

THE HEAT AND WARMTH FUND

FINANCIAL STATEMENTS

JUNE 30, 2011

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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, 2011 and 2010, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 basic 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 audit provides 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, 2011 and 2010, and the results of its activities, functional expenses and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

DOEREN MAYHEW

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011 on our consideration of The Heat and Warmth Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



DOEREN MAYHEW

November 22, 2011
Troy, Michigan

THE HEAT AND WARMTH FUND

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2011	2010
Current Assets		
Cash and cash equivalents (note 1)	\$ 2,695,290	\$ 2,943,893
Pledges receivable - less allowance for doubtful accounts of \$30,000 in 2011 and \$17,000 in 2010 (notes 1 and 2)	1,554	718
Grants receivable (note 1)	492,128	-
Prepaid expenses and other current assets	6,691	961
Total current assets	3,195,663	2,945,572
Equipment and Software		
At cost, less accumulated depreciation of \$520,123 in 2011 and \$464,525 in 2010 (note 3)	40,594	89,277
Total assets	<u>\$ 3,236,257</u>	<u>\$ 3,034,849</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 267,789	\$ 115,118
Accrued liabilities	190,767	15,346
Total liabilities	458,556	130,464
Net Assets		
Unrestricted	1,766,953	2,418,423
Temporarily restricted (notes 1 and 9)	1,010,748	485,962
Total net assets	2,777,701	2,904,385
Total liabilities and net assets	<u>\$ 3,236,257</u>	<u>\$ 3,034,849</u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND

STATEMENTS OF ACTIVITIES

			Year Ended	
	Unrestricted	Temporarily Restricted	June 30, 2011	2010
Revenue and Support From Operations				
Public support	\$ 1,220,430	\$ -	\$ 1,220,430	\$ 1,194,433
Corporate support	141,197	-	141,197	128,112
Consumers Energy	25,000	-	25,000	-
DTE Energy	2,771,719	-	2,771,719	1,484,406
DTE Energy - administration	-	-	-	500,000
Michigan Gas Utilities	-	-	-	8,565
S.E.M.C.O.	22,192	-	22,192	2,411
State of Michigan LIEE (note 1)	-	6,327,300	6,327,300	5,090,900
Federal grants, net (note 1)	1,482,774	-	1,482,774	222,367
City of Detroit	-	-	-	132,341
Skillman Foundation	-	150,000	150,000	150,000
Other foundation support	50,278	104,800	155,078	121,035
Affordability energy program	-	1,193,550	1,193,550	-
Special events				
Revenue	666,068	-	666,068	531,392
Expenses	(133,702)	-	(133,702)	(105,397)
Interest income	4,989	-	4,989	6,704
Faith based donations	7,721	-	7,721	15,589
St. Vincent de Paul	447,309	-	447,309	456,378
Miscellaneous fuel dealers	9,353	-	9,353	10,105
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Total revenue and support from operations (note 5)	6,715,328	7,775,650	14,490,978	9,949,341
Functional Expenses				
Program services	13,494,203	-	13,494,203	9,074,068
Supporting services	1,123,459	-	1,123,459	1,277,546
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Total functional expenses (note 1)	14,617,662	-	14,617,662	10,351,614
Release of Net Assets From Restrictions	7,250,864	(7,250,864)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Increase (Decrease) in Net Assets Before In-Kind Contributions	(651,470)	524,786	(126,684)	(402,273)
In-Kind Contributions (note 1)	-	-	-	101,752
	<hr/>	<hr/>	<hr/>	<hr/>
Increase (Decrease) in Net Assets	(651,470)	524,786	(126,684)	(300,521)
Net Assets - Beginning	2,418,423	485,962	2,904,385	3,204,906
	<hr/>	<hr/>	<hr/>	<hr/>
Net Assets - Ending	<u>\$ 1,766,953</u>	<u>\$ 1,010,748</u>	<u>\$ 2,777,701</u>	<u>\$ 2,904,385</u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND

