

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

FINANCIAL STATEMENTS

JUNE 30, 2022

(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)

Opinion

We have audited the financial statements of The Heat and Warmth Fund (A Nonprofit Organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Heat and Warmth Fund (A Nonprofit Organization) as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Heat and Warmth Fund (A Nonprofit Organization) and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Responsibilities of Management for the Financial Statements (Continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Heat and Warmth Fund's (A Nonprofit Organization) ability to continue as a going concern for one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).

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, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Heat and Warmth Fund's (A Nonprofit Organization) ability to continue as a going concern for a reasonable period of time.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited The Heat and Warmth Fund's (A Nonprofit Organization) 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 25, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 Schedule of Expenditures of Federal Awards, 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 February 18, 2023, 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, grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of The Heat and Warmth Fund's (A Nonprofit Organization) 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
February 18, 2023

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022
WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2021

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents (note 1)	\$ 12,609,664	\$ 12,748,602
Investment securities (notes 1 and 2)	1,072,032	1,152,768
Accounts receivable, less allowance for doubtful accounts of \$3,574 in 2022 and 2021 (note 1)	110,028	614,271
Grants receivable (notes 1 and 9)	3,069,210	706,900
Prepaid expenses and other current assets	88,662	52,632
Total current assets	16,949,596	15,275,173
Equipment and software:		
At cost, less accumulated depreciation of \$1,145,078 in 2022 and \$1,119,388 in 2021 (notes 1 and 3)	465,836	39,270
Total assets	<u>\$ 17,415,432</u>	<u>\$ 15,314,443</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 478,632	\$ 516,096
Accrued and other liabilities (note 1)	623,476	385,511
Current portion of deferred rent	22,021	-
Deferred income	138,210	716,163
Total current liabilities	1,262,339	1,617,770
Deferred rent	112,352	-
Net assets:		
Without donor restrictions	10,498,336	9,640,708
With donor restrictions (notes 1 and 9)	5,542,405	4,055,965
Total net assets	16,040,741	13,696,673
Total liabilities and net assets	<u>\$ 17,415,432</u>	<u>\$ 15,314,443</u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2022
WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	2022	2021
Revenue and support from operations:				
Public and corporate support	\$ 1,510,926	\$ 50,000	\$ 1,560,926	\$ 1,857,334
DTE Energy	750,000	-	750,000	900,000
DTE Gas	-	1,500,000	1,500,000	1,000,000
Consumers Gas	-	-	-	1,095,000
Grant revenue	707,771	5,000	712,771	1,057,079
Federal grants	-	3,642,547	3,642,547	664,498
State of Michigan grants	-	6,461,723	6,461,723	6,956,697
Foundation support	17,870	1,465,000	1,482,870	302,869
Investment return, net of fees	(128,543)	-	(128,543)	238,514
Special events revenue	1,123,065	49,940	1,173,005	909,047
Service fee revenue	1,086,826	-	1,086,826	656,969
Miscellaneous income	51,773	-	51,773	-
In-kind contributions (note 5)	98,109	-	98,109	61,699
	<u>5,217,797</u>	<u>13,174,210</u>	<u>18,392,007</u>	<u>15,699,706</u>
Total revenue and support from operations				
	5,217,797	13,174,210	18,392,007	15,699,706
Functional expenses:				
Program services	13,791,735	-	13,791,735	10,907,489
Supporting services	2,256,204	-	2,256,204	2,105,593
	<u>16,047,939</u>	<u>-</u>	<u>16,047,939</u>	<u>13,013,082</u>
Total functional expenses (note 1)				
	16,047,939	-	16,047,939	13,013,082
Paycheck Protection Program income (notes 1 and 11)	-	-	-	66,810
Release of net assets from restrictions	11,687,770	(11,687,770)	-	-
Change in net assets	857,628	1,486,440	2,344,068	2,753,434
Net assets - beginning	9,640,708	4,055,965	13,696,673	10,943,239
Net assets - ending	<u>\$ 10,498,336</u>	<u>\$ 5,542,405</u>	<u>\$ 16,040,741</u>	<u>\$ 13,696,673</u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2021

