

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

FINANCIAL STATEMENTS

JUNE 30, 2019

(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, 2019, 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, 2019, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019, The Heat and Warmth Fund (a Nonprofit Organization) adopted Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited The Heat and Warmth Fund's (a Nonprofit Organization) 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 23, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, 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* 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 January 17, 2020, 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* and in considering The Heat and Warmth Fund's (a Nonprofit Organization) internal control over financial reporting and compliance.

Doeren Mayhew

Troy, Michigan
January 17, 2020

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019
WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2018

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents (note 1)	\$ 10,075,966	\$ 11,215,166
Operating investments (notes 1 and 2)	1,094,648	1,050,370
Accounts receivable less allowance for doubtful accounts of \$3,574 in 2019 and \$-0- in 2018 (note 1)	95,571	179,063
Grants receivable (notes 1 and 9)	824,299	1,410,027
Prepaid expenses and other current assets	76,893	95,154
Total current assets	12,167,377	13,949,780
Equipment and software:		
At cost, less accumulated depreciation of \$900,260 in 2019 and \$852,031 in 2018 (notes 1 and 3)	238,644	327,100
Total assets	<u>\$ 12,406,021</u>	<u>\$ 14,276,880</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 313,595	\$ 73,110
Accrued liabilities (note 1)	698,130	896,324
Current portion of deferred leasehold incentive (note 3)	46,968	46,968
Total current liabilities	1,058,693	1,016,402
Deferred leasehold incentive (note 3)	39,141	86,109
Net assets:		
Without donor restrictions	7,008,437	4,139,359
With donor restrictions (notes 1 and 9)	4,299,750	9,035,010
Total net assets	11,308,187	13,174,369
Total liabilities and net assets	<u>\$ 12,406,021</u>	<u>\$ 14,276,880</u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2019	2018
Revenue and support from operations:				
Public and corporate support	\$ 2,257,244	\$ 4,009	\$ 2,261,253	\$ 2,149,998
DTE Energy	116,355	500,000	616,355	500,000
DTE Gas	-	400,000	400,000	4,000,000
Consumers Gas	7,620	500,000	507,620	250,000
Federal grants	-	1,588,878	1,588,878	8,029,140
State of Michigan grants	143,194	8,018,263	8,161,457	6,246,130
Foundation support	104,650	190,000	294,650	314,550
Net investment return, net of fees	45,519	-	45,519	48,666
Fundraising revenue	-	50,000	50,000	50,000
Service fee revenue	67,581	-	67,581	-
Miscellaneous income	20,042	-	20,042	40,224
	<u>2,762,205</u>	<u>11,251,150</u>	<u>14,013,355</u>	<u>21,628,708</u>
Total revenue and support from operations				
Functional expenses:				
Program services	14,210,516	-	14,210,516	17,533,907
Supporting services	1,716,252	-	1,716,252	1,460,608
	<u>15,926,768</u>	<u>-</u>	<u>15,926,768</u>	<u>18,994,515</u>
Total functional expenses (note 1)				
Release of net assets from restrictions	<u>15,986,410</u>	<u>(15,986,410)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets before in-kind contributions	2,821,847	(4,735,260)	(1,913,413)	2,634,193
In-kind contributions (note 1)	<u>47,231</u>	<u>-</u>	<u>47,231</u>	<u>40,068</u>
Increase (decrease) in net assets	2,869,078	(4,735,260)	(1,866,182)	2,674,261
Net assets - beginning	<u>4,139,359</u>	<u>9,035,010</u>	<u>13,174,369</u>	<u>10,500,108</u>
Net assets - ending	<u>\$ 7,008,437</u>	<u>\$ 4,299,750</u>	<u>\$ 11,308,187</u>	<u>\$ 13,174,369</u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

