

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

DECEMBER 31, 2019 AND 2018

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

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

DECEMBER 31, 2019 AND 2018

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	2-3
FINANCIAL STATEMENTS	
Statements of Financial Position December 31, 2019 and 2018	4
Statements of Activities For the Years Ended December 31, 2019 and 2018	5
Statements of Functional Expenses For the Years Ended December 31, 2019 and 2018	6
Statements of Cash Flows For the Years Ended December 31, 2019 and 2018	7
NOTES TO FINANCIAL STATEMENTS	8-15
SUPPLEMENTARY INFORMATION	
Supplemental Schedules of Expenses by State/Jurisdiction For the Year Ended December 31, 2019	16-19



INDEPENDENT AUDITOR'S REPORT

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

Scope

We have audited the accompanying financial statements of the National Oilheat Research Alliance, Inc. (the Alliance), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, 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 audits 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 Alliance'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 Alliance'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.

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

Opinion

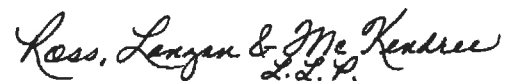
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alliance as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - New Accounting Standards Adopted

As discussed in Note 10 to the financial statements, in December 31, 2019, the Alliance implemented Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and ASU No. 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Expenses by State/Jurisdiction on pages 16-19 for the year ended December 31, 2019, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



CERTIFIED PUBLIC ACCOUNTANTS

July 7, 2020

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 9,172,752	\$ 9,151,550
Assessments receivable	2,966,129	3,086,323
Prepaid state assessments	80,408	137,970
Cash held in escrow	1,741,895	-
Other assets	<u>103,112</u>	<u>112,632</u>
TOTAL ASSETS	<u>\$ 14,064,296</u>	<u>\$ 12,488,475</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 628,023	\$ 760,957
Refunds payable	432,530	337,662
State grants payable	2,503,065	3,084,544
Obligation for unallocated state rebates	1,785,646	1,988,799
Other liabilities	<u>57,936</u>	<u>68,175</u>
Total liabilities5,407,2006,240,137
NET ASSETS		
Net assets without donor restrictions available for obligation - other than for consumer education, safety, and training	1,043,447	642,774
Designated net assets:		
Pre-2014 reauthorization net assets	55,933	55,933
Unavailable for obligation until October 1, 2028	1,780,973	-
National spending not yet incurred:		
Research, development, and demonstration - not yet obligated	5,309,399	5,098,554
Research, development, and demonstration - obligated under contract	242,884	316,580
Heating oil efficiency and upgrade - not yet obligated	151,237	123,040
Heating oil efficiency and upgrade - obligated under contract	-	-
Consumer education, safety, and training - not yet obligated	73,223	11,457
Consumer education, safety, and training - obligated under contract	<u>-</u>	<u>-</u>
Total net assets without donor restrictions	<u>8,657,096</u>	<u>6,248,338</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,064,296</u>	<u>\$ 12,488,475</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE		
Assessments revenue, net of refunds	\$ 9,105,617	\$ 9,241,652
Contract revenue	250,045	257,259
Other income	72,008	73,832
Total revenue	9,427,670	9,572,743
EXPENSES		
Program expenses:		
Research, development, and demonstration	1,878,182	1,928,697
Heating oil efficiency and upgrade	1,073,814	1,394,446
Consumer education, safety, and training	2,045,567	2,791,730
Unallocated state rebates	1,618,085	1,942,501
Total program expenses	6,615,648	8,057,374
Administrative costs	199,694	231,756
General and special projects:		
Assessment and collection costs	157,797	135,230
Annual report costs	45,773	58,473
Total general and special projects	203,570	193,703
Total expenses	7,018,912	8,482,833
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	2,408,758	1,089,910
NET ASSETS, BEGINNING OF YEAR	6,248,338	5,158,428
NET ASSETS, END OF YEAR	\$ 8,657,096	\$ 6,248,338