	Program Services	Supporting Services			2022	2021
		Management and General	Fundraising	Total Supporting Services		
Salaries and fringes	\$ 1,192,126	\$ 830,425	\$ 208,191	\$ 1,038,616	\$ 2,230,742	\$ 2,213,461
Assistance to individuals (note 6)	10,237,109	-	-	-	10,237,109	8,582,627
Promotional	-	440	186,637	187,077	187,077	112,532
Printing and postage	159,714	11,365	32,980	44,345	204,059	263,863
Contractual services	1,576,127	472,202	29,076	501,278	2,077,405	994,007
Travel and meetings	7,301	8,634	1,365	9,999	17,300	3,105
Depreciation	15,219	6,425	4,046	10,471	25,690	111,640
Telephone	296,111	20,636	11,272	31,908	328,019	298,123
Space rental (note 7)	230,800	104,087	24,913	129,000	359,800	161,754
Supplies	15,459	45,145	1,409	46,554	62,013	29,581
License and fees	-	2,576	593	3,169	3,169	-
Equipment and software	12,912	3,200	84,850	88,050	100,962	41,286
Web expense	34,180	3,486	-	3,486	37,666	38,553
Dues and subscriptions	-	38,223	1,584	39,807	39,807	13,801
Support maintenance services	2,866	2,472	1,325	3,797	6,663	4,683
Bank fees	-	989	23,602	24,591	24,591	31,920
Insurance	5,046	25,042	785	25,827	30,873	12,240
Miscellaneous	6,765	14,505	5,615	20,120	26,885	31,405
Events	-	-	-	-	-	6,322
Interest	-	-	-	-	-	480
In-kind expense (note 1)	-	-	48,109	48,109	48,109	61,699
Total functional expenses	<u>\$ 13,791,735</u>	<u>\$ 1,589,852</u>	<u>\$ 666,352</u>	<u>\$ 2,256,204</u>	<u>\$ 16,047,939</u>	<u>\$ 13,013,082</u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2022

WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,344,068	\$ 2,753,434
Adjustments:		
Depreciation	25,690	111,640
Net realized and unrealized loss (gain) on investments	146,504	(218,327)
Amortization of deferred leasehold incentive	-	(39,140)
Donated software	(50,000)	-
Paycheck Protection Program income	-	(66,810)
(Increase)/decrease in:		
Grants receivable	(2,362,310)	733,100
Accounts receivable	504,243	(601,330)
Prepaid expenses and other current assets	(36,030)	(21,261)
Increase/(decrease) in:		
Accounts payable	(240,049)	171,816
Accrued liabilities	237,965	(772,930)
Deferred rent	134,373	-
Deferred income	(577,953)	716,163
Total adjustments	<u>(2,217,567)</u>	<u>12,921</u>
Net cash provided from operating activities	126,501	2,766,355
Cash flows from investing activities:		
Proceeds from sale of investments	100,308	376,534
Purchases of investments	(166,076)	(564,213)
Purchase of equipment and software	(199,671)	-
Net cash used in investing activities	<u>(265,439)</u>	<u>(187,679)</u>
Net (decrease) increase in cash and cash equivalents	(138,938)	2,578,676
Cash and cash equivalents - beginning	<u>12,748,602</u>	<u>10,169,926</u>
Cash and cash equivalents - ending	<u><u>\$ 12,609,664</u></u>	<u><u>\$ 12,748,602</u></u>
<u>Noncash Information</u>		
Purchase of software through accounts payable	<u><u>\$ 202,585</u></u>	<u><u>\$ -</u></u>

See accompanying notes to financial statements

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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 currently provides assistance with heat, electricity and water. They also provide energy efficiency education and energy efficiency upgrades in the home, as well as case management and referral services to help stabilize and empower families with long-term 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.

Summarized Comparative Information

The 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 generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2021, from which the summarized information was derived.

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

Accounting Standards Adopted in 2022

In 2022, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958). ASU No. 2020-07 and all subsequently issued clarifying ASUs do not replace existing recognition and measurement guidance in U.S. GAAP. The ASU improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets.

As part of the adoption of the ASU, the Organization must present nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. Additionally, the Organization must disclose in-kind contributions in the notes to the financial statements by type. See Note 5 for the breakdown of contribution of nonfinancial assets.

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. 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.

The Organization also has program service fee revenue from contracts with customers. The transaction price is the contracted service fee for the utilization of the call center and software end user licenses. The Organization bills the entities at the end of each month for service fees incurred over the course of the month. Revenue is recognized over the course of the month that services are performed.