	Program Services	Supporting Services			2019	2018
		Management and General	Fundraising	Total Supporting Services		
Salaries and fringes	\$ 1,254,003	\$ 736,885	\$ 162,745	\$ 899,630	\$ 2,153,633	\$ 2,609,906
Assistance to individuals (note 6)	12,170,817	-	-	-	12,170,817	14,003,306
Promotional	-	483	82,435	82,918	82,918	85,265
Printing and postage	40,383	1,391	82,632	84,023	124,406	192,258
Contractual services	231,072	231,050	47,148	278,198	509,270	1,145,442
Travel and meetings	20,555	13,775	10,097	23,872	44,427	43,238
Depreciation	62,612	25,613	16,647	42,260	104,872	104,871
Applicant screening/referral	2,820	-	-	-	2,820	6,570
Communication	140,186	9,910	14,215	24,125	164,311	175,744
Space rental (note 7)	134,761	37,697	11,911	49,608	184,369	219,925
Supplies	62,325	3,602	6,661	10,263	72,588	58,719
Equipment and software	40,036	19,855	13,669	33,524	73,560	46,840
Web expense	46,319	569	2,947	3,516	49,835	107,838
Dues and subscriptions	613	5,914	263	6,177	6,790	2,385
Support maintenance services	3,514	1,914	1,710	3,624	7,138	14,193
Bank fees	-	241	19,342	19,583	19,583	19,545
Insurance	-	10,045	-	10,045	10,045	10,054
Bad debt expense	-	-	3,574	3,574	3,574	-
Miscellaneous	500	153	89,719	89,872	90,372	105,772
Charitable contributions	-	4,209	-	4,209	4,209	2,576
In-kind expense (note 1)	-	-	47,231	47,231	47,231	40,068
Total functional expenses	\$ 14,210,516	\$ 1,103,306	\$ 612,946	\$ 1,716,252	\$ 15,926,768	\$ 18,994,515

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

	2019	2018
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (1,866,182)	\$ 2,674,261
Adjustments:		
Depreciation	104,872	104,871
Net unrealized gain on investments	(24,222)	(27,453)
Amortization of deferred leasehold incentive	(46,968)	(46,968)
Bad debt expense	3,574	-
Changes in assets and liabilities:		
Interest and dividend income on investments	(20,057)	(18,763)
Decrease (increase) in grants receivable	585,728	(440,601)
Decrease (increase) in accounts receivable	79,918	(174,134)
Decrease (increase) in prepaid expenses and other current assets	18,261	(61,226)
Increase in accounts payable	240,485	41,904
(Decrease) increase in accrued liabilities	(198,194)	472,916
Total adjustments	743,397	(149,454)
Net cash (used in) provided from operating activities	(1,122,785)	2,524,807
Cash flows from investing activities:		
Purchase of equipment and software	(16,415)	-
Net (decrease) increase in cash and cash equivalents	(1,139,200)	2,524,807
Cash and cash equivalents - beginning	11,215,166	8,690,359
Cash and cash equivalents - ending	\$ 10,075,966	\$ 11,215,166

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Activities

The Heat and Warmth Fund (a Nonprofit Organization) (“THAW” or “Organization”) is a community organization that was established in December 1985 to provide utility assistance for Michigan residents in need. THAW 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 and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions

Net assets subject to donor-imposed stipulations that may or will be met either by actions of THAW and/or the passage of time.

Comparative Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the audited financial statements for the year ended June 30, 2018, from which the summarized information was derived.

THE HEAT AND WARMTH FUND
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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

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

Revenue Recognition

Revenue is recorded when earned as support without or with donor restrictions depending on the existence and/or nature of any donor restrictions. Service fee revenue and payments under cost-reimbursable contracts are recognized in the period in which the related services are performed, or expenditures are incurred, respectively. 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. All revenue is considered to be without donor restrictions unless specifically restricted by the funding source.

Support that is restricted by the funding source is reported as an increase in net assets with donor restrictions. When support is expended to satisfy the restricted purpose, net assets with donor restrictions are classified to net assets without donor restrictions. See Note 9 for the breakdown of net assets with donor restrictions.

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 2015 - 2018.

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.

THE HEAT AND WARMTH FUND
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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

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

Estimates

The preparation of financial statements in conformity with GAAP 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. Revenue from the State of Michigan amounted to approximately 69% and 66% of total revenue for the years ended June 30, 2019 and 2018, 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 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, 2019 and 2018 was approximately \$9,726,900 and \$10,809,900, 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.

Grants Receivable

Grants receivable consist of funds 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.

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

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

Accounts Receivable

Accounts receivable are carried at invoice amounts. The receivable consists of reimbursable grants and program fees at June 30, 2019. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. At June 30, 2019 and 2018, the allowance for doubtful accounts amounted to \$3,574 and \$-0-, respectively.

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. The reclassifications had no impact on previously reported net assets.

Agency Transactions

The Organization acts as an agent for St. Vincent DePaul (SVDP). Under the agency agreement, SVDP utilizes THAW's SafetyNet software to facilitate their own grant. SVDP sends cash to THAW which is then distributed to recipient's through use of THAW's SafetyNet software. As of June 30, 2019 and 2018, there was \$217,230 and \$180,380, respectively, of cash received in excess of payments made for SVDP recipients, which was included in accrued liabilities.