The accompanying notes are an integral part of these financial statements.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019							
	PROGRAM SERVICES							
	Research, Development, and Demonstration	Heating Oil Efficiency and Upgrade	Consumer Education, Safety, and Training	Unallocated State Rebates	Total Program Services	Administrative Costs	General and Special Projects	Total 2019
Grants	\$ 554,026	\$ 1,027,011	\$ 1,837,334	\$ 1,618,085	\$ 5,036,456	\$ -	\$ -	\$ 5,036,456
Salaries, taxes, and benefits	501,108	36,554	37,840	-	575,502	44,794	25,733	646,029
Professional fees	643,610	5,341	164,739	-	813,690	132,758	177,460	1,123,908
Other expenses	179,438	4,908	5,654	-	190,000	22,142	377	212,519
TOTAL 2019 EXPENSES	\$ 1,878,182	\$ 1,073,814	\$ 2,045,567	\$ 1,618,085	\$ 6,615,648	\$ 199,694	\$ 203,570	\$ 7,018,912

	2018							
	PROGRAM SERVICES							
	Research, Development, and Demonstration	Heating Oil Efficiency and Upgrade	Consumer Education, Safety, and Training	Unallocated State Rebates	Total Program Services	Administrative Costs	General and Special Projects	Total 2018
Grants	\$ 713,907	\$ 1,326,723	\$ 2,463,485	\$ 1,942,501	\$ 6,446,616	\$ -	\$ -	\$ 6,446,616
Salaries, taxes, and benefits	388,799	56,854	67,656	-	513,309	59,661	36,037	609,007
Professional fees	727,318	4,738	249,398	-	981,454	151,383	153,089	1,285,926
Other expenses	98,673	6,131	11,191	-	115,995	20,712	4,577	141,284
TOTAL 2018 EXPENSES	\$ 1,928,697	\$ 1,394,446	\$ 2,791,730	\$ 1,942,501	\$ 8,057,374	\$ 231,756	\$ 193,703	\$ 8,482,833

The accompanying notes are an integral part of these financial statements.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,408,758	\$ 1,089,910
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation and amortization	17,751	31,121
Changes in assets and liabilities:		
Assessments receivable	120,194	(99,076)
Prepaid state assessments	57,562	79,390
Other assets	(8,231)	(65,563)
Accounts payable	(132,934)	(337,352)
Refunds payable	94,868	18,678
State grants payable	(581,479)	(304,546)
Obligation for unallocated state rebates	(203,153)	(627,018)
Other liabilities	<u>(10,239)</u>	<u>22,556</u>
Total adjustments	<u>(645,661)</u>	<u>(1,281,810)</u>
Net change in cash from operating activities	<u>1,763,097</u>	<u>(191,900)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
NET CHANGE IN CASH AND CASH HELD IN ESCROW	1,763,097	(191,900)
CASH AND CASH HELD IN ESCROW, BEGINNING OF YEAR	<u>9,151,550</u>	<u>9,343,450</u>
CASH AND CASH HELD IN ESCROW, END OF YEAR	<u>\$ 10,914,647</u>	<u>\$ 9,151,550</u>
SUPPLEMENTAL BREAKDOWN OF CASH AND CASH HELD IN ESCROW:		
Cash	\$ 9,172,752	\$ 9,151,550
Cash held in escrow	<u>1,741,895</u>	<u>-</u>
Total cash and cash held in escrow	<u>\$ 10,914,647</u>	<u>\$ 9,151,550</u>

The accompanying notes are an integral part of these financial statements.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 United States Congress and signed into law in November 2000. The law was amended in 2014 under Public Law 113-79. The Alliance was created to educate consumers about the benefits of oilheat, to perform research and development, to encourage heating oil efficiency and upgrades, and to provide technical training to provide better customer service. The Alliance's Board consists of members from the oilheat industry, retail markets, wholesale distributors, public members, and representatives from the states with the highest oilheat sales. The Alliance was incorporated on January 31, 2001. Funding under the Public Law 106-469 ceased on February 6, 2010. On February 7, 2014, the Public Law 113-79 extended the provisions of Public Law 106-469 to February 6, 2019. Funding under Public Law 113-79 resumed effective April 1, 2014. On December 20, 2018, Public Law 115-334, *the Agriculture Improvement Act of 2018* was signed. Public Law 115-334 extended and modified the provisions of Public Law 113-79 to February 6, 2029.

