

THE HEAT AND WARMTH FUND

FINANCIAL STATEMENTS

JUNE 30, 2010

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Independent Auditor's Report

To the Board of Directors of
The Heat and Warmth Fund

We have audited the accompanying statements of financial position of The Heat and Warmth Fund as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Doeren Mayhew
DOEREN MAYHEW

October 11, 2010
Troy, Michigan

THE HEAT AND WARMTH FUND

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2010	2009
Current Assets		
Cash and cash equivalents (note 1)	\$ 2,943,893	\$ 2,522,063
Pledges receivable - less allowance for doubtful accounts of \$17,000 in 2010 and \$32,758 in 2009 (notes 1 and 2)	718	509,796
Prepaid expenses and other current assets	961	997
Total current assets	2,945,572	3,032,856
Equipment and Software		
At cost, less accumulated depreciation of \$464,525 in 2010 and \$327,441 in 2009 (note 3)	89,277	224,424
Total assets	<u>\$ 3,034,849</u>	<u>\$ 3,257,280</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 115,118	\$ 20,337
Accrued liabilities	15,346	32,037
Total liabilities	130,464	52,374
Net Assets		
Unrestricted	2,418,409	2,641,174
Temporarily restricted (notes 1 and 9)	485,976	563,732
Total net assets	2,904,385	3,204,906
Total liabilities and net assets	<u>\$ 3,034,849</u>	<u>\$ 3,257,280</u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND

STATEMENTS OF ACTIVITIES

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Year Ended June 30,</u>	
			<u>2010</u>	<u>2009</u>
Revenue and Support From Operations				
Public support	\$ 1,194,433	\$ -	\$ 1,194,433	\$ 1,510,551
Corporate support	128,112	-	128,112	100,459
Consumers Energy	-	-	-	1,484
DTE Energy	1,484,406	-	1,484,406	4,901,472
DTE Energy - administration	500,000	-	500,000	500,000
Michigan Gas Utilities	8,565	-	8,565	42,201
S.E.M.C.O.	2,411	-	2,411	66,748
Skillman Foundation	-	150,000	150,000	170,000
State of Michigan	-	5,090,900	5,090,900	8,100,000
Federal grants, net (note 1)	-	222,367	222,367	163,392
City of Detroit	-	132,341	132,341	75,000
Other foundation support	46,035	75,000	121,035	246,450
Special events				
Revenue	531,392	-	531,392	716,166
Expenses	(105,397)	-	(105,397)	(256,735)
Interest income	6,704	-	6,704	11,091
Faith based donations	15,589	-	15,589	18,018
St. Vincent de Paul	456,378	-	456,378	380,000
Miscellaneous fuel dealers	10,105	-	10,105	450
	<u>4,278,733</u>	<u>5,670,608</u>	<u>9,949,341</u>	<u>16,746,747</u>
Total revenue and support from operations (note 5)				
Functional Expenses				
Program services	9,074,068	-	9,074,068	15,652,106
Supporting services	1,277,546	-	1,277,546	1,417,055
	<u>10,351,614</u>	<u>-</u>	<u>10,351,614</u>	<u>17,069,161</u>
Total functional expenses (note 1)				
Release of Net Assets From Restrictions	<u>5,748,364</u>	<u>(5,748,364)</u>	<u>-</u>	<u>-</u>
Decrease in Net Assets Before In-Kind Contributions	(324,517)	(77,756)	(402,273)	(322,414)
In-Kind Contributions (note 1)	<u>101,752</u>	<u>-</u>	<u>101,752</u>	<u>166,452</u>
Decrease in Net Assets	(222,765)	(77,756)	(300,521)	(155,962)
Net Assets - Beginning	<u>2,641,174</u>	<u>563,732</u>	<u>3,204,906</u>	<u>3,360,868</u>
Net Assets - Ending	<u>\$ 2,418,409</u>	<u>\$ 485,976</u>	<u>\$ 2,904,385</u>	<u>\$ 3,204,906</u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
STATEMENTS OF FUNCTIONAL EXPENSES

