

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

FINANCIAL STATEMENTS

JUNE 30, 2018

*(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, 2018, 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 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 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 23, 2018, 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.



Troy, Michigan  
October 23, 2018

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

**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents (note 1)	\$ 11,215,166	\$ 8,690,359
Marketable securities (notes 1 and 2)	1,050,370	1,004,153
Accounts receivable (note 1)	1,589,090	974,355
Prepaid expenses and other current assets	95,154	33,928
Total current assets	13,949,780	10,702,795
Equipment and software:		
At cost, less accumulated depreciation of \$852,031 in 2018 and \$747,159 in 2017 (notes 1 and 3)	327,100	431,972
Total assets	\$ 14,276,880	\$ 11,134,767
<b><u>Liabilities and Net Assets</u></b>		
Current liabilities:		
Accounts payable	\$ 73,110	\$ 31,206
Accrued liabilities	896,324	423,408
Total current liabilities	969,434	454,614
Deferred leasehold incentive (note 3)	133,077	180,045
Net assets:		
Unrestricted	4,139,359	4,455,439
Temporarily restricted (notes 1 and 9)	9,035,010	6,044,669
Total net assets	13,174,369	10,500,108
Total liabilities and net assets	\$ 14,276,880	\$ 11,134,767

See accompanying notes to financial statements

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

**STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
**WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2017**

	Unrestricted	Temporarily Restricted	<b>2018</b>	<b>2017</b>
Revenue and support from operations:				
Public and corporate support	\$ 2,144,414	\$ 5,584	\$ 2,149,998	\$ 2,122,792
DTE Energy	-	500,000	500,000	1,491,147
DTE Gas	-	4,000,000	4,000,000	4,250,000
Consumers Gas	-	250,000	250,000	376,000
Federal grants	175,000	14,100,270	14,275,270	8,984,318
Other foundation support	114,550	200,000	314,550	235,556
Interest income	48,666	-	48,666	6,469
Fundraising revenue	-	50,000	50,000	93,000
Miscellaneous income	40,224	-	40,224	23,367
	<u>2,522,854</u>	<u>19,105,854</u>	<u>21,628,708</u>	<u>17,582,649</u>
Total revenue and support from operations				
Functional expenses:				
Program services	17,533,907	-	17,533,907	11,689,145
Supporting services	1,460,608	-	1,460,608	1,505,674
	<u>18,994,515</u>	<u>-</u>	<u>18,994,515</u>	<u>13,194,819</u>
Total functional expenses (note 1)				
Release of net assets from restrictions	<u>16,115,513</u>	<u>(16,115,513)</u>	<u>-</u>	<u>-</u>
(Decrease) increase in net assets before in-kind contributions	(356,148)	2,990,341	2,634,193	4,387,830
In-kind contributions (note 1)	<u>40,068</u>	<u>-</u>	<u>40,068</u>	<u>42,340</u>
(Decrease) increase in net assets	(316,080)	2,990,341	2,674,261	4,430,170
Net assets - beginning	<u>4,455,439</u>	<u>6,044,669</u>	<u>10,500,108</u>	<u>6,069,938</u>
Net assets - ending	<u>\$ 4,139,359</u>	<u>\$ 9,035,010</u>	<u>\$ 13,174,369</u>	<u>\$ 10,500,108</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, 2018**  
**WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2017**

	Program Services	Supporting Services			2018	2017
		Management and General	Fundraising	Total Supporting Services		
Salaries and fringes	\$ 1,914,472	\$ 429,865	\$ 265,569	\$ 695,434	\$ 2,609,906	\$ 2,398,738
Assistance to individuals (note 6)	14,003,306	-	-	-	14,003,306	8,857,314
Promotional	-	-	85,265	85,265	85,265	63,003
Printing and postage	93,305	2,105	96,848	98,953	192,258	171,987
Contractual services	935,539	162,338	47,565	209,903	1,145,442	847,358
Travel and meetings	18,475	13,031	11,732	24,763	43,238	37,016
Depreciation	62,126	26,229	16,516	42,745	104,871	104,872
Applicant screening/referral	6,570	-	-	-	6,570	39,600
Telephone	151,131	9,588	15,025	24,613	175,744	134,018
Space rental (note 7)	163,937	39,765	16,223	55,988	219,925	205,201
Supplies	49,974	5,127	3,618	8,745	58,719	55,176
License and fees	-	20	200	220	220	385
Equipment and software	21,402	14,669	10,769	25,438	46,840	54,114
Web expense	98,382	695	8,761	9,456	107,838	76,484
Dues and subscriptions	663	1,478	24	1,502	2,165	2,312
Support maintenance services	7,713	3,345	3,135	6,480	14,193	8,916
Bank fees	-	4,115	15,430	19,545	19,545	25,259
Insurance	6,912	2,094	1,048	3,142	10,054	9,601
Miscellaneous	-	298	105,474	105,772	105,772	58,681
Charitable contributions	-	2,576	-	2,576	2,576	2,444
In-kind expense (note 1)	-	-	40,068	40,068	40,068	42,340
<b>Total functional expenses</b>	<b>\$ 17,533,907</b>	<b>\$ 717,338</b>	<b>\$ 743,270</b>	<b>\$ 1,460,608</b>	<b>\$ 18,994,515</b>	<b>\$ 13,194,819</b>