Pursuant to Public Law 113-79, Congress established a limit on the use of assessments revenue of 30 percent for consumer education, safety, and training; a minimum of at least 30 percent of assessments revenue for research, development, and demonstration; a minimum of at least 15 percent of assessments revenue for heating oil efficiency and upgrade; and a limit on the use of assessments revenue of 5 percent for administrative costs. Beginning February 6, 2019, Public Law 115-334 increased the limit on administrative costs to 7 percent of assessments revenue. Furthermore, Public Law 115-334 requires in each calendar year beginning February 6, 2019, the Alliance may not obligate an amount greater than the sum of (1) 75 percent of the amount of assessments estimated to be collected in the calendar year; (2) 75 percent of the amount of assessments actually collected in the most recent calendar year for which an audit report has been submitted less the amount estimated in (1) above; and (3) amounts permitted in preceding calendar years to be obligated that have been obligated. The assessments collected in excess of the amounts permitted to be obligated in (1), (2), and (3) above, shall be deposited in an escrow account and be unavailable for use until October 1, 2028, when it can be used consistent with the provisions of Public Law 106-469. The amount of assessments revenue recorded in the year ended December 31, 2019, that is unavailable for use until October 1, 2028, was \$1,779,971. In the years ended December 31, 2019 and 2018, the Alliance was in compliance with these percentages.

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 accounting principles generally accepted in the United States of America (GAAP). The Alliance reports information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

Accounting Estimates

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

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash Held in Escrow and Net Assets Unavailable for Obligation Until October 1, 2028

Public Law 115-334 requires assessments collected in excess of permitted amounts to be deposited in an escrow account and be unavailable for use until October 1, 2028. The following is a detail of escrow amounts as of December 31, 2019:

Cash deposited in escrow	\$ 1,740,893
Income earned on cash held in escrow	<u>1,002</u>
Cash held in escrow	1,741,895
To be transferred to escrow	<u>39,078</u>
Total net assets unavailable for obligation until October 1, 2028	<u>\$ 1,780,973</u>
Accumulated income earned on cash held in escrow	<u>\$ 1,002</u>

Revenue Recognition

Assessments Revenue

The Public Laws 113-79 and 115-334 require 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 to the Alliance. 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 of America. Assessments are due to be remitted to the Alliance at least quarterly based on actual sales.

Assessments Receivable

An estimate of assessments to be received, but not remitted to the Alliance as of year-end, was recognized as assessments receivable of \$2,966,129, \$3,086,323, and \$2,987,247 as of December 31, 2019, 2018, and 2017, respectively. Receivables are charged to bad debt loss as they are deemed uncollectible based upon a periodic review of the accounts. As of December 31, 2019 and 2018, no allowance for uncollectible accounts was considered necessary by management.

Refunds Payable

Under the Public Laws 113-79 and 115-334's collections rules, any dyed distillate or blends are subject to assessment. Some of this fuel is used for non-heating applications and can be refunded. Assessments revenue is presented in the accompanying statements of activities net of refunds recorded of \$1,271,786 and \$1,444,746 for the years ended December 31, 2019 and 2018, respectively. The Alliance recorded a refunds payable of \$432,530, \$337,662, and \$318,984 as of December 31, 2019, 2018, and 2017, respectively, for estimated refunds remaining unpaid based on historical and subsequent refunds paid.

