



Headquarters
280 Trumbull St
24th Floor
Hartford, CT 06103
Tel: 860.522.3111
www.WAdvising.com

One Hamden Center
2319 Whitney Ave, Suite 2A
Hamden, CT 06518
Tel: 203.397.2525

14 Bobala Road #3
Holyoke, MA 01040
Tel: 413.536.3970

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Operation Fuel, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Operation Fuel, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 organization'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 organization'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 Operation Fuel, Inc. as of June 30, 2018 and 2017, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance, as required by the State Single Audit Act, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2018, on our consideration of Operation Fuel, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Operation Fuel, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Whittlesey PC".

Hartford, Connecticut
October 16, 2018

I. FINANCIAL STATEMENTS

OPERATION FUEL, INC.

Statements of Financial Position

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 877,148	\$ 2,737,083
Marketable securities	1,389,006	529,351
Accounts and grants receivable	119,180	92,860
Prepaid expenses	17,825	11,771
Security deposit	3,341	3,341
	<u>2,406,500</u>	<u>3,374,406</u>
Total current assets		
Property and equipment, net of accumulated depreciation	<u>70,383</u>	<u>33,137</u>
Total assets	<u>\$ 2,476,883</u>	<u>\$ 3,407,543</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 110,611	\$ 67,419
Deferred revenue	-	45,253
	<u>110,611</u>	<u>112,672</u>
Total current liabilities		
Charitable gift annuity payment liability	<u>5,783</u>	<u>8,326</u>
Total liabilities	<u>116,394</u>	<u>120,998</u>
Net assets:		
Unrestricted	2,258,519	2,949,607
Temporarily restricted	101,970	336,938
	<u>2,360,489</u>	<u>3,286,545</u>
Total net assets		
Total liabilities and net assets	<u>\$ 2,476,883</u>	<u>\$ 3,407,543</u>

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

OPERATION FUEL, INC.

Statements of Activities

For the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Change in unrestricted net assets:		
Revenues and support:		
Government grants	\$ 2,100,000	\$ 2,100,000
Other grants and contributions	810,091	990,516
Interest income	9,733	8,005
Unrealized investment loss	(12,012)	-
Net assets released from restrictions	991,124	2,682,925
Total revenues and support	<u>3,898,936</u>	<u>5,781,446</u>
Expenses:		
Fuel assistance programs	4,104,349	4,127,321
Management	195,831	235,962
Fundraising	289,844	292,695
Total expenses	<u>4,590,024</u>	<u>4,655,978</u>
Change in unrestricted net assets	<u>(691,088)</u>	<u>1,125,468</u>
Change in temporarily restricted net assets:		
Grants and contributions	756,156	649,292
Net assets released from restrictions	<u>(991,124)</u>	<u>(2,682,925)</u>
Change in temporarily restricted net assets	<u>(234,968)</u>	<u>(2,033,633)</u>
Total change in net assets	(926,056)	(908,165)
Net assets, beginning of year	<u>3,286,545</u>	<u>4,194,710</u>
Net assets, end of year	<u>\$ 2,360,489</u>	<u>\$ 3,286,545</u>

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

OPERATION FUEL, INC.

Statements of Functional Expenses

For the years ended June 30, 2018 and 2017

	Fuel Assistance Programs	Management	Fundraising	2018 Total
Energy grants	\$ 3,265,514	\$ -	\$ -	\$ 3,265,514
Operating support for fuel banks	200,265	-	-	200,265
Wages and fringe benefits	424,012	137,742	165,555	727,309
Professional fees	120,360	30,451	59,594	210,405
Postage	2,836	1,028	1,107	4,971
Special events	5,627	-	17,426	23,053
Repairs and maintenance	1,440	519	545	2,504
Occupancy	25,943	9,711	10,222	45,876
Printing and publications	18,527	4,082	20,633	43,242
Conferences and meetings	8,874	3,217	3,463	15,554
Depreciation	7,237	2,623	2,824	12,684
Telephone	3,052	1,106	1,191	5,349
Consumable supplies	5,049	1,743	1,876	8,668
Other	10,710	1,831	3,495	16,036
Membership dues and fees	2,788	1,011	1,088	4,887
Travel	2,115	767	825	3,707
	<u>\$ 4,104,349</u>	<u>\$ 195,831</u>	<u>\$ 289,844</u>	<u>\$ 4,590,024</u>