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

Revenue Recognition (Continued)

Special event revenue is generated through ticket sales and sponsorship agreements associated with the event. Revenue is recognized upon the event occurring. Any revenues received in advance of the event are reported as deferred revenue.

Income Taxes

The Heat and Warmth Fund 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 2018 - 2021.

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. Leasehold improvements are depreciated over the lesser of the length of the related lease or their estimated useful life.

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.

Concentrations

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 35% and 42% of total revenue for the years ended June 30, 2022 and 2021, respectively.

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

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, 2022 and 2021 was approximately \$12,039,500 and \$12,143,300, 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 Organization also maintains an investment account with a stock brokerage firm. The account contains cash and securities. Balances are insured up to \$500,000, with a limit of \$250,000 for cash in 2022 and 2021, by the Securities Investor Protection Corporation ("SIPC"). At June 30, 2022 and 2021, \$572,032 and \$652,768, respectively, were in excess of the SIPC insurance limit.

Grants Receivable

Grants are recorded as receivable when earned. Revenue from conditional grant awards under expense reimbursement programs is recognized in the period during which the conditions are substantially met. In cases where the conditions are substantially met in advance of receiving the grant reimbursement, revenue and grants receivable are recorded. 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.

Accounts Receivable

Accounts receivable are carried at invoice amounts. The receivable consists of program fees at June 30, 2022 and 2021. 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, 2022 and 2021, the allowance for doubtful accounts amounted to \$3,574.

The following summarizes the balances for gross accounts receivable related to contracts with customers at June 30, 2022:

Accounts receivable - beginning	\$ 617,845
Accounts receivable - ending	113,602

THE HEAT AND WARMTH FUND

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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

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 recipients through use of THAW's SafetyNet software. As of June 30, 2022 and 2021, there was \$39,103 and \$58,042, respectively, of cash received in excess of payments made for SVDP recipients, which was included in accrued and other liabilities.

Investment Securities

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Fair Value Measurements

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. All mutual funds and debt securities are measured using Level 1 inputs.

THE HEAT AND WARMTH FUND
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

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.

Paycheck Protection Program (PPP) Loan Accounting - Government Grant Model

The Organization elected to account for its PPP funds utilizing the Government Grant Accounting Model. This approach would analogize the accounting treatment with the not-for-profit U.S. GAAP guidance for contributions. This model is founded on the premise that the substance of PPP funds is a government grant delivered in the form of a forgivable loan. The Organization recognized the PPP loan proceeds into income as the total loan proceeds have been forgiven.

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 and depreciation which are 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.

Expenses reported under program services represent the cost of providing energy assistance, energy efficiency activities, case management, and referral services. 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, Chief Operating Officer, and Chief Administrative Officer are allocated to program services for time spent directly supervising program activities.

Related Party Transactions

Certain members of the Organization's Board of Directors are employed by utility companies for which the Organization remits direct assist payments for individuals in need. See Note 6 for a schedule of assistance payment made for the years ended June 30, 2022 and 2021.

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," (ASU 2016-02), to increase the transparency and comparability of lease recognition and disclosure. ASU 2016-02 requires lessees to recognize lease contracts with a term greater than one year on the statements of financial position, while recognizing expenses on the statements of activities in a manner similar to current guidance. ASU 2016-02 is effective for the Organization on July 1, 2022 and shall be applied to all open leases as of the adoption date. The Organization is currently finalizing a review of key assumptions and potential impact. Based on preliminary evaluation, the right-of-use asset and corresponding lease obligation liability are expected to be approximately \$333,400 at adoption.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including February 18, 2023, which is the date the financial statements were available to be issued.

Note 2 - Investment Securities

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, 2022			
	Fair Value Based on			
		Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobserv- able Inputs (Level 3)
	Total			
Mutual funds	\$ 835,915	\$ 835,915	\$ -	\$ -
Trading debt securities	<u>236,117</u>	<u>236,117</u>	<u>-</u>	<u>-</u>
Total investment securities	<u>\$ 1,072,032</u>	<u>\$ 1,072,032</u>	<u>\$ -</u>	<u>\$ -</u>

THE HEAT AND WARMTH FUND
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 2 - Investment Securities (Continued)

