

**NATIONAL OILHEAT RESEARCH ALLIANCE, INC.**

**DECEMBER 31, 2009 and 2008**

**These financial statements  
may be reproduced only  
in their entirety.**

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

DECEMBER 31, 2009 and 2008

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT		2
EXHIBIT A	Statements of Financial Position December 31, 2009 and 2008	3
EXHIBIT B	Statements of Activities For the Years Ended December 31, 2009 and 2008	4
EXHIBIT C	Statements of Cash Flows For the Years Ended December 31, 2009 and 2008	5
NOTES TO FINANCIAL STATEMENTS		6-10



INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
National Oilheat Research Alliance, Inc.  
Alexandria, Virginia

We have audited the accompanying statements of financial position of the National Oilheat Research Alliance, Inc. (NORA) as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NORA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Oilheat Research Alliance, Inc. as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that NORA will continue as a going concern. As discussed in Note 12 to the financial statements, the law that established NORA's funding expired in February 2010 and has not been renewed. This raises substantial doubt about NORA's ability to continue as a going concern. Management's plans regarding this matter also are described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

A handwritten signature in black ink that reads 'Ross, Langan &amp; McKendree LLP'. The signature is written in a cursive, flowing style.

CERTIFIED PUBLIC ACCOUNTANTS

May 18, 2010

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## NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

## STATEMENTS OF FINANCIAL POSITION

## ASSETS

	December 31,	
	<u>2009</u>	<u>2008</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 6,107,229	\$ 4,577,198
Assessments and other receivables	3,499,066	3,970,736
Publications inventory	<u>55,665</u>	<u>88,740</u>
Total current assets	.....9,661,960	.....8,636,674
<b>PROPERTY AND EQUIPMENT</b>		
Office equipment	8,134	8,134
Computer equipment	<u>7,234</u>	<u>7,234</u>
Less: accumulated depreciation	<u>( 14,587)</u>	<u>( 14,085)</u>
Total property and equipment	<u>781</u>	<u>1,283</u>
<b>TOTAL ASSETS</b>	<u>\$ 9,662,741</u>	<u>\$ 8,637,957</u>

## LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Grants payable	\$ 1,945,238	\$ 1,602,450
State grant obligations	6,137,446	5,028,350
Accrued expenses	<u>77,327</u>	<u>101,454</u>
<b>TOTAL LIABILITIES</b>	.....8,160,011	.....6,732,254
<b>NET ASSETS</b>		
Unrestricted net assets	292,326	685,612
Board designated unrestricted net assets	<u>1,210,404</u>	<u>1,220,091</u>
Total net assets	<u>1,502,730</u>	<u>1,905,703</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 9,662,741</u>	<u>\$ 8,637,957</u>

## NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED

	December 31,	
	<u>2009</u>	<u>2008</u>
<b>REVENUE AND SUPPORT</b>		
Assessments revenue - net	\$ 12,008,689	\$ 12,495,762
Interest income	6,068	114,408
Other income	<u>148,715</u>	<u>129,882</u>
Total revenue and support	... <u>12,163,472</u>	... <u>12,740,052</u>
<b>EXPENSES</b>		
Programs:		
Consumer education production	910,000	1,110,000
Research and development	777,114	777,114
Education and training	300,000	645,114
State grants	<u>9,610,877</u>	<u>9,123,651</u>
Total program expenses	... <u>11,597,991</u>	... <u>11,655,879</u>
Administrative expenses:		
Administrative costs	606,778	589,763
Depreciation	<u>502</u>	<u>2,168</u>
Total administrative expense	... <u>607,280</u>	... <u>591,931</u>
General and special projects:		
Special projects	115,387	57,977
Collection costs	110,578	191,164
Publication costs	<u>135,209</u>	<u>226,935</u>
Total general and special projects	<u>361,174</u>	<u>476,076</u>
Total expenses	<u>12,566,445</u>	<u>12,723,886</u>
CHANGE IN UNRESTRICTED NET ASSETS	( 402,973)	16,166
NET ASSETS, BEGINNING OF YEAR	<u>1,905,703</u>	<u>1,889,537</u>
NET ASSETS, END OF YEAR	<u>\$ 1,502,730</u>	<u>\$ 1,905,703</u>

## NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in unrestricted net assets	\$( 402,973)	\$ 16,166
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation	502	2,168
Change in assets and liabilities:		
(Increase) decrease in assessments and other receivables	471,670	165,843
(Increase) decrease in publications inventory	33,075	69,399
Increase (decrease) in grants payable and state grant obligations	1,451,884	( 1,322,544)
Increase (decrease) in accrued expenses	<u>( 24,127)</u>	<u>69,931</u>
Total adjustments	<u>1,933,004</u>	<u>( 1,015,203)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,530,031	( 999,037)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>4,577,198</u>	<u>5,576,235</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 6,107,229</u>	<u>\$ 4,577,198</u>