	Fuel Assistance Programs	Management	Fundraising	2017 Total
Energy grants	\$ 3,406,166	\$ -	\$ -	\$ 3,406,166
Operating support for fuel banks	171,310	-	-	171,310
Wages and fringe benefits	411,017	130,534	196,606	738,157
Professional fees	53,439	69,426	61,254	184,119
Postage	3,551	969	1,937	6,457
Special events	3,456	48	9,482	12,986
Repairs and maintenance	1,601	318	636	2,555
Occupancy	31,548	8,194	9,807	49,549
Printing and publications	7,944	329	5,771	14,044
Conferences and meetings	15,365	1,059	592	17,016
Depreciation	-	14,037	-	14,037
Telephone	3,422	765	1,434	5,621
Consumable supplies	9,903	1,328	3,309	14,540
Other	-	7,142	-	7,142
Membership dues and fees	2,297	1,535	1,030	4,862
Travel	6,302	278	837	7,417
	<u>\$ 4,127,321</u>	<u>\$ 235,962</u>	<u>\$ 292,695</u>	<u>\$ 4,655,978</u>

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

OPERATION FUEL, INC.

Statements of Cash Flows

For the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Total change in net assets	\$ (926,056)	\$ (908,165)
Adjustments to reconcile total change in net assets to net change in cash from operating activities:		
Depreciation	12,684	14,037
Unrealized losses on investments	10,994	-
Changes in assets and liabilities:		
Accounts and grants receivable	(26,320)	1,752,697
Prepaid expenses	(6,054)	(306)
Accounts payable and accrued liabilities	43,192	(166,242)
Deferred revenue - Small business program	(45,253)	1,059
Charitable gift annuity payment liability	(2,543)	(2,542)
Net change in cash from operating activities	<u>(939,356)</u>	<u>690,538</u>
Cash flows from investing activities:		
Purchases of investments	(1,400,000)	-
Purchases of property and equipment	(49,930)	-
Proceeds from the sale/maturity of certificates of deposit	529,351	-
Purchases of certificates of deposit	-	(301,343)
Net change in cash from investing activities	<u>(920,579)</u>	<u>(301,343)</u>
Net change in cash and cash equivalents	(1,859,935)	389,195
Cash and cash equivalents, beginning of year	<u>2,737,083</u>	<u>2,347,888</u>
Cash and cash equivalents, end of year	<u>\$ 877,148</u>	<u>\$ 2,737,083</u>

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

OPERATION FUEL, INC.

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 1 - PURPOSE OF ORGANIZATION:

Operation Fuel, Inc., a nonprofit organization, was initiated by private sector constituencies to respond to the needs of people within the State of Connecticut, who are unable to pay for their home energy costs and who are not eligible for governmental assistance. On December 26, 1988, Operation Fuel, Inc. became incorporated in the State of Connecticut.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The financial statements have been prepared on the accrual basis.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. Organizations are required to report information regarding financial position and activities according to three classes of net assets, depending upon the existence of net assets in each class: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Operation Fuel, Inc. has no permanently restricted net assets.

Unrestricted net assets – consists of resources over which the governing board has discretionary control to use in carrying on the general operations of Operation Fuel, Inc.

