

**NATIONAL OILHEAT RESEARCH
ALLIANCE, INC.**

DECEMBER 31, 2011 AND 2010

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

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

DECEMBER 31, 2011 and 2010

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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, 2011 and 2010, 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, 2011 and 2010, 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.

A handwritten signature in black ink that reads 'Ross, Langan & McKendree LLP'.

CERTIFIED PUBLIC ACCOUNTANTS

February 28, 2013

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

| | <u>December 31,</u> | |
|--------------------------------|---------------------|---------------------------|
| | <u>2011</u> | <u>2010</u> (Restated) |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 3,912,493 | \$ 5,921,297 |
| Accounts receivable | 69,363 | 31,271 |
| Prepaid assets | 230,737 | 201,156 |
| Publications inventory, net | <u>22,006</u> | <u>53,239</u> |
| Total current assets |4,234,599 |6,206,963 |
| PROPERTY AND EQUIPMENT | | |
| Office equipment | 8,449 | 8,449 |
| Computer equipment | <u>7,944</u> | <u>7,234</u> |
| Less: accumulated depreciation | <u>(15,643)</u> | <u>(15,127)</u> |
| Total property and equipment | <u>750</u> | <u>556</u> |
| TOTAL ASSETS | <u>\$ 4,235,349</u> | <u>\$ 6,207,519</u> |

LIABILITIES AND NET ASSETS

| | | |
|---|---------------------|---------------------|
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 52,152 | \$ 229,183 |
| Accrued salaries and benefits | 27,532 | 33,081 |
| Deferred income | 157,311 | 44,539 |
| Grants payable | 605,953 | 991,108 |
| State grant obligations | <u>2,854,711</u> | <u>3,881,693</u> |
| TOTAL LIABILITIES | 3,697,659 | 5,179,604 |
| NET ASSETS | | |
| Unrestricted net assets | <u>537,690</u> | <u>1,027,915</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 4,235,349</u> | <u>\$ 6,207,519</u> |

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED

| | <u>December 31,</u> | |
|------------------------------------|---------------------|---------------------|
| | <u>2011</u> | <u>2010</u> |
| | | (Restated) |
| CHANGE IN UNRESTRICTED NET ASSETS | | |
| REVENUE AND GAINS/LOSSES | | |
| Assessments revenue - net | \$ - | \$ 1,953,741 |
| Contract revenue | 491,332 | 153,542 |
| Interest income | 1,069 | 1,113 |
| Other income | <u>99,994</u> | <u>348,635</u> |
| Total revenue and gains/losses |592,395 |2,457,031 |
| EXPENSES | | |
| Program expenses: | | |
| Consumer education production | 4,267 | 1,394 |
| Research and development | 506,553 | 89,321 |
| Education and training | 1,077 | 150,000 |
| State grants | <u>-</u> | <u>1,954,802</u> |
| Total program expenses |511,897 |2,195,517 |
| Administrative expenses: | | |
| Administrative costs | 432,022 | 502,153 |
| Depreciation | <u>517</u> | <u>540</u> |
| Total administrative expenses |432,539 |502,693 |
| General and special projects: | | |
| Special projects | - | 64,359 |
| Collection costs | 45,100 | 80,034 |
| Publication costs | <u>93,084</u> | <u>89,243</u> |
| Total general and special projects | <u>138,184</u> | <u>233,636</u> |
| Total expenses | <u>1,082,620</u> | <u>2,931,846</u> |
| CHANGE IN UNRESTRICTED NET ASSETS | ..(.....490,225) | ..(.....474,815) |
| NET ASSETS, BEGINNING OF YEAR | <u>1,027,915</u> | <u>1,502,730</u> |
| NET ASSETS, END OF YEAR | <u>\$ 537,690</u> | <u>\$ 1,027,915</u> |