	Program Services	Supporting Services		Total Supporting Services	Year Ended June 30,	
		Management and General	Fundraising		2010	2009
Salaries and fringes	\$ 359,258	\$ 293,610	\$ 311,660	\$ 605,270	\$ 964,528	\$ 939,071
Assistance to individuals (note 6)	8,125,250	-	-	-	8,125,250	14,772,776
Promotional	-	-	84,011	84,011	84,011	104,634
Advertising	-	-	101,752	101,752	101,752	166,452
Printing and postage	13,517	54,069	67,587	121,656	135,173	99,141
Contractual services	-	112,971	40,253	153,224	153,224	70,815
Travel and meetings	78,728	9,961	7,830	17,791	96,519	111,700
Depreciation	147,720	-	-	-	147,720	109,048
Applicant screening/referral	128,627	-	-	-	128,627	237,054
Telephone	13,297	13,297	-	13,297	26,594	22,162
Education	-	2,329	-	2,329	2,329	-
Space rental	23,595	24,310	23,595	47,905	71,500	66,180
Supplies	5,753	5,927	5,753	11,680	17,433	18,433
License and fees	-	5,330	-	5,330	5,330	4,648
Equipment and software	4,430	4,430	4,430	8,860	13,290	25,540
Web-based system	32,848	-	-	-	32,848	45,805
Dues and subscriptions	-	2,307	-	2,307	2,307	399
Support maintenance services	23,432	23,432	23,432	46,864	70,296	57,481
Bank fees	22,693	22,693	22,693	45,386	68,079	15,660
Insurance	776	776	776	1,552	2,328	1,953
Faith based expense	1,870	-	-	-	1,870	6,723
Agency reimbursement	20,928	-	-	-	20,928	12,304
Good Neighbor Initiative	71,031	-	-	-	71,031	127,531
Bad debt expense	-	8,332	-	8,332	8,332	50,643
Miscellaneous	-	-	-	-	-	2,220
Loss on disposal of property and equipment	315	-	-	-	315	788
Total functional expenses	\$ 9,074,068	\$ 583,774	\$ 693,772	\$ 1,277,546	\$10,351,614	\$17,069,161

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND

STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities:		
Decrease in net assets	\$ (300,521)	\$ (155,962)
Adjustments:		
Depreciation	147,720	109,048
Bad debt expense	8,332	50,643
Loss on disposal of property and equipment	315	788
Changes in assets and liabilities:		
Decrease (increase) in pledges receivable	500,746	(531,315)
Decrease (increase) in prepaid expenses and other current assets	36	(51)
Increase (decrease) in accounts payable	94,781	(30,165)
Decrease in accrued liabilities	(16,691)	(7,387)
Total adjustments	<u>735,239</u>	<u>(408,439)</u>
Net cash provided from (used in) operating activities	434,718	(564,401)
Cash Flows From Investing Activities:		
Purchase of equipment and software	<u>(12,888)</u>	<u>(52,579)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	421,830	(616,980)
Cash and Cash Equivalents - Beginning	<u>2,522,063</u>	<u>3,139,043</u>
Cash and Cash Equivalents - Ending	<u>\$ 2,943,893</u>	<u>\$ 2,522,063</u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Activities

The Heat and Warmth Fund ("THAW") is a community organization that was established in December 1985 to provide last resort energy assistance to low-income households and to serve as an information resource on energy assistance programs. THAW serves most counties in Michigan.

Basis of Presentation

THAW has adopted generally accepted accounting principles related to not-for-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 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 and/or the passage of time. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net assets.

Income Taxes

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

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 HEAT AND WARMTH FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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

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 receives a substantial portion of its contributions from companies in the southeastern Michigan geographical region and from the State of Michigan. This region has experienced job losses, reduced funding and other recessionary impacts that could significantly impact the Organization's future operations and financial conditions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include highly liquid debt instruments with original maturities of three months or less. THAW places its temporary cash investments with high credit quality financial institutions. THAW's cash balance in excess of the FDIC insurance limit at June 30, 2010 and 2009 was approximately \$3,028,800 and \$2,366,200, 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 changes could materially affect the amounts reported in the statements of financial position.

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, 2010 and 2009, the allowance for doubtful accounts amounted to \$17,000 and \$32,758, respectively.

THE HEAT AND WARMTH FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 11, 2010, which is the date the financial statements were available to be issued.

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, 2010, total functional expenses were allocated in the following manner:

Program services	\$ 9,074,068
Supporting services	
Management and general	583,774
Fundraising	<u>693,772</u>
Total functional expenses	<u>\$ 10,351,614</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 Financial 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, 2010 and 2009 amounted to \$101,752 and \$166,452, respectively, and primarily consisted of the value of bill inserts included in electric bills. The corresponding program expense is included in functional expenses.

Federal Funds

Federal funding received during the years ended June 30, 2010 and 2009 amounted to \$552,301 and \$169,392, respectively, out of which \$329,535 was forfeited and returned back in 2010 to the issuing organization.