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - THE ORGANIZATION

The National Oilheat Research Alliance, Inc. (the Alliance) is a non-profit trade organization developed under the National Oilheat Research Alliance Act of 2000 (NORA), Public Law 106-469, legislation passed by the U.S. Congress and signed into law in November 2000. The Alliance was created to educate consumers about the benefits of oil heat, to perform research and development, and technical training to provide better customer service. The Alliance's Board consists of members from the oil heat industry, retail markets, wholesale distributors, public members, and representatives from the states with the highest oil heat sales. The Alliance was incorporated on January 31, 2001. Funding under Public Law 106-469 ceases on February 6, 2010.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting following the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), which is the sole source of authoritative generally accepted accounting principles in the United States. The Alliance reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. There were no restricted net assets as of December 31, 2009 and 2008.

Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that could affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses and their functional allocations during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Alliance considers all highly liquid investments available for current use with a maturity date of three months or less to be cash equivalents. Cash and cash equivalents consists of cash held in a bank account and temporary cash investments in broker-managed money market accounts.

Assessments Receivable

An estimate of assessments to be received, but not remitted to the Alliance at the end of the reporting period, are made based on industry statistics. Receivables are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts. At December 31, 2009 and 2008, no allowance for uncollectible accounts was considered necessary.

Publications Inventory

Inventory consists of publications and is recorded at average cost.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment purchased in excess of \$1,000 are recorded at cost. Depreciation of furniture, office and computer equipment is computed by using the straight-line method over the estimated useful lives of the assets. Estimated useful lives by category are:

Office equipment	5 years
Computer equipment	3 years

Assessment Revenue

The NORA law requires wholesale distributors of No. 1 distillate and No. 2 dyed distillate to remit an assessment of two-tenths of one cent per gallon at the point of sale. If the No. 1 distillate or No. 2 dyed distillate is imported after the point of sale, the assessment is to be made when the product enters the United States. The assessments are to be remitted to the Alliance at least quarterly.

Consumer Education

Consumer education costs are expensed as incurred. Consumer education activities include direct communications with consumers through broadcast media (television and radio), direct mail, internet and outdoor advertising. Total costs for the years ended December 31, 2009 and 2008 were \$5,819,052 and \$8,050,107, respectively.

Interest Income

Interest income earned on the Alliance's cash deposits is not allocated to specific projects. When the budgeting and cash flow needs of the Alliance are more readily determinable, interest income will be utilized to advance the Alliance's programs.

Subsequent Events

The Alliance has evaluated subsequent events through May 18, 2010, which is the date the financial statements were available to be issued.

NOTE 3 - COMMITMENTS

The Alliance entered into an operating lease for office space. The lease stipulates monthly payments of \$2,145 plus expenses and expires May 31, 2010. Rent expense for the years ended December 31, 2009 and 2008 totaled \$26,025 and \$24,360, respectively. Future minimum payments under the lease are \$10,725 in 2010.



NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INCOME TAX STATUS

The Alliance received a determination letter from the Internal Revenue Service that it has been granted an exemption from federal income taxes and that it qualifies under Section 501(c)(6) of the Internal Revenue Code. The Alliance believes that its operations are consistent with the nature of their exemption granted by the IRS. There is no current liability for income taxes on unrelated business income and no temporary differences resulting in deferred taxes as of December 31, 2009 and 2008.

FASB ASC 740 prescribes a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions the Alliance has taken in its tax years that remain subject to examination by major tax jurisdictions or expects to take on a tax return. The Alliance adopted FASB ASC 740 as of January 1, 2009 and, therefore, recognized the benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. NORA's open audit periods are 2006-2009. There was no impact to the Alliance's financial statements as a result of the implementation of FASB ASC 740.

NOTE 5 - ADMINISTRATIVE EXPENSE CAP

NORA, Public Law 106-469, requires that the Alliance limit expenditures for "Administrative" expenses to seven percent of gross revenue generated by assessment remittances.

NOTE 6 - PROGRAM SERVICES

Research and Development

The Alliance committed 6.5 percent in 2009 and 6.3 percent in 2008 of assessment revenue, net of collection costs, for oil heat research and development grants. The Alliance provides for research, development, and demonstration of clean and efficient oilheat utilization equipment with these grants. The 2009 commitment totaled \$777,114. The 2008 commitment totaled \$777,114.