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED

| | <u>December 31,</u> | |
|---|---------------------|----------------------------------|
| | <u>2011</u> | <u>2010</u> <u>(Restated)</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$(490,225) | \$(474,815) |
| Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities: | | |
| Depreciation | 517 | 540 |
| Change in assets and liabilities: | | |
| Decrease in assessments receivables | - | 3,499,066 |
| Increase in accounts receivable | (38,092) | (31,271) |
| Increase in prepaid assets | (29,581) | (201,156) |
| Decrease in publications inventory, net | 31,233 | 2,426 |
| Increase/(decrease) in accounts payable and accrued expenses | (177,031) | 181,536 |
| Increase/(decrease) in accrued salaries and benefits | (5,549) | 3,401 |
| Increase in deferred income | 112,772 | 44,539 |
| Decrease in grants payable and state grant obligations | <u>(1,412,137)</u> | <u>(3,209,883)</u> |
| Total adjustments | <u>(1,517,868)</u> | <u>289,198</u> |
| Net cash used in operating activities | (2,008,093) | (185,617) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | <u>(711)</u> | <u>(315)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (2,008,804) | (185,932) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>5,921,297</u> | <u>6,107,229</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 3,912,493</u> | <u>\$ 5,921,297</u> |

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

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 the NORA Public Law 106-469 ceased 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.

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 year. 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.

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 five years for office equipment and three years for computer equipment.

Publications Inventory

Inventory consists of oil heat publications and is recorded at average cost. Management writes down inventory on a case-by-case basis when circumstances indicate that an asset is obsolete. Management has also recorded a reserve for obsolete inventory of \$6,900 as of December 31, 2011.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable and Contract Revenue

Accounts receivable consists of amounts due from research and development contracts. Bad debts are recognized based on historical experience and management's evaluation of outstanding accounts receivable. Accounts are written off when all reasonable efforts for collection have been utilized. No allowance was deemed necessary by management at December 31, 2011 or 2010. Contract revenue is recognized when services have been completed.

Assessment Revenue

The NORA Public Law 106-469 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. As discussed in Note 11, assessments ceased on February 6, 2010.

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 February 28, 2013, which is the date the financial statements were available to be issued.

Reclassifications

Certain 2010 amounts have been reclassified to conform with 2011 classifications.

NOTE 3 - COMMITMENTS AND CONTINGENCIES

The Alliance entered into two operating leases for office space. The first lease stipulates monthly payments of \$755 plus expenses and initially expired December 31, 2011. The lease was renewed until December 31, 2012 with monthly payments of \$770 plus expenses. The second lease stipulates monthly payments of \$1,060 and expires on May 31, 2013. Rent expense for the years ended December 31, 2011 and 2010 totaled \$22,123 and \$21,600, respectively. Future minimum payments under the leases are as follows:

Years ended December 31,

| | | |
|-------|----|---------------|
| 2012 | \$ | 21,960 |
| 2013 | | <u>5,300</u> |
| Total | \$ | <u>27,260</u> |

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - COMMITMENTS AND CONTINGENCIES (continued)

From time to time, the Alliance may receive inquiries from government, because of the nature of its funding sources. Management does not expect the result of such inquiries to impact the financial information of the Alliance.

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, 2011 and 2010.

The Alliance is required to measure, recognize, present, and disclose in its financial statements uncertain income tax positions the Alliance has taken in the tax years that remain subject to examination or expects to take on an income tax return. The Alliance recognizes the tax benefits from uncertain income tax positions only if it is more likely than not that the tax position will be sustained on examination by tax authorities. Prior year income tax returns may be subject to audit in various tax jurisdictions, most of which define open tax years as three years from the later of the due date or the date the return was filed. The Alliance recorded no liability for uncertain income tax positions for any open tax years.

NOTE 5 - ADMINISTRATIVE EXPENSE CAP

NORA Public Law 106-469, which expired February 6, 2010, required the Alliance to limit expenditures for "Administrative" expenses to seven percent of gross revenue generated by assessment remittances.

NOTE 6 - GRANTS PAYABLE

The Alliance enters into various grant agreements, which may require periodic payments of grant funds. The outstanding grant liability, which is recorded as a current liability in the accompanying statements of financial position, is as follows:

| | <u>December 31,</u> | |
|--------------------------|---------------------|-------------------|
| | <u>2011</u> | <u>2010</u> |
| Research and development | \$ 605,953 | \$ 918,570 |
| Education and training | - | 72,339 |
| Consumer education | - | 199 |
| Total | <u>\$ 605,953</u> | <u>\$ 991,108</u> |

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - PROGRAM SERVICES

Research and Development

The Alliance committed 4.8 percent of assessment revenue, net of collection costs, in 2010 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 additional commitment in 2011 and 2010 totaled \$506,553 and \$89,321, respectively.