STATEMENTS OF FUNCTIONAL EXPENSES

	<u>Supporting Services</u>				<u>Year Ended</u>	
	<u>Program</u> <u>Services</u>	<u>Management</u> <u>and General</u>	<u>Fundraising</u>	<u>Total</u> <u>Supporting</u> <u>Services</u>	<u>June 30,</u> <u>2011</u>	<u>2010</u>
Salaries and fringes	\$ 463,881	\$ 288,818	\$ 417,697	\$ 706,515	\$ 1,170,396	\$ 964,528
Assistance to individuals (note 6)	12,384,118	-	-	-	12,384,118	8,125,250
Promotional	-	-	9,390	9,390	9,390	84,011
Advertising	-	-	-	-	-	101,752
Printing and postage	54,947	13,737	68,685	82,422	137,369	135,173
Contractual services	163,503	20,438	20,438	40,876	204,379	153,224
Travel and meetings	42,631	19,377	15,502	34,879	77,510	96,519
Depreciation	38,919	8,340	8,339	16,679	55,598	147,720
Applicant screening/referral	132,299	-	-	-	132,299	128,627
Telephone	22,725	5,681	-	5,681	28,406	26,594
Education	-	-	-	-	-	2,329
Space rental (note 7)	24,576	24,575	25,320	49,895	74,471	71,500
Supplies	12,182	2,436	1,625	4,061	16,243	17,433
License and fees	-	7,111	-	7,111	7,111	5,330
Equipment and software	14,979	3,210	3,210	6,420	21,399	13,290
Web-based system	64,326	-	-	-	64,326	32,848
Dues and subscriptions	-	293	-	293	293	2,307
Support maintenance services	74,301	74,301	-	74,301	148,602	70,296
Bank fees	-	58,879	-	58,879	58,879	68,079
Insurance	816	816	840	1,656	2,472	2,328
Agency reimbursement	-	-	-	-	-	20,928
Faith based expense	-	-	-	-	-	1,870
Good Neighbor Initiative	-	-	-	-	-	71,031
Bad debt expense	-	-	24,367	24,367	24,367	8,332
Interest	-	34	-	34	34	-
Loss on disposal of property and equipment	-	-	-	-	-	315
Total functional expenses	<u>\$ 13,494,203</u>	<u>\$ 528,046</u>	<u>\$ 595,413</u>	<u>\$ 1,123,459</u>	<u>\$ 14,617,662</u>	<u>\$ 10,351,614</u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND

STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2011	2010
Cash Flows From Operating Activities:		
Decrease in net assets	\$ (126,684)	\$ (300,521)
Adjustments:		
Depreciation	55,598	147,720
Loss on disposal of property and equipment	-	315
Bad debt expense	24,367	8,332
Changes in assets and liabilities:		
Decrease (increase) in pledges receivable	(25,203)	500,746
Increase in grants receivable	(492,128)	-
Decrease (increase) in prepaid expenses and other current assets	(5,730)	36
Increase in accounts payable	152,671	94,781
Increase (decrease) in accrued liabilities	175,421	(16,691)
Total adjustments	(115,004)	735,239
Net cash provided from (used in) operating activities	(241,688)	434,718
Cash Flows From Investing Activities:		
Purchase of equipment and software	(6,915)	(12,888)
Net Increase (Decrease) in Cash and Cash Equivalents	(248,603)	421,830
Cash and Cash Equivalents - Beginning	2,943,893	2,522,063
Cash and Cash Equivalents - Ending	\$ 2,695,290	\$ 2,943,893

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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, 2011 AND 2010

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 revenue from the State of Michigan through the Low Income Energy Efficiency Fund (LIEEF). Currently, there is pending litigation involving outside parties that could potentially eliminate these funds and would in turn potentially impact the Organization's future operations. THAW's counsel has indicated there is no direct liability to THAW and management has revised its budget to plan accordingly for this contingency.

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, 2011 and 2010 was approximately \$2,161,400 and \$3,028,800, 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.

THE HEAT AND WARMTH FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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, 2011 and 2010, the allowance for doubtful accounts amounted to \$30,000 and \$17,000, respectively.

