

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

FINANCIAL STATEMENTS

JUNE 30, 2013

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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 statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Auditor's Responsibility - Continued

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, 2013 and 2012, and the results of its activities, functional expenses and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.


DOEREN MAYHEW

November 21, 2013
Troy, Michigan

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2013	2012
Current Assets		
Cash and cash equivalents (note 1)	\$ 8,249,618	\$ 9,933,402
Pledges receivable - less allowance for doubtful accounts of \$-0- in 2013 and \$25,741 in 2012 (notes 1 and 2)	8,045	9,337
Grants receivable (note 1)	100,252	213,182
Prepaid expenses and other current assets	30,184	23,940
Total current assets	8,388,099	10,179,861
Equipment and Software		
At cost, less accumulated depreciation of \$552,945 in 2013 and \$549,443 in 2012 (notes 1 and 3)	6,097	11,274
Total assets	\$ 8,394,196	\$ 10,191,135

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 36,769	\$ 15,497
Accrued liabilities	150,351	129,888
Total liabilities	187,120	145,385
Net Assets		
Unrestricted	5,724,451	4,254,900
Temporarily restricted (notes 1 and 9)	2,482,625	5,790,850
Total net assets	8,207,076	10,045,750
Total liabilities and net assets	\$ 8,394,196	\$ 10,191,135

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

STATEMENTS OF ACTIVITIES

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Year Ended June 30,</u>	
			<u>2013</u>	<u>2012</u>
Revenue and Support From Operations				
Public support	\$ 5,338,376	\$ -	\$ 5,338,376	\$ 2,219,236
Consumers Energy	-	-	-	13,295.00
DTE Energy	2,163,906	-	2,163,906	2,125,636
S.E.M.C.O. Energy	45,000	-	45,000	73,394
Grant revenue	43,051	7,291,122.00	7,334,173	9,739,814
Federal grants (note 1)	328,144.00	-	328,144	1,167,621
Other foundation support	250,569	200,000.00	450,569	425,470
Special events revenue	-	-	-	1,327
Interest income	2,381	-	2,381	3,066
Faith based donations	-	-	-	9,816
St. Vincent de Paul	1,379,500	-	1,379,500	575,944
Miscellaneous income	144,350	-	144,350	2,001,006
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue and support from operations (note 5)	9,695,277	7,491,122	17,186,399	18,355,625
Functional Expenses				
Program services	17,573,772	-	17,573,772	9,784,244
Supporting services	1,514,569	-	1,514,569.42	1,308,392
	<hr/>	<hr/>	<hr/>	<hr/>
Total functional expenses (note 1)	19,088,341	-	19,088,341	11,092,636
Release of Net Assets From Restrictions	10,799,347	(10,799,347)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Increase (Decrease) in Net Assets Before In-Kind Contributions	1,406,283	(3,308,225)	(1,901,942)	7,262,989
In-Kind Contributions (note 1)	63,268	-	63,268	5,060
	<hr/>	<hr/>	<hr/>	<hr/>
Increase (Decrease) in Net Assets	1,469,551	(3,308,225)	(1,838,674)	7,268,049
Net Assets - Beginning	4,254,900	5,790,850	10,045,750	2,777,701
	<hr/>	<hr/>	<hr/>	<hr/>
Net Assets - Ending	<u>\$ 5,724,451</u>	<u>\$ 2,482,625</u>	<u>\$ 8,207,076</u>	<u>\$ 10,045,750</u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

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>2013</u>	<u>2012</u>
Salaries and fringes	\$ 617,679	\$ 370,674	\$ 464,230	\$ 834,904	\$ 1,452,583	\$ 1,288,749
Assistance to individuals (note 6)	15,598,040	-	-	-	15,598,040	8,602,975
Promotional	27,295	-	27,296	27,296	54,591	77,841
Printing and postage	54,205	13,552	67,758	81,310	135,515	163,681
Contractual services	825,394.85	110,053	165,079	275,132	1,100,527	395,974
Travel and meetings	59,859	27,208	21,767	48,975	108,834	91,803
Depreciation	3,624	776.55	776.45	1,553	5,177	29,320
Applicant screening/referral	194,083	-	-	-	194,083	92,688
Telephone	6,033	754	754	1,508	7,541	4,025
Space rental (note 7)	33,459	20,912	29,277	50,189	83,648	72,835
Supplies	24,720	4,944	3,296	8,240	32,960	23,880
License and fees	-	7,665	-	7,665	7,665	7,880
Equipment and software	15,884.25	2,118	3,177	5,295	21,179	15,291
Web-based system	52,416.00	-	-	-	52,416	28,984
Dues and subscriptions	71.00	142	142	284	355	288
Support maintenance services	17,560	1,171	4,683	5,854	23,414	22,175
Bank fees	-	13,432	4,477	17,909	17,909	39,521
Insurance	2,577	2,577	2,655	5,232	7,809	6,486
Communications	27,992	3,499	3,499	6,998	34,990	41,796
Bad debt expense	-	-	8,447	8,447	8,447	18,000
Miscellaneous	4,414	4,414.51	4,548	8,963	13,377	12,975
Pilot program	8,466	-	-	-	8,466	-
In-kind expense	-	63,268.10	-	63,268	63,268	5,060
Events	-	-	55,547	55,547	55,547	50,409
Total functional expenses	<u>\$ 17,573,772</u>	<u>\$ 647,161</u>	<u>\$ 867,408</u>	<u>\$ 1,514,569</u>	<u>\$ 19,088,341</u>	<u>\$ 11,092,636</u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2013	2012
Cash Flows From Operating Activities:		
Increase (decrease) in net assets	\$ (1,838,674)	\$ 7,268,049
Adjustments:		
Depreciation	5,177	29,320
Bad debt expense	8,447	18,000
Gain on sale of equipment and software	(1,163)	-
Changes in assets and liabilities:		
Increase in pledges receivable	(7,155)	(25,783)
Decrease in grants receivable	112,930	278,946
Increase in prepaid expenses and other current assets	(6,244)	(17,249)
Increase (decrease) in accounts payable	21,272	(252,292)
Increase (decrease) in accrued liabilities	20,463	(60,879)
Total adjustments	153,727	(29,937)
Net cash provided from (used in) operating activities	(1,684,947)	7,238,112
Cash Flows From Investing Activities:		
Proceeds from equipment and software	1,163	-
Net Increase (Decrease) in Cash and Cash Equivalents	(1,683,784)	7,238,112
Cash and Cash Equivalents - Beginning	9,933,402	2,695,290
Cash and Cash Equivalents - Ending	\$ 8,249,618	\$ 9,933,402