	As of June 30, 2021			
	Fair Value Based on			
		Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobserv- able Inputs (Level 3)
	<u>Total</u>			
Mutual funds	\$ 969,271	\$ 969,271	\$ -	\$ -
Trading debt securities	<u>183,497</u>	<u>183,497</u>	<u>-</u>	<u>-</u>
Total investment securities	<u>\$ 1,152,768</u>	<u>\$ 1,152,768</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

	<u>2022</u>	<u>2021</u>
Net realized and unrealized (losses) gains	\$ (146,504)	\$ 218,327
Dividends and interest	23,331	20,187
Investment fees	<u>(5,370)</u>	<u>-</u>
Total	<u>\$ (128,543)</u>	<u>\$ 238,514</u>

THE HEAT AND WARMTH FUND
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 3 - Equipment and Software

The principal categories of equipment and software as of June 30, 2022 and 2021 may be summarized as follows:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 498,932	\$ 498,932
Office equipment	150,473	150,473
Software - other	10,813	10,813
Web-based system	190,220	190,220
TSN 2 web database	308,220	308,220
Construction in progress	<u>452,256</u>	<u>-</u>
Total cost	1,610,914	1,158,658
Less accumulated depreciation	<u>1,145,078</u>	<u>1,119,388</u>
Total undepreciated cost	<u>\$ 465,836</u>	<u>\$ 39,270</u>

Included in leasehold improvements as of June 30, 2022 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, 2022 the deferred leasehold incentive has been fully amortized.

Construction in progress represents expenditures for software development, which have not been placed in service at June 30, 2022 and 2021. No depreciation expense will be taken on these assets until they are placed in service. At June 30, 2022, estimated costs to complete software development were approximately \$613,000.

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, 2022 and 2021, there were no borrowings on the line-of-credit.

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 5 - Contributions of Nonfinancial Assets

The Organization recognizes contribution revenue for certain services received at the estimated fair value of those services, provided those services create or enhance nonfinancial assets or require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased.

A substantial number of volunteers have donated time to the Organization. The value of these services is not reflected in the financial statements because the services are not recordable under accounting principles generally accepted in the United States of America. During 2022 and 2021, volunteers donated 342 and 38 hours, respectively, to the Organization.

The Organization recognized contributed nonfinancial assets within revenue including household goods, entertainment packages, advertising, personal protective equipment and gift cards. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

For the years ended June 30, 2022 and 2021, contributed nonfinancial assets recognized within the statements of activities include:

	<u>2022</u>	<u>2021</u>
Items provided for special event auction lots	\$ 48,109	\$ 61,699
Donated software development services	<u>50,000</u>	<u>-</u>
Total	<u>\$ 98,109</u>	<u>\$ 61,699</u>

The items were recorded at the donor stated value at the time of donation, which is their assessment for the fair market value.

There were no donor-imposed restrictions on contributions of nonfinancial assets.

THE HEAT AND WARMTH FUND
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 6 - Assistance to Individuals

Assistance to individuals included in program expenses was provided in the form of direct payments for the years ended June 30, 2022 and 2021 as follows:

	<u>2022</u>	<u>2021</u>
DTE Energy	\$ 7,514,629	\$ 6,563,533
Consumers Energy	742,943	523,437
S.E.M.C.O. Energy	533,587	640,340
Energy efficiency assistance and education programs	611,887	617,722
Other fuel	107,399	44,245
Water assistance	<u>726,664</u>	<u>193,350</u>
Total assistance to individuals	<u>\$ 10,237,109</u>	<u>\$ 8,582,627</u>

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, 2022 and 2021 was \$356,262 and \$162,670, respectively.

The Organization leases its office facility under a noncancellable agreement expiring in April 2026. The agreement called for monthly lease payments in the amount of \$16,444 through April 2022. In May 2022, the lease payments will increase to \$17,221 through April 2023. In May 2023, the lease payments will increase to \$17,998 through April 2024. In May 2024, the lease payments will increase to \$18,774 through April 2025. In May 2025, lease payments will increase to \$19,551 for the remainder of the lease.

The future minimum rental payments under this operating lease as of June 30, 2022 are as follows:

2023	\$ 208,206
2024	217,524
2025	226,843
2026	<u>195,507</u>
Total	<u>\$ 848,080</u>

THE HEAT AND WARMTH FUND
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Note 8 - Pension Plan

THAW offers a simple IRA account. Contributions to these accounts amounted to \$34,245 and \$36,203 for the years ended June 30, 2022 and 2021, respectively.