Contract Revenue

Contract revenue is earned from research and development contracts with third parties. Contract revenue is recognized when services have been completed.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

State Grants Payable and Obligation for Unallocated Rebates

Each year, the Alliance makes grants to state organizations to accomplish its mission. Grants are paid as the state organizations provide documentation of the expenditure of funds. Under Public Laws 113-79 and 115-334, the Alliance has entered into various grant agreements with state organizations, which may require periodic payment of grant funds. Grant obligations are recognized at the time the agreements are made. The outstanding grant liability by program was as follows as of December 31:

	<u>2019</u>	<u>2018</u>
Research, development, and demonstration	\$ 1,038,341	\$ 1,146,035
Heating oil efficiency and upgrade	396,352	874,895
Consumer education, safety, and training	1,068,372	1,063,614
Unallocated state rebates	<u>1,785,646</u>	<u>1,988,799</u>
 Total state grants payable and obligation for unallocated state rebates	 <u>\$ 4,288,711</u>	 <u>\$ 5,073,343</u>

Functional Allocation of Expenses

The cost of providing the various programs and other activities have been presented on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates of time and effort of staff.

Income Tax Status

The Alliance received a determination letter from the Internal Revenue Service (IRS) that it has been granted an exemption from federal income taxes and it qualifies under Section 501(c)(6) of the Internal Revenue Code. The Alliance believes 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, 2019 and 2018.

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 the tax position will be sustained on examination by tax authorities. The Alliance recorded no liability for uncertain income tax positions for any open tax years.

Subsequent Events

Subsequent to year end, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen that are likely to impact all organizations. The impact to the Alliance is not completely known at this time. The Alliance has evaluated subsequent events through July 7, 2020, which is the date the financial statements were available to be issued.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 - CONCENTRATIONS OF CREDIT RISK

The Alliance maintains cash and investments in federally insured banks and broker-managed accounts and has exposure to credit risk on those accounts. Cash held with commercial banks is insured up to Federal Deposit Insurance Corporation (FDIC) limits. As of December 31, 2019, the Alliance had \$2,491,155 cash in excess of FDIC limits. Assets held in broker-managed accounts are insured by the Securities Investor Protection Corporation (SIPC), which protects investors for up to \$500,000 including a maximum of \$250,000 for claims of cash if the brokerage firm holding the assets becomes insolvent, but it does not insure the underlying assets of \$8,172,752 as of December 31, 2019. Management does not consider this a significant concentration of credit risk.

NOTE 4 - PROGRAM SERVICES

The Public Laws 113-79 and 115-334 place requirements on how the Alliance can spend the assessments it collects. At the beginning of each year, the Alliance makes an estimate of what total assessments are anticipated to be in the coming year. Grants are made to state organizations and national campaigns are undertaken based on the estimates. Actual assessments revenue differ from the estimates and the requirements of Public Laws 113-79 and 115-334. The difference between the estimates and actual assessments are to be reflected in the grants made in future years. The law establishes strict percentage allocations for program spending and these percentages are tied to the revenue received from assessments. Management has developed procedures to ensure these percentages are reflected in budgets and carried forward as appropriate. Variances between the percentages disclosed in the program descriptions below are descriptive of the current year's operations and management believes they do not indicate non-compliance with the statute.

Research, Development, and Demonstration

The Public Laws 113-79 and 115-334 require the Alliance to ensure not less than 30 percent of the assessments collected for each calendar year after the amounts required to be escrowed and not obligated until October 1, 2028, under Public Law 115-334 are used by qualified state associations or the Alliance to conduct research, development, and demonstration activities relating to oilheat fuel, including the development of energy-efficient heating systems to be placed into the marketplace. This also includes the Alliance, in conjunction with an institution or organization engaged in biofuels research, to develop consumer education materials describing the benefits of using biofuels as or in oilheat fuel based on the technical information developed.

In 2019, the Alliance granted or expended \$1,878,182 for the research, development, and demonstration program, including \$1,324,156 in grants and spending of past year's assessments revenue. The Alliance also budgeted \$1,650,000 in additional national spending from 2019 assessments revenue to be spent subsequent to year-end for the research, development, and demonstration program, making the total for 2019, 30 percent of net assessments revenue after deducting the amount added to net assets unavailable for obligation until October 1, 2028. Additionally, unallocated state rebates of 2019 assessments revenue will be used for the research, development, and demonstration program.