Temporarily restricted net assets – consists of contributions and other inflows of assets whose use by the organization is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Operation Fuel, Inc. pursuant to those stipulations.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Included as cash equivalents are all highly liquid investments with an original maturity of three months or less. Operation Fuel Inc.'s cash and cash equivalents consist of interest bearing checking accounts and money market accounts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

Fair Value Measurements

Operation Fuel, Inc. follows the accounting principles set forth in the topic, "*Fair Value Measurements*" of the FASB Accounting Standards Codification. This topic defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles. This topic defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs that may be used to measure fair values:

- Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Significant unobservable inputs that reflect the Center's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Valuation techniques based on unobservable inputs are highly subjective and require judgments regarding significant matters, such as the amount and timing of future cash flows and the selection of discount rates that may appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are as of a specific point in time they are susceptible to material near-term changes.

Accounts and Grants Receivable

Accounts and grants receivable primarily represent amounts due from utility companies. Receivables are recorded by management at their estimated collectible amounts. Management believes all amounts are fully collectible at year end.

Property and Equipment

Property and equipment is recorded at cost. The straight-line method of computing depreciation has been applied over their useful lives of 3-10 years.

Income Taxes

Operation Fuel, Inc. is a nonprofit organization and is exempt from federal and state income taxes on exempt function income under Section 501(c)(3) of the Internal Revenue Code.

Grants and Contracts

Grant and contract revenue is generally considered to be exchange transactions in which the grantor or contractor requires the performance of specified activities. Entitlement to reimbursement is conditioned on the expenditure of funds in accordance with grant contract restrictions. Therefore, support is recognized to the extent of grant contract expenditures. Grant contract receipts in excess of amounts expended under such grant contracts is recognized as deferred revenue refundable advances. Grant and contract expenditures in excess of revenues recognized are presented as grants receivable. Revenues for services and support fees are recognized as services are performed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

Contributions

Contributions are defined as voluntary, nonreciprocal transfers.

Unrestricted and unconditional contributions are recognized as support when received or pledged. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished. Temporarily restricted net assets are reclassified and reported in the statements of activities as net assets released from restrictions. Operation Fuel, Inc.'s policy is to present temporarily restricted assets received during the year, whose restrictions are also met during the year, as unrestricted net assets.

Functional Allocation of Expenses

The cost of providing the various programs and supporting services of Operation Fuel, Inc. have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services.

Concentration of Risk

Operation Fuel, Inc. maintains its cash in bank deposit accounts at various financial institutions which, at times, may exceed federally insured limits. Operation Fuel, Inc. has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Subsequent Events

Operation Fuel, Inc. monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for June 30, 2018 through October 16, 2018, the date on which financial statements were available to be issued.

NOTE 3 – INVESTMENTS:

At June 30, 2018 and 2017, investments measured at fair value on a recurring basis consist of the following:

	<u>2018</u>	<u>2017</u>
Level 1 investments:		
Cash and equivalents	\$ 19,518	\$ -
CD's and equivalents	459,765	529,351
Equities	160,135	-
Mutual Funds	749,588	-
	<u>\$ 1,389,006</u>	<u>\$ 529,351</u>

Operation Fuel, Inc. did not have any investments whose fair value on a recurring basis was measured using Level 2 or Level 3 inputs as of June 30, 2018 or 2017.

NOTE 4 - RETIREMENT PLAN:

Operation Fuel, Inc. has a defined contribution retirement plan that covers substantially all employees. Operation Fuel, Inc. does provide a contribution of 2 percent to all employees and an additional matching contribution up to 2 percent for participating employees. Retirement expense for the years ended June 30, 2018 and 2017 was \$23,357 and \$22,664, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT:

At June 30, 2018 and 2017, property and equipment is made up of the following:

	<u>2018</u>	<u>2017</u>
Property and equipment	\$ 254,544	\$ 204,614
Accumulated depreciation	<u>(184,161)</u>	<u>(171,477)</u>
	<u>\$ 70,383</u>	<u>\$ 33,137</u>

NOTE 6 - DEFERRED REVENUE:

Operation Fuel, Inc. had contracts with utility companies to carry out a program aimed at providing energy grants and energy conservation training to small businesses in Connecticut. The program offered grants to pay for electricity and weatherization bills and to conduct educational seminars on conserving energy. This program ended in 2018. Deferred revenue for the years ended June 30, 2018 and 2017, was \$-0- and \$45,253, respectively.