Operating Investments

The Organization's operating investments for the years ended June 30, 2019 and 2018 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.

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.

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

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

Operating Investments (Continued)

GAAP establishes 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. See Note 2, Operating Investments, for investment valuations.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including January 17, 2020, which is the date the financial statements were available to be issued.

THE HEAT AND WARMTH FUND
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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

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

Allocation of Functional Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. As a result, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include space rental which is allocated on a square foot basis. Salaries and related expenses are allocated on the basis of the actual or estimated time devoted to those activities. All other expenses have been allocated on the basis of actual or estimates of time and effort attributable to the program or supporting function, as determined by management. For the year ended June 30, 2019, total functional expenses were allocated in the following manner:

Program services	\$ 14,210,516
Supporting services:	
Management and general	1,103,306
Fundraising	<u>612,946</u>
 Total functional expenses	 <u>\$ 15,926,768</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, 2019 and 2018 amounted to \$47,231 and \$40,068, respectively, and consisted of the value of bill inserts included in electric bills. The corresponding expense is included in functional expenses.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities. ASU 2016-14 improves the net asset classification requirements and disclosure requirements regarding liquidity, financial performance, and cash flows. ASU 2016-14 requires retroactive application and is effective for fiscal years beginning after December 15, 2017. The Organization adopted ASU 2016-14 for the year ended June 30, 2019.

THE HEAT AND WARMTH FUND
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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

Note 2 - Operating Investments

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified in the following:

	As of June 30, 2019			
	<u>Total</u>	<u>Fair Value Based on</u>		
		<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobserv- able Inputs (Level 3)</u>
Mutual funds:				
Large blend	\$ 174,409	\$ 174,409	\$ -	\$ -
Foreign large blend	96,005	96,005	-	-
Large value	152,740	152,740	-	-
Small blend	83,500	83,500	-	-
Fixed income	199,624	199,624	-	-
Mid-cap blend value	<u>84,750</u>	<u>84,750</u>	<u>-</u>	<u>-</u>
Total mutual funds	791,028	791,028	-	-
Money market fund (at cost)	222,764	-	-	-
Cash deposit account (at cost)	<u>80,856</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating investments	<u>\$ 1,094,648</u>	<u>\$ 791,028</u>	<u>\$ -</u>	<u>\$ -</u>

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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

Note 2 - Operating Investments (Continued)

	As of June 30, 2018			
	Fair Value Based on			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobserv- 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 (at cost)	41,150	-	-	-
Cash deposit account (at cost)	54,846	-	-	-
Total operating investments	<u>\$ 1,050,370</u>	<u>\$ 954,374</u>	<u>\$ -</u>	<u>\$ -</u>

For the above mutual funds, the fair value was determined by reference to quoted market prices in active markets (Level 1) and other relevant information generated by market transactions.

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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

Note 2 - Operating Investments (Continued)

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

	2019	2018
Gross unrealized gains	\$ 28,865	\$ 40,070
Gross unrealized losses	(3,032)	(12,617)
Dividends and interest	22,820	21,213
Total	\$ 48,653	\$ 48,666

Note 3 - Equipment and Software

The principal categories of equipment and software as of June 30, 2019 and 2018 may be summarized as follows:

	2019	2018
Leasehold improvements	\$ 498,932	\$ 498,932
Office equipment	130,719	170,946
Software - other	10,813	10,813
Web-based system	190,220	190,220
TSN 2 web database	308,220	308,220
Total cost	1,138,904	1,179,131
Less accumulated depreciation	900,260	852,031
Total undepreciated cost	\$ 238,644	\$ 327,100

Included in leasehold improvements as of June 30, 2019 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, 2019 and 2018, deferred leasehold incentive related to this transaction amounted to \$86,109 and \$133,077, respectively.

THE HEAT AND WARMTH FUND
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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

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, 2019 and 2018, there were no borrowings on the line-of-credit.

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.