Heating Oil Efficiency and Upgrade

The Public Laws 113-79 and 115-334 require the Alliance to ensure not less than 15 percent of the assessments collected for each calendar year after the amounts required to be escrowed and not obligated until October 1, 2028, under Public Law 115-334 are used by qualified state associations or the Alliance to carry out programs to assist consumers (i) to make cost-effective upgrades to more fuel efficient heating oil systems or otherwise make cost-effective modifications to an existing heating system to improve the efficiency of the system, (ii) to improve energy efficiency or reduce energy consumption through cost-effective energy efficiency programs for consumers, or (iii) to improve the safe operation of a heating system.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 - PROGRAM SERVICES (continued)

Heating Oil Efficiency and Upgrade (continued)

In 2019, the Alliance granted or expended \$1,073,814 for the heating oil efficiency and upgrade program, including \$46,803 in grants and spending of past year's assessments revenue. The Alliance also budgeted \$75,000 in additional national spending from 2019 assessments revenue to be spent subsequent to year-end for the heating oil efficiency and upgrade program, making the total for 2019, 15 percent of net assessments revenue after deducting the amount added to net assets unavailable for obligation until October 1, 2028. Additionally, unallocated state rebates of 2019 assessments revenue will be used for the heating oil efficiency and upgrade program.

Consumer Education, Safety, and Training

The Public Laws 113-79 and 115-334 require the Alliance to ensure not more than 30 percent of the assessments collected for each calendar year after the amounts required to be escrowed and not obligated until October 1, 2028, under Public Law 115-334 are used (i) to conduct consumer education activities relating to oilheat fuel, including providing information to consumers on energy conservation strategies, safety, new technologies that reduce consumption or improve safety and comfort, the use of biofuel blends, and federal, state, and local programs designed to assist oilheat fuel consumers, (ii) to conduct worker safety and training activities relating to oilheat fuel, including energy efficiency training, (iii) to carry out other activities recommended by the Secretary of Energy, or (iv) to establish a data collection process to track equipment, service, and related safety issues to develop measures to improve safety.

In 2019, the Alliance granted or expended \$2,045,567 for the consumer education, safety, and training program, including \$11,457 in grants and spending of past year's assessments revenue. The Alliance also budgeted \$270,000 in additional national spending from 2019 assessments revenue for the consumer education, safety, and training program, of which \$73,223 remained unspent as of December 31, 2019, making the total for 2019, 29 percent of net assessments revenue after deducting the amount added to net assets unavailable for obligation until October 1, 2028.

Unallocated State Rebates

In addition to the specific program commitments discussed previously, the Alliance has committed \$1,618,085, which is 22 percent of net 2019 assessment revenue after deducting the amount added to net assets unavailable for obligation until October 1, 2028, for state rebates that have not yet been allocated to a program specified in Public Law 115-334. The Alliance plans to allocate these state rebates to the research, development, and demonstration and/or heating oil efficiency and upgrade programs. State organizations develop detailed plans for use of the rebates to do work under these programs. These funds will be allocated between programs in accordance with the requirements of Public Laws 113-79 and 115-334 as discussed previously.

NOTE 5 - ADMINISTRATIVE EXPENSE CAP

Public Law 113-79 requires the Alliance to limit expenditures for "Administrative" costs to 5 percent of revenue generated by assessment remittances beginning April 1, 2014, and Public Law 115-334 changed this to 7 percent of revenue generated by assessment remittances net of amounts unavailable for obligation until October 1, 2028, beginning February 6, 2019. In 2019, the Alliance expended \$199,694 for Administrative expenses, which was 3 percent of net assessments revenue after deducting the amount added to net assets unavailable for obligation until October 1, 2028, in the year ended December 31, 2019. In 2018, the Alliance expended \$231,756 for Administrative expenses, which was 3 percent of net assessments revenue in the year ended December 31, 2018. Thus, management believes the Alliance is in compliance with this provision of Public Laws 113-79 and 115-334.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 6 - ASSESSMENT AND COLLECTION COSTS

The Alliance has 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 Public Laws 113-79 and 115-334. Assessment and collection costs were \$157,797 and \$135,230 for the years ended December 31, 2019 and 2018, respectively.

