

**THE HEAT AND WARMTH FUND**

**FINANCIAL STATEMENTS**

**JUNE 30, 2012**

## C O N T E N T S

	<u>Page</u>
<b>FINANCIAL STATEMENTS</b>	
Independent auditor's report	1
Statements of financial position	3
Statements of activities	4
Statements of functional expenses	5
Statements of cash flows	6
Notes to financial statements	7



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, 2012 and 2011, 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 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, 2012 and 2011, 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 October 10, 2012 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

October 10, 2012  
Troy, Michigan

# THE HEAT AND WARMTH FUND

## STATEMENTS OF FINANCIAL POSITION

### ASSETS

	June 30,	
	2012	2011
<b>Current Assets</b>		
Cash and cash equivalents (note 1)	\$ 9,933,402	\$ 2,695,290
Pledges receivable - less allowance for doubtful accounts of \$25,741 in 2012 and \$30,000 in 2011 (notes 1 and 2)	9,337	1,554
Grants receivable (note 1)	213,182	492,128
Prepaid expenses and other current assets	23,940	6,691
Total current assets	10,179,861	3,195,663
<b>Equipment and Software</b>		
At cost, less accumulated depreciation of \$549,443 in 2012 and \$520,123 in 2011 (note 3)	11,274	40,594
Total assets	<u>\$ 10,191,135</u>	<u>\$ 3,236,257</u>

### LIABILITIES AND NET ASSETS

<b>Liabilities</b>		
Accounts payable	\$ 15,497	\$ 267,789
Accrued liabilities	129,888	190,767
Total liabilities	145,385	458,556
<b>Net Assets</b>		
Unrestricted	4,254,900	1,766,953
Temporarily restricted (notes 1 and 9)	5,790,850	1,010,748
Total net assets	10,045,750	2,777,701
Total liabilities and net assets	<u>\$ 10,191,135</u>	<u>\$ 3,236,257</u>

See accompanying notes to financial statements

# THE HEAT AND WARMTH FUND

## STATEMENTS OF ACTIVITIES

	Unrestricted	Temporarily Restricted	Year Ended June 30,	
			2012	2011
<b>Revenue and Support From Operations</b>				
Public support	\$ 1,166,202	\$ -	\$ 1,166,202	\$ 1,220,430
Corporate support	106,783	-	106,783	141,197
Consumers Energy	13,295	-	13,295	25,000
DTE Energy	1,525,636	-	1,525,636	2,771,719
DTE Energy - administration	600,000	-	600,000	-
S.E.M.C.O.	73,394	-	73,394	22,192
State of Michigan (note 1)	-	9,689,814	9,689,814	6,327,300
Federal grants, net (note 1)	1,167,621	-	1,167,621	1,482,774
City of Detroit	50,000	-	50,000	-
Skillman Foundation	-	-	-	150,000
Other foundation support	114,724	310,746	425,470	155,078
Affordability energy program	-	-	-	1,193,550
Special events revenue (net)	947,578	-	947,578	532,366
Interest income	3,066	-	3,066	4,989
Faith based donations	9,816	-	9,816	7,721
St. Vincent de Paul	575,944	-	575,944	447,309
Miscellaneous income	2,001,006	-	2,001,006	9,353
<b>Total revenue and support from operations (note 5)</b>	<b>8,355,065</b>	<b>10,000,560</b>	<b>18,355,625</b>	<b>14,490,978</b>
<b>Functional Expenses</b>				
Program services	9,784,244	-	9,784,244	13,494,203
Supporting services	1,308,392	-	1,308,392	1,123,459
<b>Total functional expenses (note 1)</b>	<b>11,092,636</b>	<b>-</b>	<b>11,092,636</b>	<b>14,617,662</b>
<b>Release of Net Assets From Restrictions</b>	<b>5,220,458</b>	<b>(5,220,458)</b>	<b>-</b>	<b>-</b>
<b>Increase (Decrease) in Net Assets Before In-Kind Contributions</b>	<b>2,482,887</b>	<b>4,780,102</b>	<b>7,262,989</b>	<b>(126,684)</b>
<b>In-Kind Contributions (note 1)</b>	<b>5,060</b>	<b>-</b>	<b>5,060</b>	<b>-</b>
<b>Increase (Decrease) in Net Assets</b>	<b>2,487,947</b>	<b>4,780,102</b>	<b>7,268,049</b>	<b>(126,684)</b>
<b>Net Assets - Beginning</b>	<b>1,766,953</b>	<b>1,010,748</b>	<b>2,777,701</b>	<b>2,904,385</b>
<b>Net Assets - Ending</b>	<b>\$ 4,254,900</b>	<b>\$ 5,790,850</b>	<b>\$ 10,045,750</b>	<b>\$ 2,777,701</b>

