a nonprofit organization) and/or the passage of time.

Revenue Recognition

Revenue is recorded when earned as unrestricted or temporarily restricted support depending on the existence and/or nature of any donor restrictions. All revenue is considered to be for unrestricted use unless specifically restricted by the funding source.

Support that is restricted by the funding source is reported as an increase in temporarily restricted net assets. When support is expended to satisfy the restricted purpose, temporarily restricted net assets are classified to unrestricted net assets. See Note 9 for the breakdown of temporarily restricted net assets.

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Income Taxes

THAW (a nonprofit organization) is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Organization's income tax filings are subject to audit by various taxing authorities. The Organization's open audit periods are 2013 - 2016.

Equipment and Software

Depreciation is provided over the estimated useful lives of the assets on the straight-line method. Donated equipment is stated at cost or approximate fair value at the date of donation. The Organization follows the practice of capitalizing all expenditures for equipment and software over \$5,000.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THAW (a nonprofit organization) receives a substantial portion of its contributions from companies in the southeastern Michigan geographical region and from the State of Michigan. Federal revenue from the State of Michigan amounted to approximately 51% and 72% of total revenue for the years ended June 30, 2017 and 2016, respectively.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include highly liquid investments with original maturities of three months or less. THAW (a nonprofit organization) places its temporary cash investments with high credit quality financial institutions. THAW's (a nonprofit organization) cash balance in excess of the FDIC insurance limit at June 30, 2017 and 2016 was approximately \$8,274,500 and \$4,228,100, respectively. All cash and cash equivalents are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain cash and cash equivalents, it is at least reasonably possible that changes in the values of cash and cash equivalents could occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

THE HEAT AND WARMTH FUND
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Pledges Receivable

Pledges receivable are carried at donor pledge amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. Amounts deemed uncollectible are written-off in the period that determination is made. At June 30, 2017 and 2016, no allowance for doubtful accounts was deemed necessary.

Grants Receivable

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured at the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Grants receivable consist of federal funds passed through the State of Michigan. No allowance for uncollectible accounts has been provided. Management has evaluated the account based on historical experience and review of current status and believes it is collectible.

Accounts Receivable

Accounts receivable are carried at invoice amounts. The receivable consists of reimbursable grants and program fees at June 30, 2017.

Marketable Securities

The Organization's investments in marketable securities for the years ended June 30, 2017 and 2016 are recorded at fair value, with any unrealized gains and losses included in the increase in net assets as reported on the statements of activities.

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Marketable Securities (Continued)

Included in investment income are dividends received and unrealized gains on investments.

Realized gains and losses on sales of securities are determined using the specific-identification method.

Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy under generally accepted accounting principles are described below:

Basis of Fair Value Measurements

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3 - Prices or valuations that require input that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to their fair value measurement. All marketable securities of the Company at June 30, 2017 and 2016 were measured using Level 1 inputs.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 10, 2017, which is the date the financial statements were available to be issued.

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Allocation of Functional Expenses

In the statements of functional expenses, salaries and related expenses are allocated to program services and supporting services on the basis of the actual or estimated time devoted to those activities. Other expenses have been allocated using various bases as determined by management. For the year ended June 30, 2017, total functional expenses were allocated in the following manner:

Program services	\$ 11,689,145
Supporting services:	
Management and general	838,653
Fundraising	<u>667,021</u>
 Total functional expenses	 <u>\$ 13,194,819</u>

Expenses reported under program services represent the cost of providing energy assistance. Expenses reported under supporting services include costs relating to the operations of the Organization, general recordkeeping, accounting, general board activities, fundraising and other related costs. The salaries and expenses of the Chief Executive Officer and Chief Operating Officer are allocated to program services for time spent directly supervising program activities.

In-Kind Contributions

In-kind contributions for the years ended June 30, 2017 and 2016 amounted to \$42,340 and \$40,207, respectively, and consisted of the value of bill inserts included in electric bills. The corresponding expense is included in functional expenses.