NOTE 7 - FINANCIAL ASSETS AND LIQUIDITY

Financial assets available within one year for operations that are not subject to restrictions that make them unavailable for general operations as of December 31, were as follows:

	<u>2019</u>	<u>2018</u>
Cash, except cash held in escrow	\$ 9,172,752	\$ 9,151,550
Assessments receivable due within one year	2,966,129	3,086,323
Prepaid state assessments	80,408	137,970
Other current assets	67,384	74,509
Less: state grants payable	(2,503,065)	(3,084,544)
Less: obligation for unallocated state rebates	(1,785,646)	(1,988,799)
Less: amounts to be transferred to escrow	(39,078)	-
Less: designated net assets for national spending not yet incurred	<u>(5,776,743)</u>	<u>(5,549,631)</u>
 Total financial assets available within one year for operations	 <u>\$ 2,182,141</u>	 <u>\$ 1,827,378</u>

The Alliance has a budgetary process to develop estimates and make grant payables to comply with Public Laws 113-79 and 115-334. Liquid assets are maintained in cash accounts to minimize risk of loss.

NOTE 8 - NET ASSETS

Pre-2014 Reauthorization Designated Net Assets

As discussed previously, Public Law 113-79 became effective April 1, 2014. The Alliance designated the remaining net assets under the former Public Law 106-469 for use in a national oilheat education program. As of December 31, 2019 and 2018, \$55,933 remained unspent and are designated for future use.

National Spending Not Yet Incurred Designated Net Assets

The Alliance budgets national spending in the accomplishment of its mission under Public Laws 113-79 and 115-334. The Alliance recorded \$5,776,743 and \$5,549,631 in national spending of assessments revenue, which had not yet been incurred as of December 31, 2019 and 2018, respectively. The Alliance has designated net assets in these amounts for future program spending, some of which, the Alliance has approved contracts to expend.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 8 - NET ASSETS (continued)

Net Assets Unavailable for Obligation Until October 1, 2028

Public Law 115-334 established a requirement that funds be maintained in escrow until October 1, 2028. Net assets unavailable for obligation until October 1, 2028, is an accumulation of these net assets plus interest.

Net Assets Available for Obligation - Other Than For Consumer Education, Safety, and Training

The amount reported as net assets without donor restrictions available for obligation - other than for consumer education, safety, and training are the net amounts available for future obligation for all purposes other than consumer education, safety, and training, since Public Laws 113-79 and 115-334 have placed limits on the use of assessments revenue from consumer education, safety, and training.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Alliance has entered into operating lease agreements for office space and a liquid fuels research center. Total rent expense under these leases was \$93,679 and \$95,413 for the years ended December 31, 2019 and 2018, respectively. Subsequent to December 31, 2018, the Alliance extended this lease through December 31, 2025. Future minimum lease payments are as follows for the years ending December 31:

2020	\$	84,584
2021		87,122
2022		89,736
2023		92,428
2024		95,200
Thereafter		<u>98,056</u>
Total future minimum lease payments	\$	<u>547,126</u>

From time to time, the Alliance may receive inquiries from government agencies, 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 10 - IMPLEMENTATION OF NEW STANDARDS

During the year ended December 31, 2019, the Alliance implemented Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and accounting guidance for contributions received and contributions made, including guidance to assist organizations to distinguish revenue as exchange transactions or contributions and to distinguish between conditional and unconditional contributions. The Alliance applied the requirements of ASU No. 2018-08 on a modified prospective basis to agreements that either were not complete as of January 1, 2019, or were entered into after January 1, 2019, and the implementation did not result in a modification to the financial statements.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 10 - IMPLEMENTATION OF NEW STANDARDS (continued)