See accompanying notes to financial statements

**THE HEAT AND WARMTH FUND**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

	<u>Supporting Services</u>			<u>Total Supporting Services</u>	<u>Year Ended June 30,</u>	
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>		<u>2012</u>	<u>2011</u>
Salaries and fringes	\$ 468,928	\$ 496,839	\$ 322,982	\$ 819,821	\$ 1,288,749	\$ 1,170,396
Assistance to individuals (note 6)	8,602,975	-	-	-	8,602,975	12,384,118
Promotional	38,920	-	38,921	38,921	77,841	9,390
Printing and postage	65,472	16,368	81,841	98,209	163,681	137,369
Contractual services	296,981	39,597	59,396	98,993	395,974	204,379
Travel and meetings	50,492	22,950	18,361	41,311	91,803	77,510
Depreciation	20,524	4,398	4,398	8,796	29,320	55,598
Applicant screening/referral	92,688	-	-	-	92,688	132,299
Telephone	3,220	403	402	805	4,025	28,406
Space rental (note 7)	29,134	18,209	25,492	43,701	72,835	74,471
Supplies	17,910	3,582	2,388	5,970	23,880	16,243
License and fees	-	7,880	-	7,880	7,880	7,111
Equipment and software	11,468	1,529	2,294	3,823	15,291	21,399
Web-based system	28,984	-	-	-	28,984	64,326
Dues and subscriptions	58	115	115	230	288	293
Support maintenance services	16,631	1,109	4,435	5,544	22,175	148,602
Bank fees	-	29,641	9,880	39,521	39,521	58,879
Insurance	2,140	2,141	2,205	4,346	6,486	2,472
Communications	33,437	4,180	4,179	8,359	41,796	-
Bad debt expense	-	-	18,000	18,000	18,000	24,367
Miscellaneous	4,282	4,281	4,412	8,693	12,975	-
Interest	-	-	-	-	-	34
In-kind expense	-	5,060	-	5,060	5,060	-
Events	-	-	50,409	50,409	50,409	-
<b>Total functional expenses</b>	<b>\$ 9,784,244</b>	<b>\$ 658,282</b>	<b>\$ 650,110</b>	<b>\$ 1,308,392</b>	<b>\$ 11,092,636</b>	<b>\$ 14,617,662</b>

See accompanying notes to financial statements

# THE HEAT AND WARMTH FUND

## STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2012	2011
<b>Cash Flows From Operating Activities:</b>		
Increase (decrease) in net assets	\$ 7,268,049	\$ (126,684)
Adjustments:		
Depreciation	29,320	55,598
Bad debt expense	18,000	24,367
Changes in assets and liabilities:		
Increase in pledges receivable	(25,783)	(25,203)
Decrease (increase) in grants receivable	278,946	(492,128)
Increase in prepaid expenses and other current assets	(17,249)	(5,730)
Increase (decrease) in accounts payable	(252,292)	152,671
Increase (decrease) in accrued liabilities	(60,879)	175,421
	(29,937)	(115,004)
Net cash provided from (used in) operating activities	7,238,112	(241,688)
<b>Cash Flows From Investing Activities:</b>		
Purchase of equipment and software	-	(6,915)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	7,238,112	(248,603)
<b>Cash and Cash Equivalents - Beginning</b>	2,695,290	2,943,893
<b>Cash and Cash Equivalents - Ending</b>	\$ 9,933,402	\$ 2,695,290

See accompanying notes to financial statements



# THE HEAT AND WARMTH FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

### 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.

The Organization's income tax filings are subject to audit by various taxing authorities. The Organization's open audit periods are 2008 - 2011.

# THE HEAT AND WARMTH FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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

#### 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.

#### 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, 2012 and 2011 was approximately \$941,700 and \$2,161,400, 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, 2012 AND 2011

### 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, 2012 and 2011, the allowance for doubtful accounts amounted to \$25,741 and \$30,000, 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, 2012 and 2011, no allowance for doubtful accounts was deemed necessary.