See accompanying notes to financial statements

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

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Increase in net assets	\$ 2,674,261	\$ 4,430,170
Adjustments:		
Depreciation	104,871	104,872
Net unrealized gain on investments	(27,453)	(2,212)
Amortization of deferred leasehold incentive	(46,968)	(46,969)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(614,735)	494,231
Increase in prepaid expenses and other current assets	(61,226)	(11,930)
Increase (decrease) in accounts payable	41,904	(209,730)
Increase in accrued liabilities	472,916	218,221
Total adjustments	(130,691)	546,483
Net cash provided from operating activities	2,543,570	4,976,653
Cash flows from investing activities:		
Interest and dividend income on investments	(18,763)	(1,941)
Investments made in marketable securities	-	(1,000,000)
Net cash used in investing activities	(18,763)	(1,001,941)
Net increase in cash and cash equivalents	2,524,807	3,974,712
Cash and cash equivalents - beginning	8,690,359	4,715,647
Cash and cash equivalents - ending	\$ 11,215,166	\$ 8,690,359

See accompanying notes to financial statements

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**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, 2018 AND 2017**

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**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 2014 - 2017.

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 66% and 51% of total revenue for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 was approximately \$10,809,900 and \$8,274,500, 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**  
**(A Nonprofit Organization)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**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, 2018 and 2017, 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, 2018.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Marketable Securities

The Organization's investments in marketable securities for the years ended June 30, 2018 and 2017 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, 2018 AND 2017**

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**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, 2018 and 2017 were measured using Level 1 inputs.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 23, 2018, 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, 2018 AND 2017**

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**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, 2018, total functional expenses were allocated in the following manner:

Program services	\$ 17,533,907
Supporting services:	
Management and general	717,338
Fundraising	<u>743,270</u>
 Total functional expenses	 <u>\$ 18,994,515</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, 2018 and 2017 amounted to \$40,068 and \$42,340, 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, 2018 AND 2017**

**Note 2 - Marketable Securities**

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

	<b>As of June 30, 2018</b>			
	Fair Value Based on			
	Assets Measured At Fair Value	Quoted	Other	Unobserv-
		Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	able Inputs (Level 3)
Mutual funds:				
Large blend	\$ 161,682	\$ 161,682	\$ -	\$ -
Intermediate-term bond	98,462	98,462	-	-
Short-term bond	196,698	196,698	-	-
Foreign large blend	90,277	90,277	-	-
Large value	145,171	145,171	-	-
Small blend	82,972	82,972	-	-
Fixed income	99,189	99,189	-	-
Mid-cap blend value	79,923	79,923	-	-
Total mutual funds	954,374	954,374	-	-
Money market fund	41,150	41,150	-	-
Cash deposit account	54,846	54,846	-	-
Total marketable securities	\$ 1,050,370	\$ 1,050,370	\$ -	\$ -

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**Note 2 - Marketable Securities (Continued)**

	<b>As of June 30, 2017</b>			
	Fair Value Based on			
	Assets Measured At Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobserv- able Inputs (Level 3)
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	22,803	22,803	-	-
Total mutual funds	324,732	324,732	-	-
Money market fund	200,000	200,000	-	-
Cash deposit account	479,421	479,421	-	-
Total marketable securities	\$ 1,004,153	\$ 1,004,153	\$ -	\$ -

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

	<b>2018</b>	<b>2017</b>
Gross unrealized gains	\$ 40,070	\$ 2,222
Gross unrealized losses	(12,617)	(10)
Dividends and interest	21,213	1,970
Total	\$ 48,666	\$ 4,182

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**Note 2 - Marketable Securities (Continued)**

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, 2018 and 2017:

	<b>June 30, 2018</b>		
	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Mutual funds	\$ 40,070	\$ (12,617)	\$ 954,374
Money market fund	-	-	41,150
Cash deposit account	-	-	54,846
	<u>\$ 40,070</u>	<u>\$ (12,617)</u>	<u>\$ 1,050,370</u>
Total investments	<u>\$ 40,070</u>	<u>\$ (12,617)</u>	<u>\$ 1,050,370</u>
	<b>June 30, 2017</b>		
	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
	<u>\$ 2,222</u>	<u>\$ (10)</u>	<u>\$ 1,004,153</u>
Total investments	<u>\$ 2,222</u>	<u>\$ (10)</u>	<u>\$ 1,004,153</u>

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**Note 3 - Equipment and Software**

The principal categories of equipment and software as of June 30, 2018 and 2017 may be summarized as follows:

	<u>2018</u>	<u>2017</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>852,031</u>	<u>747,159</u>
Total undepreciated cost	<u>\$ 327,100</u>	<u>\$ 431,972</u>

Included in leasehold improvements as of June 30, 2018, is \$270,068 of tenant improvement 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, 2018 and 2017, deferred leasehold incentive related to this transaction amounted to \$133,077 and \$180,045, 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, 2018 and 2017, there were no borrowings on the line-of-credit.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**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 \$24,000 for the year ended June 30, 2018. 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, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
DTE Energy	\$ 10,700,693	\$ 7,113,656
Consumers Energy	1,170,324	1,427,452
S.E.M.C.O. Energy	1,786,187	16,837
Other water assistance	2,251	-
Michigan Gas Utilities	8,876	15,088
Other fuel	147,419	232,942
City of Detroit Water and Sewer Department	<u>187,556</u>	<u>51,339</u>
Total assistance to individuals	<u>\$ 14,003,306</u>	<u>\$ 8,857,314</u>

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**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, 2018 and 2017 was \$143,181 and \$144,551, 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, 2018 are as follows:

2019	\$ 171,200
2020	181,900
2021	<u>156,041</u>
Total	<u>\$ 509,141</u>

**Note 8 - Pension Plan**

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 \$41,736 and \$35,843 for the years ended June 30, 2018 and 2017, respectively.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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**Note 9 - Restrictions on Net Assets**

Temporarily restricted net assets consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Federal Funds Passed Through the State of Michigan	\$ 2,445,490	\$ 985,329
Skillman Foundation	-	50,000
SL Gimbel Foundation	4,896	-
DTE Energy	2,411,812	4,796,369
DTE Gas	4,000,000	-
Max Fisher Foundation	86,831	-
Kresge Foundation	13,104	16,306
Consumers Energy	20,024	71,734
S.E.M.C.O. Energy	<u>52,853</u>	<u>124,931</u>
Total	<u>\$ 9,035,010</u>	<u>\$ 6,044,669</u>

**\*\*\* End of Notes \*\*\***

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

Federal Agency/Pass-Through Agency Program Title	Federal CFDA Number	Award Amount	Passed Through to Subrecipients	Expenditures
<b><u>U.S. Department of Housing and Urban Development - Passed Through the City of Detroit</u></b>				
Emergency Solutions Grants Program - January 1, 2017 - June 30, 2018	14.231	\$ 100,000	\$ -	\$ 100,000
Homelessness Prevention Services - January 1, 2017 - June 30, 2018	14.218	75,000	-	75,000
Total Passed Through the City of Detroit		<u>175,000</u>	<u>-</u>	<u>175,000</u>
<b><u>U.S. Department of Health and Human Services - Passed Through the State of Michigan</u></b>				
Low-Income Home Energy Assistance Program:	93.568			
October 1, 2016 - September 30, 2017 - PSC-17-11		8,825,000	-	985,048
October 1, 2017 - September 30, 2018 - MAE-18-06		14,100,270	-	11,192,228
Total Low-Income Home Energy Assistance Program		<u>22,925,270</u>	<u>-</u>	<u>12,177,276</u>
Total Federal Financial Assistance		<u>\$ 23,100,270</u>	<u>\$ -</u>	<u>\$ 12,352,276</u>

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, 2018**

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**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, 2018. 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	\$ 14,275,270
Federal Expenditures per the Schedule of Expenditures of Federal Awards	<u>12,352,276</u>
Difference	<u>\$ 1,922,994</u>

The difference relates to revenue that was received during the year ended June 30, 2018 but will not be expended until fiscal year 2019.

\* \* \* End of Notes \* \* \*