Approximately 200 volunteers have donated time to the Organization. The value of time donated by volunteers to THAW is approximately \$13,000 for the year ended June 30, 2019. 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, 2019 and 2018 as follows:

	2019	2018
DTE Energy	\$ 10,255,144	\$ 10,700,693
Consumers Energy	186,701	1,170,324
S.E.M.C.O. Energy	1,366,600	1,786,187
Other water assistance	16,793	2,251
Michigan Gas Utilities	2,402	8,876
Energy efficiency assistance	52,089	-
Other fuel	15,411	147,419
City of Detroit Water and Sewer Department	<u>275,677</u>	<u>187,556</u>
Total assistance to individuals	<u>\$ 12,170,817</u>	<u>\$ 14,003,306</u>

THE HEAT AND WARMTH FUND
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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

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, 2019 and 2018 was \$134,109 and \$143,181, 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, 2019 are as follows:

2020	\$ 181,900
2021	<u>156,041</u>
Total	<u>\$ 337,941</u>

Note 8 - Pension Plan

THAW offers a simple IRA account. Contributions to these accounts amounted to \$40,051 and \$41,736 for the years ended June 30, 2019 and 2018, respectively.

Note 9 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following as of June 30, 2019 and 2018:

	2019	2018
State of Michigan	\$ 1,598,935	\$ 2,445,490
Skillman Foundation	5,494	-
SL Gimbel Foundation	-	4,896
DTE Energy	37,481	2,411,812
DTE Gas	2,082,140	4,000,000
Max Fisher Foundation	36,324	86,831
Kresge Foundation	-	13,104
Consumers Energy	496,979	20,024
S.E.M.C.O. Energy	<u>42,397</u>	<u>52,853</u>
Total	<u>\$ 4,299,750</u>	<u>\$ 9,035,010</u>

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

Note 9 - Net Assets with Donor Restrictions (Continued)

Net assets with donor restrictions are restricted for the following purposes:

	2019	2018
Subject to expenditures for specified purpose:		
Direct assistance to clients	\$ 4,231,426	\$ 8,917,930
Direct assistance to clients - Brightmoore area	21,324	86,831
Administration	47,000	30,249
Total	\$ 4,299,750	\$ 9,035,010

Note 10 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2019	2018
Total current assets	\$ 12,167,377	\$ 13,949,780
Less those unavailable for general expenditure within one year, due to:		
Restricted by donor with time or purpose restrictions	(4,299,750)	(9,035,010)
Less prepaid expenses and other	(76,893)	(95,154)
Total	\$ 7,790,734	\$ 4,819,616

Financial assets in the amount of \$7,790,734 are available for general expenditure without donor or other restrictions limiting their use for the year ending June 30, 2019. If funds to cover the cost of current liabilities are backed out, a net amount of \$6,732,041 is available. The Organization invests cash in excess of daily requirements in short-term investments, CDs, and money market funds to manage their liquidity. These short-term investments could be sold if additional liquid assets were needed. Additionally, the Organization has an unused line-of-credit in the amount of \$100,000 that could be drawn on if needed.

*** End of Notes ***

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

Federal Agency/Pass-Through Agency Program Title	Federal CFDA Number	Award Amount	Passed Through to Subrecipients	Expenditures
<u>U.S. Department of Housing and Urban Development - Passed Through the City of Detroit</u>				
Emergency Solutions Grants Program - January 1, 2018 - March 31, 2019	14.231	\$ 100,000	\$ -	\$ 100,000
Emergency Solutions Grants Program - January 1, 2019 - December 31, 2019	14.231	100,000	-	43,878
Total Passed Through the City of Detroit		200,000	-	143,878
<u>U.S. Department of Health and Human Services - Passed Through the State of Michigan</u>				
Low-Income Home Energy Assistance Program:	93.568			
October 1, 2017 - September 30, 2018 - MAE-18-06		9,170,446	-	2,625,178
October 1, 2018 - September 30, 2019 - PSC-19-05		279,976	-	55,703
Total Low-Income Home Energy Assistance Program		9,450,422	-	2,680,881
Total Federal Financial Assistance		\$ 9,650,422	\$ -	\$ 2,824,759

See accompanying notes to schedule of expenditures of federal awards

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

Note A - Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of The Heat and Warmth Fund (a Nonprofit Organization) under programs of the federal government for the year ended June 30, 2019. 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 (a Nonprofit Organization), 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 (a Nonprofit Organization).

Note B - Basis of Accounting

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the cash basis of accounting. Such expenditures are recognized following 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 (a Nonprofit Organization) 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	\$ 1,588,878
Federal Expenditures per the Schedule of Expenditures of Federal Awards	<u>2,824,759</u>
Difference	<u>\$ 1,235,881</u>

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

* * * End of Notes * * *