

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

DECEMBER 31, 2012 AND 2011

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in their entirety.**

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

DECEMBER 31, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

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

Scope

We have audited the accompanying statements of the National Oilheat Research Alliance, Inc. (NORA), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity'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 NORA as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ross, Langan & McKendree
L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

November 13, 2013

www.rlmcpa.com

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u> <u>(Restated)</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,610,217	\$ 3,912,493
Accounts receivable	92,080	93,824
Prepaid assets	68,255	230,737
Publications inventory, net	<u>14,264</u>	<u>22,006</u>
Total current assets <u>2,784,816</u> <u>4,259,060</u>
PROPERTY AND EQUIPMENT		
Office equipment	8,449	8,449
Computer equipment	7,944	7,944
Less: accumulated depreciation	<u>(16,085)</u>	<u>(15,643)</u>
Total property and equipment	<u>308</u>	<u>750</u>
TOTAL ASSETS	<u>\$ 2,785,124</u>	<u>\$ 4,259,810</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 32,335	\$ 52,152
Accrued salaries and benefits	26,774	27,532
Deferred income	10,308	120,335
Grants payable	-	605,953
State grant obligations	<u>2,052,819</u>	<u>2,854,711</u>
TOTAL LIABILITIES	2,122,236	3,660,683
NET ASSETS		
Unrestricted net assets	<u>662,888</u>	<u>599,127</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,785,124</u>	<u>\$ 4,259,810</u>

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u> <u>(Restated)</u>
CHANGE IN UNRESTRICTED NET ASSETS		
REVENUE AND GAINS/LOSSES		
Contract revenue	\$ 371,941	\$ 491,838
Interest income	507	1,069
Gain on reversal of grants payable	584,599	-
Donated services	9,835	-
Other income	<u>96,938</u>	<u>99,994</u>
Total revenue and gains/losses	<u>1,063,820</u>	<u>592,901</u>
EXPENSES		
Program expenses:		
Consumer education production	1,344	4,267
Research and development	447,676	506,553
Education and training	<u>31,396</u>	<u>1,077</u>
Total program expenses	<u>480,416</u>	<u>511,897</u>
Administrative expenses:		
Administrative costs	446,940	432,022
Depreciation	<u>442</u>	<u>517</u>
Total administrative expenses	<u>447,382</u>	<u>432,539</u>
General and special projects:		
Collection costs	-	45,100
Publication costs	<u>72,261</u>	<u>93,084</u>
Total general and special projects	<u>72,261</u>	<u>138,184</u>
Total expenses	<u>1,000,059</u>	<u>1,082,620</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>63,761</u>	<u>(489,719)</u>
NET ASSETS, BEGINNING OF YEAR	<u>599,127</u>	<u>1,088,846</u>
NET ASSETS, END OF YEAR	<u>\$ 662,888</u>	<u>\$ 599,127</u>

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u> <u>(Restated)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$.....63,761	\$(.....489,719)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation	442	517
Change in assets and liabilities:		
(Increase)/decrease in accounts receivable	1,744	(9,251)
(Increase)/decrease in prepaid assets	162,482	(29,581)
Decrease in publications inventory, net	7,742	31,233
Decrease in accounts payable and accrued expenses	(19,817)	(177,031)
Decrease in accrued salaries and benefits	(758)	(5,549)
Increase/(decrease) in deferred income	(110,027)	83,425
Decrease in grants payable and state grant obligations	<u>(1,407,845)</u>	<u>(1,412,137)</u>
Total adjustments	<u>(1,366,037)</u>	<u>(1,518,374)</u>
Net cash used in operating activities	(1,302,276)	(2,008,093)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>-</u>	<u>(711)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,302,276)	(2,008,804)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,912,493</u>	<u>5,921,297</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,610,217</u>	<u>\$ 3,912,493</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 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 \$14,000 and \$6,900 as of December 31, 2012 and 2011, respectively.

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, 2012 or 2011. Contract revenue is recognized when services have been completed.

Assessment Revenue

The NORA Public Law 106-469 required 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 were 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.

Donated Services

The Alliance recognized contribution revenue for certain services received as part of their research and development projects at the fair value of those services.

Subsequent Events

The Alliance has evaluated subsequent events through November 13, 2013, which is the date the financial statements were available to be issued.

NOTE 3 - 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, was \$605,953 for research and development as of December 31, 2011. Because of the expiration of the NORA Public Law 106-469, during 2012, the Alliance communicated to grant recipients that some of the remaining research and development grants would not be funded so that the assets could be used to fund operations. As a result, the Alliance recorded a gain on reversal of grants payable of \$584,599 in the year ended December 31, 2012. There were no grants payable amounts outstanding as of December 31, 2012.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - COMMITMENTS AND CONTINGENCIES

The Alliance entered into two operating leases for office space. The first lease stipulated 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, and was not subsequently renewed. The second lease stipulated monthly payments of \$1,060 and expired on May 31, 2013. The lease was renewed until May 31, 2014, with monthly payments of \$1,085 plus expenses. Rent expense for the years ended December 31, 2012 and 2011, totaled \$23,129 and \$22,123, respectively. Future minimum payments under the remaining lease are as follows:

Years ended December 31,

2013	\$	12,895
2014		<u>5,425</u>
Total	\$	<u>18,320</u>

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 5 - 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, 2012 and 2011.

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 6 - 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.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - PROGRAM SERVICES

Research and Development

The Alliance provides for research, development, and demonstration of clean and efficient oilheat utilization equipment with these grants.

Education and Training

The Alliance seeks to enhance consumer and employee safety and training with these grants.

Consumer Education Production

The Alliance engages in consumer education through internet and other means to communicate that oilheat is an efficient and economical energy source.

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 consisted of accounting fees of \$45,100 for the year ended December 31, 2011. There were no collection costs in the year ended December 31, 2012.

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 were subject to assessment. As discussed previously, NORA Public Law 106-469 expired on February 6, 2010. Some of this fuel is used for non-heating applications and is refunded. Refunds in the year ended December 31, 2011 were \$4,288. There were no refunds in the year ended December 31, 2012.

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

The Alliance maintains \$1,355,620 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, 2012, all of the Alliance's accounts receivable and 35 percent of total revenue and gains/losses were from two organizations.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS

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 reduced costs and has a budget for the year ending December 31, 2013, that contemplates no assessments and covers only the reduced operating costs and certain research and development projects of the Alliance. Management has notified the states that there will be no new grants made until funding is renewed. Management has also communicated that certain state grant obligations and research and development grants payable have been cancelled and the funds will be used to fund operations through 2014. The Alliance hopes that the funding will be renewed quickly and that drastic changes to the Alliance 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 \$19,241 and \$18,317 for the years ended December 31, 2012 and 2011, respectively, and are included in administrative costs in the accompanying statements of activities.

NOTE 13 - PRIOR YEAR RESTATEMENT

The Alliance has contracts with third parties to conduct research and development activities that began in the year ended December 31, 2011. The activities were partially funded through cost sharing arrangements with vendors who donated services to the Alliance. The cost sharing was not reflected in the overall costs of the projects and therefore, the revenue recognition under the projects was misstated. The net impact in December 31, 2011 from these error is as follows:

Increase in accounts receivable	\$ <u>24,461</u>
Decrease in deferred income	\$ <u>36,976</u>
Increase in beginning of year unrestricted net assets	\$ 60,931
Increase in change in net assets	<u>506</u>
Increase in net assets	\$ <u>61,437</u>
Increase in contract revenue - unrestricted	<u>506</u>
Increase in revenue, support and gains/losses	\$ <u>506</u>