The Alliance also implemented ASU No. 2014-09, *Revenue from Contracts with Customers* in the year ended December 31, 2019. ASU No. 2014-09 provides the framework for recognizing revenue other than contributions and is intended to improve consistency of revenue recognition practices across for-profit and not-for-profit entities. The core principle of ASU No. 2014-09 is to recognize revenue to depict the transfer of goods or services to customers in an amount and at the time that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Alliance applied the requirements of ASU No. 2014-09 using the modified retrospective method and the implementation did not result in a modification to the financial statements other than additional disclosures.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

SUPPLEMENTAL SCHEDULE OF EXPENSES BY STATE/JURISDICTION -
RESEARCH, DEVELOPMENT, AND DEMONSTRATION
FOR THE YEAR ENDED DECEMBER 31, 2019

	Amounts Granted/ Expended in 2019	2019 State Grants Made After Year-End	2019 National Spending Not Yet Incurred	Total
STATE GRANTS-				
Connecticut	\$ 57,120	\$ -	\$ -	\$ 57,120
Delaware	2,826	-	-	2,826
Indiana	776	-	-	776
Kentucky	5,319	-	-	5,319
Maine	36,677	-	-	36,677
Maryland	19,114	-	-	19,114
Massachusetts	62,937	-	-	62,937
Michigan	13,075	-	-	13,075
Nevada	227	-	-	227
New Hampshire	24,433	-	-	24,433
New Jersey	45,596	-	-	45,596
New York -				
NYOHA	32,842	-	-	32,842
UNYEA	25,783	-	-	25,783
HVOEC	15,142	-	-	15,142
OHILI	28,545	-	-	28,545
North Carolina	18,172	-	-	18,172
Ohio	12,299	-	-	12,299
Pennsylvania	82,384	-	-	82,384
Rhode Island	18,394	-	-	18,394
South Carolina	7,202	-	-	7,202
Virginia	16,898	-	-	16,898
Vermont	12,909	-	-	12,909
Washington	2,604	-	-	2,604
Washington, D.C.	176	-	-	176
Wisconsin	12,576	-	-	12,576
NATIONAL	<u>1,324,156</u>	<u>-</u>	<u>1,650,000</u>	<u>2,974,156</u>
TOTAL STATE GRANTS AND NATIONAL SPENDING	<u>\$ 1,878,182</u>	<u>\$ -</u>	<u>\$ 1,650,000</u>	<u>\$ 3,528,182</u>

In addition to these amounts, the unallocated state rebates detailed in the accompanying supplemental schedule of expenses by state/jurisdiction - unallocated state rebates will be used for either this program or for the heating oil efficiency and upgrade program.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

SUPPLEMENTAL SCHEDULE OF EXPENSES BY STATE/JURISDICTION -
HEATING OIL EFFICIENCY AND UPGRADE
FOR THE YEAR ENDED DECEMBER 31, 2019

	Amounts Granted/ Expended in 2019	2019 State Grants Made After Year-End	2019 National Spending Not Yet Incurred	Total
STATE GRANTS-				
Connecticut	\$ 105,885	\$ -	\$ -	\$ 105,885
Delaware	5,238	-	-	5,238
Indiana	1,438	-	-	1,438
Kentucky	9,859	-	-	9,859
Maine	67,988	-	-	67,988
Maryland	35,432	-	-	35,432
Massachusetts	116,669	-	-	116,669
Michigan	24,238	-	-	24,238
Nevada	421	-	-	421
New Hampshire	45,291	-	-	45,291
New Jersey	84,523	-	-	84,523
New York -				
NYOHA	60,880	-	-	60,880
UNYEA	48,604	-	-	48,604
HVOEC	27,259	-	-	27,259
OHILI	52,915	-	-	52,915
North Carolina	33,686	-	-	33,686
Ohio	22,800	-	-	22,800
Pennsylvania	152,717	-	-	152,717
Rhode Island	34,097	-	-	34,097
South Carolina	13,351	-	-	13,351
Virginia	31,324	-	-	31,324
Vermont	23,929	-	-	23,929
Washington	4,827	-	-	4,827
Washington, D.C.	326	-	-	326
Wisconsin	23,314	-	-	23,314
NATIONAL	<u>46,803</u>	<u>-</u>	<u>75,000</u>	<u>121,803</u>
TOTAL STATE GRANTS AND NATIONAL SPENDING	<u>\$ 1,073,814</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 1,148,814</u>

In addition to these amounts, the unallocated state rebates detailed in the accompanying supplemental schedule of expenses by state/jurisdiction - unallocated state rebates will be used for either this program or for the research, development, and demonstration program.