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 2 - Marketable Securities

Disclosures concerning assets measured at fair value on a recurring basis are as follows:

	<u>As of June 30, 2017</u>			
	<u>Fair Value Based on</u>			
	<u>Assets</u>	<u>Quoted</u>	<u>Other</u>	<u>Unobserv-</u>
	<u>Measured</u>	<u>Prices</u>	<u>Observable</u>	<u>able</u>
	<u>At Fair</u>	<u>in Active</u>	<u>Inputs</u>	<u>Inputs</u>
	<u>Value</u>	<u>Markets</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
		<u>(Level 1)</u>		
Mutual funds:				
Large blend	\$ 75,501	\$ 75,501	\$ -	\$ -
Intermediate-term bond	61,373	61,373	-	-
Short-term bond	49,906	49,906	-	-
Foreign large blend	46,253	46,253	-	-
Large value	45,176	45,176	-	-
Small blend	23,720	23,720	-	-
Mid-cap blend value	<u>22,803</u>	<u>22,803</u>	<u>-</u>	<u>-</u>
Total mutual funds	324,732	324,732	-	-
Money market fund	200,000	200,000	-	-
Cash deposit account	<u>479,421</u>	<u>479,421</u>	<u>-</u>	<u>-</u>
Total marketable securities	<u>\$ 1,004,153</u>	<u>\$ 1,004,153</u>	<u>\$ -</u>	<u>\$ -</u>

THE HEAT AND WARMTH FUND
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 2 - Marketable Securities (Continued)

A summary of investment earnings included in the increase in net assets in the accompanying statements of activities is as follows:

	2017	2016
Gross unrealized gains	\$ 2,222	\$ -
Gross unrealized losses	(10)	-
Dividends and interest	1,970	-
Total	\$ 4,182	\$ -

Investments consist of mutual funds, a money market fund, and a cash deposit account. The following is a summary of the unrealized gains (losses), attributable to the Company's marketable securities, as of June 30, 2017:

	June 30, 2017		
	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Mutual funds	\$ 2,222	\$ (10)	\$ 324,732
Money market fund	-	-	200,000
Cash deposit account	-	-	479,421
Total investments	\$ 2,222	\$ (10)	\$ 1,004,153

THE HEAT AND WARMTH FUND
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 3 - Equipment and Software

The principal categories of equipment and software as of June 30, 2017 and 2016 may be summarized as follows:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 498,932	\$ 498,932
Office equipment	170,946	170,946
Software - other	10,813	10,813
Web-based system	190,220	190,220
TSN 2 web database	<u>308,220</u>	<u>308,220</u>
Total cost	1,179,131	1,179,131
Less accumulated depreciation	<u>747,159</u>	<u>642,287</u>
Total undepreciated cost	<u>\$ 431,972</u>	<u>\$ 536,844</u>

Included in leasehold improvements as of June 30, 2017, is \$270,068 of tenant improvements costs, which were paid by the lessor. These costs represent a deferred leasehold incentive, which will be amortized over the lease term using the straight-line method. As of June 30, 2017 and 2016, deferred leasehold incentive related to this transaction amounted to \$180,045 and \$227,014, respectively.

Note 4 - Line-of-Credit

THAW (a nonprofit organization) has an unsecured revolving line-of-credit of \$100,000 with Chase Bank bearing interest at prime plus 2%. At June 30, 2017 and 2016, there were no borrowings on the line-of-credit.

THE HEAT AND WARMTH FUND
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 5 - Donated Goods and Services

The Organization recognizes contribution revenue for certain services received at the fair value of those services, provided those services create or enhance non-financial assets or require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased.

Over 200 volunteers have donated time to the Organization. The value of time donated by volunteers to THAW (a nonprofit organization) is approximately \$13,000 for the year ended June 30, 2017. This amount is not reflected in the financial statements because the services are not recordable under accounting principles generally accepted in the United States of America.

Donated goods are reflected in the financial statements at their estimated values as described in Note 1.

Note 6 - Assistance to Individuals

Certain members of the Organization's Board of Directors are involved in other companies whose operations are similar to those of the Organization. The Organization provides a substantial portion of its direct assistance payments to these companies.

Assistance to individuals included in program expenses was provided in the form of direct payments for the years ended June 30, 2017 and 2016 as follows:

	<u>2017</u>	<u>2016</u>
DTE Energy	\$ 7,113,656	\$ 8,483,386
Consumers Energy	1,427,452	3,050,293
S.E.M.C.O. Energy	16,837	74,575
Other water assistance	-	9,090
Michigan Gas utilities	15,088	1,303
Other fuel	232,942	104,316
City of Detroit Water and Sewer Department	<u>51,339</u>	<u>323,512</u>
Total assistance to individuals	<u>\$ 8,857,314</u>	<u>\$ 12,046,475</u>

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 7 - Operating Expense

THAW (a nonprofit organization) leases its office space, phone equipment, postage machine and copier from unrelated third-parties. Total lease expense for the years ended June 30, 2017 and 2016 was \$144,551 and \$173,760, respectively.