#### State of Michigan Grant

During January 2012, the Organization was awarded a grant from the State of Michigan in the amount of \$9,689,814. Grant funds were received in a lump sum payment, at which time revenue was recorded. In the event that not all of the money is spent upon termination of the grant, on September 30, 2012, the remaining funds will be remitted back to the State. As of June 30, 2012, approximately \$5,600,000 of these funds has not been spent and is classified as temporarily restricted net assets. Subsequent to June 30, 2012 and prior to October 1, 2012, the remaining temporarily restricted funds were expended.

#### Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 10, 2012, which is the date the financial statements were available to be issued.

Subsequent to year end, the Organization entered into a MOU (memorandum of understanding) with Consumer's Energy (CE) to create an iterative design process that will lead to a set of robust services in an effort to reduce the number of people, who fall into and have difficulty staying out of a shut-off situation. THAW has a similar need to better understand the challenges and customer experiences of low income energy utility customers and has agreed to participate in the funding in exchange for the rights contained herein the project. Based upon the terms of the agreement, the Organization may contribute \$500,000 over a period of one to three years. The first installment of \$125,000 was paid in July 2012.

# THE HEAT AND WARMTH FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

### 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, 2012, total functional expenses were allocated in the following manner:

Program services	\$ 9,784,244
Supporting services	
Management and general	658,282
Fundraising	<u>650,110</u>
Total functional expenses	<u>\$ 11,092,636</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 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, 2012 and 2011 amounted to \$5,060 and \$-0- respectively, and consisted of the value of software. The corresponding expense is included in functional expenses.

#### Federal Funds

Federal funding received during the years ended June 30, 2012 and 2011 amounted to \$1,167,621 and \$1,482,774, respectively. At June 30, 2012, \$213,182 of these funds were still outstanding and receivable. Federal funding expended during the years ended June 30, 2012 and 2011 amounted to \$1,167,621 and \$1,605,563, respectively.

# THE HEAT AND WARMTH FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

### Note 2 - Pledges Receivable

Pledges receivable at June 30, 2012 and 2011 may be summarized as follows:

	June 30,	
	<u>2012</u>	<u>2011</u>
Accounts receivable	\$ 35,078	\$ 31,554
Less allowance for doubtful accounts	<u>(25,741)</u>	<u>(30,000)</u>
	<u>\$ 9,337</u>	<u>\$ 1,554</u>

### Note 3 - Equipment and Software

The principal categories of equipment and software as of June 30, 2012 and 2011 may be summarized as follows:

Office equipment	\$ 66,964	\$ 66,964
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	560,717
Less accumulated depreciation	<u>549,443</u>	<u>520,123</u>
Total undepreciated cost	<u>\$ 11,274</u>	<u>\$ 40,594</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, 2012 AND 2011

### 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, 2012 and 2011, there were no borrowings on the line-of-credit.

### 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, 2012 and 2011.

### 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, 2012 and 2011 as follows:

	June 30,	
	<u>2012</u>	<u>2011</u>
DTE Energy	\$ 5,115,465	\$ 8,590,014
DTE Energy - match	1,525,636	2,771,469
Consumers Energy	1,401,850	673,141
S.E.M.C.O.	214,894	70,579
S.E.M.C.O. - match	78,287	38,950
Michigan Gas utilities	-	18,490
Aquila, Inc.	8,298	-
Other fuel	<u>258,545</u>	<u>221,475</u>
Total assistance to individuals	<u>\$ 8,602,975</u>	<u>\$ 12,384,118</u>

# THE HEAT AND WARMTH FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

### 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, 2012 and 2011 was \$72,835 and \$74,471, 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, 2012 are as follows:

2013	\$	56,767
2014		57,200
2015		59,367
2016		59,800
2017		61,967
Thereafter		<u>72,800</u>
Total	\$	<u>367,901</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 October 10, 2012. During the years ended June 30, 2012 and 2011, THAW has not contributed any money to this plan.

# THE HEAT AND WARMTH FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

### Note 8 - Pension Plan - Continued

THAW began offering their own IRA and 403(b) accounts in July 2006. Effective January 1, 2012, the Organization switched to a simple IRA account. Contributions to these accounts amounted to \$33,952 and \$24,679 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011:

	June 30,	
	<u>2012</u>	<u>2011</u>
State of Michigan	\$ 5,652,179	\$ 796,107
Max Fischer Foundation	-	32,625
PNC Foundation	-	25,000
Hitachi	-	4,800
MCAAA	-	2,216
Skillman Foundation	<u>138,671</u>	<u>150,000</u>
Total	<u>\$ 5,790,850</u>	<u>\$ 1,010,748</u>