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

THAW (a nonprofit organization) 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 (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. 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 (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 2009 - 2012.

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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 (a nonprofit organization) receives a substantial portion of its contributions from companies in the southeastern Michigan geographical region and from the State of Michigan.

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 (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, 2013 and 2012 was approximately \$7,752,700 and \$941,700, 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, 2013 AND 2012

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, 2013 and 2012, the allowance for doubtful accounts amounted to \$-0- and \$25,741, 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, 2013 and 2012, no allowance for doubtful accounts was deemed necessary.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified for comparative purposes to conform with the presentation in the current year's financial statements.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including November 21, 2013, 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, 2013 AND 2012

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, 2013, total functional expenses were allocated in the following manner:

Program services	\$ 17,573,772
Supporting services	
Management and general	647,161
Fundraising	<u>867,408</u>
 Total functional expenses	 <u>\$ 19,088,341</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, 2013 and 2012 amounted to \$63,268 and \$5,060, respectively, and consisted of the value of bill inserts included in electric bills and software. The corresponding expense is included in functional expenses.

Federal Funds

Federal funding received during the years ended June 30, 2013 and 2012 amounted to \$328,144 and \$1,167,621, respectively. At June 30, 2013, \$100,252 of these funds were still outstanding and receivable. Federal funding expended during the years ended June 30, 2013 and 2012 amounted to \$328,144 and \$1,167,621, respectively.

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Note 2 - Pledges Receivable

Pledges receivable at June 30, 2013 and 2012 may be summarized as follows:

	June 30,	
	2013	2012
Accounts receivable	\$ 8,045	\$ 35,078
Less allowance for doubtful accounts	-	(25,741)
	<u>\$ 8,045</u>	<u>\$ 9,337</u>

Note 3 - Equipment and Software

The principal categories of equipment and software as of June 30, 2013 and 2012 may be summarized as follows:

Office equipment	\$ 65,289	\$ 66,964
Software - other	10,813	10,813
Web-based system	174,720	174,720
TSN 2 web database	308,220	308,220
Total cost	559,042	560,717
Less accumulated depreciation	552,945	549,443
Total undepreciated cost	<u>\$ 6,097</u>	<u>\$ 11,274</u>

Direct internal and external costs associated with the development of the features, content, and functionality of THAW's (a nonprofit organization) 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
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2013 and 2012, there were no borrowings on the line-of-credit.

Note 5 - Donated Goods and Services

The value of time donated by volunteers to THAW (a nonprofit organization) has not been determined. The value of such services has not been reflected in the financial statements for the years ended June 30, 2013 and 2012.

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, 2013 and 2012 as follows:

	June 30,	
	2013	2012
DTE Energy	\$ 8,072,239	\$ 5,115,465
DTE Energy - match	1,543,906	1,525,636
Consumers Energy	5,251,344	1,401,850
S.E.M.C.O. Energy	249,408	214,894
S.E.M.C.O. Energy - match	-	78,287
Michigan Gas utilities	16,494	8,298
Other fuel	464,649	258,545
Total assistance to individuals	\$ 15,598,040	\$ 8,602,975

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2013 and 2012 was \$83,648 and \$72,835, 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, 2013 are as follows:

2014	\$ 57,200
2015	59,367
2016	59,800
2017	61,967
2018	62,400
Thereafter	<u>10,400</u>
Total	<u>\$ 311,134</u>

Note 8 - Pension Plan

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

The plan was frozen as of March 15, 2005 for vested employees. The plan is fully funded and the contribution for employees was increased to 6% as of January 1, 2005. THAW (a nonprofit organization) withdrew from the plan effective December 31, 2006, and a termination payment of approximately \$14,000 was made. 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 21, 2013. During the years ended June 30, 2013 and 2012, THAW (a nonprofit organization) has not contributed any money to this plan.

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Note 8 - Pension Plan - Continued

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 \$31,978 and \$33,952 for the years ended June 30, 2013 and 2012, respectively.

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

Note 9 - Restrictions on Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2013 and 2012:

	June 30,	
	<u>2013</u>	<u>2012</u>
State of Michigan	\$ 2,482,625	\$ 5,652,179
Skillman Foundation	<u>-</u>	<u>138,671</u>
Total	<u>\$ 2,482,625</u>	<u>\$ 5,790,850</u>