The Organization leases their office facility under a noncancellable agreement expiring in April 2021. The agreement calls for monthly lease payments in the amount of \$14,267 through June 2019. In July 2019, lease payments will increase to \$15,158 through June 2020. In July 2020, lease payments will increase to \$15,604 for the remainder of the lease.

The future minimum rental payments under this operating lease as of June 30, 2017 are as follows:

2018	\$ 171,200
2019	171,200
2020	181,900
2021	<u>156,041</u>
Total	<u>\$ 680,341</u>

Note 8 - Pension Plan

THAW (a nonprofit organization) is a participant in a noncontributory defined benefit retirement plan. Contributions made by THAW (a nonprofit organization) are invested in a pooled account administered by United Way for Southeastern Michigan ("UWSEM"). Other affiliated agencies of UWSEM also contributed to the plan.

The plan was frozen as of March 15, 2005 for vested employees. The plan is fully funded and the contribution for employees was increased to 6% as of January 1, 2005. THAW (a nonprofit organization) withdrew from the plan effective December 31, 2006, and a termination payment of approximately \$14,000 was made. On June 28, 2012, UWSEM and the Pension Benefit Guarantee Corporation (PBGC) entered into an agreement to terminate the plan and appoint the PBGC as statutory trustee. The termination of the plan created a liability under Title IV of ERISA. A final payment of \$48,500 was paid to the PBGC by THAW in February 2016, resulting in the full release of Title IV liabilities.

THAW (a nonprofit organization) began offering their own 403(b) account in July 2006. Effective January 1, 2012, the Organization switched to a simple IRA account. Contributions to these accounts amounted to \$35,843 and \$29,095 for the years ended June 30, 2017 and 2016, respectively.

THE HEAT AND WARMTH FUND
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 9 - Restrictions on Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Federal Funds Passed Through the State of Michigan	\$ 985,329	\$ 796,977
Skillman Foundation	50,000	50,000
Ferrell Gas	-	225
DTE Energy	4,796,369	386,875
Verizon	-	4,155
Kresge Foundation	16,306	75,000
Consumers Energy	71,734	-
S.E.M.C.O. Energy	<u>124,931</u>	<u>54,839</u>
Total	<u>\$ 6,044,669</u>	<u>\$ 1,368,071</u>

* * * End of Notes * * *

**THE HEAT AND WARMTH FUND
(A Nonprofit Organization)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

Federal Agency/Pass-Through Agency Program Title	Federal CFDA Number	Award Amount	Passed Through to Subrecipients	Expenditures
<u>U.S. Department of Housing and Urban Development - Passed Through the City of Detroit</u>				
Emergency Solutions Grant Program - October 1, 2013 - September 30, 2016 - 2896965	14.231	\$ 100,000	\$ -	\$ 86,755
Community Development Block Grants - October 1, 2014 - December 31, 2016 - 2904180	14.218	100,000	-	72,212
Total Passed Through the City of Detroit		200,000	-	158,967
<u>U.S. Department of Health and Human Services - Passed Through the State of Michigan</u>				
Low-Income Home Energy Assistance Program:	93.568			
October 1, 2015 - September 30, 2016 - PSC-16-11		8,500,000	-	760,462
October 1, 2016 - September 30, 2017 - PSC-17-11		8,825,000	-	7,839,952
Total Low-Income Home Energy Assistance Program		17,325,000	-	8,600,414
Total Federal Financial Assistance		\$ 17,525,000	\$ -	\$ 8,759,381

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

Note A - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of The Heat and Warmth Fund under programs of the federal government for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of The Heat and Warmth Fund, it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Heat and Warmth Fund.

Note B - Summary of Significant Accounting Policies

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles within OMB Circular A-122, *Cost Principles for Non-profit Organizations*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement, as well as cost principles in accordance with the State of Michigan. The Heat and Warmth Fund has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

Note C - Major Programs

Major programs are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

Note D - Federal Revenue Reconciliation

Federal Revenues per the financial statements	\$ 8,984,318
Federal Expenditures per the Schedule of Expenditures of Federal Awards	<u>8,759,381</u>
Difference	<u>\$ 224,937</u>

The difference relates to revenue that was received during the year ended June 30, 2017 that will not be expended in the following year.