Education and Training

The Alliance committed 8.0 percent of assessment revenue, net of collection costs, in 2010 for grants related to education and training. The Alliance seeks to enhance consumer and employee safety and training with these grants. The additional commitment in 2011 and 2010 totaled \$1,077 and \$150,000, respectively.

Consumer Education Production

The Alliance committed 0.1 percent of assessment revenue, net of collection costs, in 2010 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 additional commitment in 2011 and 2010 totaled \$4,267 and \$1,394, respectively.

State Grant Obligations

The Alliance has committed 104.3 percent of net assessment revenue for state grants in 2010. 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. The 2010 commitment totaled \$1,956,196.

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 at least 15 percent of the assessment revenue collected in the state. During 2011, had no assessment revenue.

NOTE 8 - COLLECTION COSTS

The Alliance has also developed an audit system for collections compliance, and has the legal authority to conduct audits to ensure member compliance. Collection costs include the costs incurred to process annual assessments, to publicize the collection system and to ascertain compliance as stipulated by NORA Public Law 106-469. Collection costs consist of the following:

| | <u>December 31,</u> | |
|-----------------|---------------------|------------------|
| | <u>2011</u> | <u>2010</u> |
| Accounting fees | \$ 45,100 | \$ 73,080 |
| Other | <u>-</u> | <u>6,954</u> |
| Total | <u>\$ 45,100</u> | <u>\$ 80,034</u> |

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - ASSESSMENT REFUNDS

The Alliance collects assessments on all heating oil defined as dyed distillate. Under NORA Public Law 106-469'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. Refunds in the years ended December 31, 2011 and 2010 were \$4,288 and \$1,724,286, respectively.

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

The Alliance maintains \$3,019,392 in cash equivalents in broker-managed accounts that are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000 including a \$250,000 limit for cash in the case that the brokerage firm holding the assets becomes insolvent. SIPC coverage does not insure the underlying assets. The Alliance does not believe that they are exposed to any significant credit risk.

As of December 31, 2011, all of the Alliance's accounts receivable and 83 percent of total revenue were from two organizations.

NOTE 11 - BUSINESS CONDITIONS AND MANAGEMENT'S PLANS

As discussed previously in Note 1, the Alliance's funding was established by NORA 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, 2012 that contemplates no assessments and covers only the operating costs and certain research and development projects of the Alliance. Management has notified the states that there will be no new grants made in 2012 until funding is renewed. The Alliance hopes that the funding will be renewed quickly and that further cuts to operations will not be necessary. The industry, with a privately financed effort, is working to extend the Alliance's authorization.

NOTE 12 - DEFERRED COMPENSATION PLAN

The Alliance has a 401(k) retirement plan for its employees that allows for an 8 percent contribution from the Alliance. Total contributions expensed for the plan were \$18,317 and \$27,188 for the years ended December 31, 2011 and 2010, respectively and are included in administrative costs in the accompanying statements of activities.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 13 - CHANGE IN ACCOUNTING PRINCIPLE

The Alliance has contracts with third parties to conduct research and development activities that began in the year ended December 31, 2010. In the year ended December 31, 2010, these contracts were accounted for as contributions. Management now believes that these contracts are fee for service contracts, because of changing requirements from the contracting agencies. Therefore, the Alliance has changed its accounting policy for these contracts and the financial statements as of and for the year ended December 31, 2010 have been restated. The net impact in December 31, 2010 from this change in accounting policy is as follows:

| | |
|--|-----------------------------|
| Increase in accounts receivable | \$ 31,271 |
| Decrease in grants receivable | (805,503) |
| Increase in prepaid assets | <u>195,166</u> |
| Decrease in total assets | <u><u>\$ (579,066)</u></u> |
| Increase in deferred income | <u>\$ 129,026</u> |
| Increase in unrestricted net assets | \$ 771,017 |
| Decrease in temporarily restricted net assets | (771,017) |
| Decrease in change in net assets | <u>(708,092)</u> |
| Decrease in net assets | <u><u>\$ (708,092)</u></u> |
| Decrease in grant revenue - temporarily restricted | \$ (972,313) |
| Increase in contract revenue - unrestricted | <u>153,542</u> |
| Decrease in revenue, support and gains/losses | <u><u>\$ (818,771)</u></u> |
| Decrease in research and development expenses | <u><u>\$ (110,679)</u></u> |