THE HEAT AND WARMTH FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Note 2 - Pledges Receivable

Pledges receivable at June 30, 2010 and 2009 may be summarized as follows:

	June 30,	
	<u>2010</u>	<u>2009</u>
Accounts receivable	\$ 17,718	\$ 542,554
Less allowance for doubtful accounts	<u>(17,000)</u>	<u>(32,758)</u>
	<u>\$ 718</u>	<u>\$ 509,796</u>

Note 3 - Equipment and Software

The principal categories of equipment and software as of June 30, 2010 and 2009 may be summarized as follows:

Office equipment	\$ 60,049	\$ 58,112
Software - other	10,813	10,813
Web-based system	174,720	174,720
TSN 2 web database	<u>308,220</u>	<u>308,220</u>
Total cost	553,802	551,865
Less accumulated depreciation	<u>464,525</u>	<u>327,441</u>
Total undepreciated cost	<u>\$ 89,277</u>	<u>\$ 224,424</u>

Direct internal and external costs associated with the development of the features, content, and functionality of THAW's web-site, transaction-processing systems, telecommunications infrastructure and network operations, incurred during the development and testing stages, have been capitalized, and are being amortized over their useful lives, estimated at three years. All costs related to the planning phase and all maintenance costs on the current web-based system were expensed as incurred prior to the implementation date.

THE HEAT AND WARMTH FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Note 4 - Line-of-Credit

THAW has an unsecured revolving line-of-credit of \$100,000 with Chase Bank bearing interest at prime plus 2%. At June 30, 2010 and 2009, there were no borrowings on the line-of-credit.

Note 5 - Donated Goods and Services

The accompanying financial statements reflect the actual cost or fair market value of certain goods and services donated to THAW during the years ended June 30, 2010 and 2009. Such goods and services include duplicating, research, promotion, telephone, printing and office/meeting space. Additionally, as stated in Note 6, "Assistance to Individuals" is provided through corporate matching programs. The total amount of revenues and expenses donated as goods and services and assistance to individuals was approximately \$1,390,000 and \$4,985,000 for the years ended June 30, 2010 and 2009, respectively.

The value of time donated by volunteers to THAW has not been determined. The value of such services has not been reflected in the financial statements for the years ended June 30, 2010 and 2009.

THE HEAT AND WARMTH FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Note 6 - Assistance to Individuals

Assistance to individuals included in program expenses was provided in the form of direct payments and noncash credits for the years ended June 30, 2010 and 2009 as follows:

	June 30,	
	2010	2009
DTE	\$ 5,310,271	\$ 7,255,798
DTE - match	1,342,455	4,982,123
Consumers Energy	862,121	1,168,253
S.E.M.C.O.	101,899	422,466
S.E.M.C.O. - match	48,658	2,854
Michigan Gas Utilities	40,866	110,477
Other fuel	418,980	830,805
Total assistance to individuals	\$ 8,125,250	\$ 14,772,776

Note 7 - Operating Expense

THAW leases its office space, phone equipment, postage machine and copier from unrelated third parties. Total lease expense for the years ended June 30, 2010 and 2009 was \$71,500 and \$66,180, respectively.

The Organization's office lease is a noncancelable lease agreement requiring monthly payments of \$4,333 expiring on September 13, 2018.

The future minimum rental payments under this operating lease as of June 30, 2010 are as follows:

2011	\$ 53,950
2012	54,600
2013	56,550
2014	57,200
2015	59,150
Thereafter	199,550
Total	\$ 481,000

THE HEAT AND WARMTH FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Note 8 - Pension Plan

THAW is a participant in a noncontributory defined benefit retirement plan. Contributions made by THAW 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 withdrew from the plan effective December 31, 2006, and a termination payment of approximately \$14,000 was made. It is expected that an additional termination payment of approximately \$5,000 will be required by sixty days after the final plan actuary issuance which has not been completed as of October 11, 2010. During the years ended June 30, 2010 and 2009, THAW has not contributed any money to this plan.

THAW began offering their own IRA and 403(b) accounts in July 2006. Contributions to these accounts amounted to \$20,559 and \$20,812 for the year ended June 30, 2010 and 2009, respectively.

Additionally, THAW has recently received a letter from United Way regarding the pension plan which THAW withdrew from effective December 31, 2006. United Way has requested THAW to pay additional funding of \$45,000, THAW is disputing this amount. At this time, it is uncertain as to the amount of additional funding, if any, that THAW will have to pay.

Note 9 - Restrictions on Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2010 and 2009:

	June 30,	
	2010	2009
State of Michigan	\$ 203,635	\$
City of Detroit	132,341	-
Emergency Food and Shelter Program	-	163,392
Skillman Foundation	150,000	400,340
	<u>485,976</u>	<u>563,732</u>
Total	\$ 485,976	\$ 563,732