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

SUPPLEMENTAL SCHEDULE OF EXPENSES BY STATE/JURISDICTION -
CONSUMER EDUCATION, SAFETY, AND TRAINING
FOR THE YEAR ENDED DECEMBER 31, 2019

	Amounts Granted/ Expended in 2019	2019 State Grants Made After Year-End	2019 National Spending Not Yet Incurred	Total
STATE GRANTS-				
Connecticut	\$ 189,428	\$ -	\$ -	\$ 189,428
Delaware	9,370	-	-	9,370
Indiana	2,572	-	-	2,572
Kentucky	17,638	-	-	17,638
Maine	121,631	-	-	121,631
Maryland	63,388	-	-	63,388
Massachusetts	208,720	-	-	208,720
Michigan	43,361	-	-	43,361
Nevada	753	-	-	753
New Hampshire	81,026	-	-	81,026
New Jersey	151,212	-	-	151,212
New York -				
NYOHA	108,928	-	-	108,928
UNYEA	85,503	-	-	85,503
HVOEC	50,216	-	-	50,216
OHILI	94,664	-	-	94,664
North Carolina	60,264	-	-	60,264
Ohio	40,789	-	-	40,789
Pennsylvania	273,210	-	-	273,210
Rhode Island	60,999	-	-	60,999
South Carolina	23,885	-	-	23,885
Virginia	56,038	-	-	56,038
Vermont	42,810	-	-	42,810
Washington	8,635	-	-	8,635
Washington, D.C.	583	-	-	583
Wisconsin	41,710	-	-	41,710
NATIONAL	<u>208,234</u>	<u>-</u>	<u>73,223</u>	<u>281,457</u>
TOTAL STATE GRANTS AND NATIONAL SPENDING	<u>\$ 2,045,567</u>	<u>\$ -</u>	<u>\$ 73,223</u>	<u>\$ 2,118,790</u>

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.

SUPPLEMENTAL SCHEDULE OF EXPENSES BY STATE/JURISDICTION -
UNALLOCATED STATE REBATES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Amounts Granted/ Expended in 2019	2019 State Rebates After Year-End	2019 National Spending Not Yet Incurred	Total
UNALLOCATED STATE REBATES-				
Connecticut	\$ 166,825	\$ -	\$ -	\$ 166,825
Delaware	8,252	-	-	8,252
Indiana	2,265	-	-	2,265
Kentucky	15,534	-	-	15,534
Maine	107,118	-	-	107,118
Maryland	55,824	-	-	55,824
Massachusetts	183,815	-	-	183,815
Michigan	38,187	-	-	38,187
Nevada	663	-	-	663
New Hampshire	71,358	-	-	71,358
New Jersey	133,169	-	-	133,169
New York -				
NYOHA	95,919	-	-	95,919
UNYEA	75,301	-	-	75,301
HVOEC	44,224	-	-	44,224
OHILI	83,369	-	-	83,369
North Carolina	53,073	-	-	53,073
Ohio	35,922	-	-	35,922
Pennsylvania	240,610	-	-	240,610
Rhode Island	53,721	-	-	53,721
South Carolina	21,035	-	-	21,035
Virginia	49,352	-	-	49,352
Vermont	37,701	-	-	37,701
Washington	7,605	-	-	7,605
Washington, D.C.	514	-	-	514
Wisconsin	36,729	-	-	36,729
TOTAL UNALLOCATED STATE REBATES	<u>\$ 1,618,085</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,618,085</u>

These unallocated state rebates will be allocated to either the research, development, and demonstration or the heating oil efficiency and upgrade programs based on detailed plans for use of the rebates to be submitted by the states.