NOTE 7 - OPERATING LEASES:

Effective June 1, 2014 Operation Fuel, Inc. began a 5-year lease for office space in Hartford, Connecticut. Commencing June 1, 2014 monthly installments were \$3,341. Rent expense for the years ended June 30, 2018 and 2017, was \$40,092.

The future minimum lease commitments at June 30, 2018 is as follows:

2019	<u>\$ 36,751</u>
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NOTE 8 - CHARITABLE GIFT ANNUITY:

Operation Fuel, Inc. has a charitable gift annuity. Payments are made to the donor in accordance with the agreement. The net present value of payments to the beneficiary under this agreement is calculated using the discount rate 4.25%. As of June 30, 2018 and 2017 the liability pertaining to the annuity was \$5,783 and \$8,326 respectively.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets represent unspent contributions and donations that are restricted by donor imposed stipulations. Temporarily restricted net assets are comprised as follows for the year ended June 30,:

	Balance June 30, 2016	Additions	Released	Balance June 30, 2017
Eversource	\$ 420,178	\$ 100,000	\$ (420,178)	\$ 100,000
Moore	726	-	-	726
North American Power & Gas	1,700,000	-	(1,700,000)	-
Add A Dollar	230,930	518,563	(535,930)	213,563
Farmington Bank Community Foundation	5,000	-	(3,500)	1,500
Laura Niles Foundation	367	5,000	(5,367)	-
Charles Robinson Foundation	3,000	-	(3,000)	-
People's United Bank	4,500	-	-	4,500
George and Grace Long Foundation	3,000	-	(3,000)	-
Asylum Hill Congregational Church	2,870	3,000	(2,870)	3,000
Hartford County Bar Association	-	2,000	-	2,000
Maximilian and Marion Hoffman Foundatic	-	5,000	-	5,000
Main Street Community Foundation	-	2,000	-	2,000
Hartford Foundation for Public Giving - Policy	-	13,729	(9,080)	4,649
	<u>\$ 2,370,571</u>	<u>\$ 649,292</u>	<u>\$ (2,682,925)</u>	<u>\$ 336,938</u>

	Balance June 30, 2017	Additions	Released	Balance June 30, 2018
Eversource	\$ 100,000	\$ 100,000	\$ (200,000)	\$ -
Moore	726	-	(726)	-
Add A Dollar	213,563	536,585	(750,148)	-
Farmington Bank Community Foundation	1,500	-	(1,500)	-
People's United Bank	4,500	-	(4,500)	-
Asylum Hill Congregational Church	3,000	3,500	(6,500)	-
Hartford County Bar Association	2,000	3,000	(5,000)	-
Maximilian and Marion Hoffman Foundatic	5,000	-	(5,000)	-
Main Street Community Foundation	2,000	-	(2,000)	-
SI Financial	-	3,500	-	3,500
Hartford Foundation for Public Giving - Policy Grant	4,649	22,541	-	27,190
Hartford Foundation for Public Giving - Financial Management	-	38,030	(15,750)	22,280
Office of Policy and Management - NGP - Technology	-	49,000	-	49,000
	<u>\$ 336,938</u>	<u>\$ 756,156</u>	<u>\$ (991,124)</u>	<u>\$ 101,970</u>

Program funds are to be used within one year of receipt unless otherwise specified and will be distributed for energy assistance under Operation Fuel, Inc.'s annual programs.

Operating funds consist of grants received with specific donor stipulations outlined in each of the award letters. Operating funds are generally restricted for purpose and released when expenditures meet the guidelines as outlined by the grant letter, however some grants may have designated periods of use as well.