Education and Training

The Alliance committed 2.5 percent in 2009 and 5.2 percent in 2008 of assessment revenue, net of collection costs, for grants related to education and training. The Alliance seeks to enhance consumer and employee safety and training with these grants. The 2009 commitment totaled \$300,000. The 2008 commitment totaled \$645,114.

Consumer Education Production

The Alliance committed 7.6 percent in 2009 and 9.0 percent in 2008 of assessment revenue, net of collection costs, for grants related to consumer education. The Alliance engages in consumer education through internet and other means to communicate that oilheat is an efficient and economical energy source. The 2009 commitment totaled \$910,000. The 2008 commitment totaled \$1,110,000.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - PROGRAM SERVICES (continued)

State Grants

The Alliance has committed 80.8 percent in 2009 and 83.2 percent in 2008 of net assessment revenue for state grants. The states develop detailed plans for use of the grant funds to do consumer education production, education and training, and/or research and development. In addition, the costs for the consumer education production program were incurred by the Alliance on behalf of the states. Thus, the total commitment for state grants was \$10,520,877 or 88.4 percent of net assessment revenue in 2009. The 2008 commitment totaled \$10,233,651.

The Alliance is mandated by law to establish a program coordinating the operation of the Alliance with the operator of any similar state or local program. Remittances to state programs are required to equal 15 percent of the assessment revenue collected in the state. During 2009, the Alliance is distributing its net assessment revenue as follows:

Assessment revenue	\$ 12,008,689
Less: collection costs	<u>( 110,578)</u>
Net assessment revenue	<u>\$ 11,898,111</u>
Grants and state grants (97.4 percent of net assessment revenue)	<u>\$ 11,597,991</u>

NOTE 7 - GRANTS PAYABLE

The Alliance enters into various grant agreements which may require periodic payments of grant funds. The outstanding grant liability is as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Research and development	\$ 1,603,645	\$ 1,252,436
Education and training	80,300	80,946
Consumer education	19,556	25,963
Internet communications	<u>241,737</u>	<u>243,105</u>
Total	<u>\$ 1,945,238</u>	<u>\$ 1,602,450</u>

NOTE 8 - BOARD DESIGNATED NET ASSETS

The Board has designated an amount equal to up to ten percent of annual assessments to be reserved in response to unpredictable weather patterns. The funds will be utilized in future years, with Board approval, to advance the Alliance's programs. The Boards' designated net assets at December 31, 2009 and 2008 totaled \$1,210,404 and \$1,220,091, respectively.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - ASSESSMENT AND COLLECTION COSTS

Assessments and collection costs include the costs incurred to process annual assessments, to publicize the collection system and to ascertain compliance as stipulated by NORA law. Collection costs consist of the following:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Legal fees	\$ 22,856	\$ 97,500
Accounting fees	75,360	81,640
Other	<u>12,362</u>	<u>12,024</u>
Total	<u>\$ 110,578</u>	<u>\$ 191,164</u>

The Alliance has also developed an audit system for collections compliance, and has the legal authority to conduct audits to ensure member compliance.

NOTE 10 - ASSESSMENT REFUNDS

Assessment revenue excludes collections which will be returned as refunds. The Alliance collects assessments on all heating oil defined as dyed distillate. Under NORA's collections rules, any dyed distillate or blends are subject to assessment. Some of this fuel is used for non-heating applications and is refunded. The Alliance anticipates refunds will approximate \$1.5 million per year and is included in the annual budget. Refunds for the years ended December 31, 2009 and 2008 were \$1,724,286 and \$1,803,235, respectively.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

During 2008, the statutory FDIC insurance limit at participating financial institutions increased from \$100,000 to \$250,000 per depositor and unlimited deposit insurance on non-interest bearing accounts at participating banks, effective through December 31, 2013. At December 31, 2009, the Alliance had \$5,788,609 in cash deposits in excess of the new FDIC insurance limit.

Substantially all of NORA's income comes from assessments on oil sales.

NOTE 12 - BUSINESS CONDITIONS AND MANAGEMENT'S PLANS

As discussed previously in Note 1, NORA's funding was established by Public Law 106-469 and expired on February 6, 2010. Currently, no renewal has been passed into law and oilheat assessments ceased on February 6, 2010. Management has prepared a budget for the year ending December 31, 2010 that contemplates this end in assessments and covers only the operating costs of NORA. Management has notified the states that there will be no grants made in 2010 until funding is renewed. NORA hopes that the funding will be renewed quickly and that further cuts to operations will not be necessary.