Grants Receivable

Grants receivable are carried at reimbursable amounts. An allowance for doubtful accounts is established, if necessary, based upon specific assessments of all reimbursement requests that remain unpaid following normal grantor payment periods. At June 30, 2011 and 2010, no allowance for doubtful accounts was deemed necessary.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including November 22, 2011, 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, 2011, total functional expenses were allocated in the following manner:

Program services	\$ 13,493,647
Supporting services	
Management and general	528,602
Fundraising	<u>595,413</u>
Total functional expenses	<u>\$ 14,617,662</u>

THE HEAT AND WARMTH FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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

Allocation of Functional Expenses - Continued

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 Vice-President of Finance and Operations are allocated to program services for time spent directly supervising program activities.

In-Kind Contributions

In-Kind contributions for the years ended June 30, 2011 and 2010 amounted to \$-0- and \$101,752, 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, 2011 and 2010 amounted to \$1,482,774 and \$222,367, respectively. At June 30, 2011, \$492,128 of these funds were still outstanding and a receivable. Federal funding expended during the years ended June 30, 2011 and 2010 amounted to \$1,605,563 and \$99,578, respectively. As part of the Homeless Prevention and Rapid Rehousing Program, THAW received an advance in funds of \$122,789 during the year ended June 30, 2010.

Note 2 - Pledges Receivable

Pledges receivable at June 30, 2011 and 2010 may be summarized as follows:

	June 30,	
	2011	2010
Accounts receivable	\$ 31,554	\$ 17,718
Less allowance for doubtful accounts	<u>(30,000)</u>	<u>(17,000)</u>
	<u>\$ 1,554</u>	<u>\$ 718</u>

THE HEAT AND WARMTH FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Note 3 - Equipment and Software

The principal categories of equipment and software as of June 30, 2011 and 2010 may be summarized as follows:

	June 30,	
	<u>2011</u>	<u>2010</u>
Office equipment	\$ 66,964	\$ 60,049
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	 560,717	 553,802
 Less accumulated depreciation	 <u>520,123</u>	 <u>464,525</u>
 Total undepreciated cost	 <u>\$ 40,594</u>	 <u>\$ 89,277</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.

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, 2011 and 2010, there were no borrowings on the line-of-credit.

THE HEAT AND WARMTH FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Note 5 - Donated Goods and Services

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, 2011 and 2010.

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, 2011 and 2010 as follows:

	June 30,	
	<u>2011</u>	<u>2010</u>
DTE	\$ 8,590,014	\$ 5,310,271
DTE - match	2,771,469	1,342,455
Consumers Energy	673,141	862,121
S.E.M.C.O.	70,579	101,899
S.E.M.C.O. - match	38,950	48,658
Michigan Gas utilities	18,490	40,866
Other fuel	<u>221,475</u>	<u>418,980</u>
Total assistance to individuals	<u>\$ 12,384,118</u>	<u>\$ 8,125,250</u>

THE HEAT AND WARMTH FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

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, 2011 and 2010 was \$74,471 and \$71,500, respectively.

The Organization's office lease is a noncancellable lease agreement requiring monthly payments ranging from \$4,333 to \$5,200 at the end of the lease, expiring on September 13, 2018.

The future minimum rental payments under this operating lease as of June 30, 2011 are as follows:

2012	\$	54,600
2013		56,550
2014		57,200
2015		59,150
2016		59,800
Thereafter		<u>139,750</u>
Total	\$	<u>427,050</u>

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 November 22, 2011. During the years ended June 30, 2011 and 2010, THAW has not contributed any money to this plan.

THE HEAT AND WARMTH FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Note 8 - Pension Plan - Continued

THAW began offering their own IRA and 403(b) accounts in July 2006. Contributions to these accounts amounted to \$8,162 and \$20,559 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010:

	June 30,	
	<u>2011</u>	<u>2010</u>
State of Michigan	\$ 796,104	\$ 203,636
Max Fischer Foundation	32,625	-
City of Detroit	-	132,326
PNC Foundation	25,000	-
Hitachi	4,800	-
MCAAA	2,216	-
Skillman Foundation	<u>150,000</u>	<u>150,000</u>
Total	<u>\$ 1,010,745</u>	<u>\$ 485,962</u>