Note 9 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
State of Michigan	\$ 1,156,753	\$ 1,527,229
DTE Energy	188,243	304,145
DTE Gas	2,180,629	936,518
Max Fisher Foundation	26,137	59,791
Consumers Energy	1,036,772	1,122,227
S.E.M.C.O. Energy	138,871	106,055
Total Health Care	250,000	-
W.K. Kellogg Foundation	<u>565,000</u>	<u>-</u>
Total	<u>\$ 5,542,405</u>	<u>\$ 4,055,965</u>

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

	<u>2022</u>	<u>2021</u>
Subject to expenditures for specified purpose:		
Direct assistance to clients	\$ 3,486,936	\$ 3,039,777
Direct assistance to clients - Brightmoor area	26,091	47,472
Administration	<u>2,029,378</u>	<u>968,716</u>
Total	<u>\$ 5,542,405</u>	<u>\$ 4,055,965</u>

THE HEAT AND WARMTH FUND
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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 statements of financial position date, comprise the following:

	<u>2022</u>	<u>2021</u>
Total current assets	\$ 16,949,596	\$ 15,275,173
Less those unavailable for general expenditure within one year, due to:		
Restricted by donor with time or purpose restrictions	(5,542,405)	(4,055,965)
Less prepaid expenses and other current assets	<u>(88,662)</u>	<u>(52,632)</u>
Total	<u>\$ 11,318,529</u>	<u>\$ 11,166,576</u>

Financial assets in the amount of \$11,318,529 are available for general expenditure without donor or other restrictions limiting their use for the year ended June 30, 2022. If funds to cover the cost of current liabilities are backed out, a net amount of \$10,056,190 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.

Note 11 - Paycheck Protection Program Loan

On April 15, 2020, the Organization obtained a 1% twenty-four month term loan of \$263,215 that is guaranteed through the United States Small Business Administration ("SBA") program titled the Paycheck Protection Program ("PPP"). During the year ended June 30, 2021, the Organization received full forgiveness of the loan and the deferred income balance was recognized as a contribution.

* * * End of Notes * * *

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022**

Federal Agency/Pass-Through Agency Program Title	Federal Assistance Listings Number	Award Amount	Passed Through to Subrecipients	Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
Passed Through the City of Detroit Housing and Revitalization Department Emergency Solutions Grants Program	14.231			
January 1, 2021 - December 31, 2021 (6003283)		\$ 290,486	\$ -	\$ 51,666
January 1, 2022 - December 31, 2022 (6004137)		31,283	-	29,376
		<u>321,769</u>	<u>-</u>	<u>81,042</u>
Total Emergency Solutions Grants Program				
		<u>321,769</u>	<u>-</u>	<u>81,042</u>
<u>U.S. Department of Treasury</u>				
Passed Through the City of Detroit Housing and Revitalization Department COVID 19 - Emergency Rental Assistance Program	21.023			
July 4, 2021 - July 15, 2024 (6003724)		1,187,000	-	896,592
Passed Through the Homeless Action Network of Detroit COVID 19 - Emergency Rental Assistance Program	21.023			
January 1, 2021 - April 30, 2022 (HML-2021-Homeless-5839-CERA)		3,980,384	-	2,520,250
		<u>5,167,384</u>	<u>-</u>	<u>3,416,842</u>
Total Emergency Rental Assistance Program				
		<u>5,167,384</u>	<u>-</u>	<u>3,416,842</u>
<u>U.S. Department of Health and Human Services</u>				
Passed Through the State of Michigan Public Service Commission Low-Income Home Energy Assistance Program	93.568			
October 1, 2020 - September 30, 2021 (PSC-21-05)		129,686	-	6,795
October 1, 2021 - September 30, 2022 (PSC-22-05)		262,277	-	137,868
		<u>391,963</u>	<u>-</u>	<u>144,663</u>
Total Low-Income Home Energy Assistance Program				
		<u>391,963</u>	<u>-</u>	<u>144,663</u>
Total Federal Financial Assistance		<u>\$ 5,881,116</u>	<u>\$ -</u>	<u>\$ 3,642,547</u>

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, 2022

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, 2022. 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 accrual 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. 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 Auditor's Results section of the Schedule of Findings and Questioned Costs.

*** * * End of Notes * * ***