

OPERATION FUEL, INC.

AUDITED FINANCIAL STATEMENTS

Years ended June 30, 2005 and 2004

OPERATION FUEL, INC.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Operation Fuel, Inc.
Bloomfield, Connecticut

We have audited the accompanying balance sheets of Operation Fuel, Inc. as of June 30, 2005 and 2004 and the related statements of activities and change in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Operation Fuel, Inc.'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 Operation Fuel, Inc. as of June 30, 2005 and 2004, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Sawicki & Lombardozzi, LLC

Milford, Connecticut
September 20, 2005

OPERATION FUEL, INC.
BALANCE SHEETS

| | <u>June 30,</u> | |
|-------------------------------|------------------|-------------------|
| | <u>2005</u> | <u>2004</u> |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 94,998 | \$ 100,903 |
| Other receivables | <u>2,303</u> | <u>2,236</u> |
| | <u>97,301</u> | <u>103,139</u> |
| OTHER ASSETS | | |
| Furniture and equipment | 31,354 | 31,354 |
| Less accumulated depreciation | <u>29,698</u> | <u>28,865</u> |
| | <u>1,656</u> | <u>2,489</u> |
| | <u>\$ 98,957</u> | <u>\$ 105,628</u> |
| NET ASSETS | | |
| NET ASSETS | | |
| Unrestricted | \$ 95,957 | \$ 105,628 |
| Temporarily restricted | <u>3,000</u> | <u>-</u> |
| | <u>\$ 98,957</u> | <u>\$ 105,628</u> |

See notes to financial statements.

OPERATION FUEL, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

| | Year ended June 30, 2005 | | | Year ended June 30, 2004 | | |
|---------------------------------------|--------------------------|------------------------|------------------|--------------------------|------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| REVENUES AND SUPPORT | | | | | | |
| Contributions and grants | \$ 510,112 | \$ 547,934 | \$ 1,058,046 | \$ 449,762 | \$ 475,931 | \$ 925,693 |
| Interest income | 12 | - | 12 | 325 | - | 325 |
| Net assets released from restrictions | 544,934 | (544,934) | - | 513,150 | (513,150) | - |
| Total revenues and support | <u>1,055,058</u> | <u>3,000</u> | <u>1,058,058</u> | <u>963,237</u> | <u>(37,219)</u> | <u>926,018</u> |
| EXPENSES | | | | | | |
| Fuel assistance program | 919,985 | - | 919,985 | 808,854 | - | 808,854 |
| Management | 50,610 | - | 50,610 | 42,632 | - | 42,632 |
| Fundraising | 94,134 | - | 94,134 | 91,637 | - | 91,637 |
| Total expenses | <u>1,064,729</u> | <u>-</u> | <u>1,064,729</u> | <u>943,123</u> | <u>-</u> | <u>943,123</u> |
| CHANGE IN NET ASSETS | (9,671) | 3,000 | (6,671) | 20,114 | (37,219) | (17,105) |
| NET ASSETS, Beginning | <u>105,628</u> | <u>-</u> | <u>105,628</u> | <u>85,514</u> | <u>37,219</u> | <u>122,733</u> |
| NET ASSETS, Ending | <u>\$ 95,957</u> | <u>\$ 3,000</u> | <u>\$ 98,957</u> | <u>\$ 105,628</u> | <u>\$ -</u> | <u>\$ 105,628</u> |

See notes to financial statements.

OPERATION FUEL, INC.
STATEMENTS OF FUNCTIONAL EXPENSES

| | Year ended June 30, 2005 | | | | Year ended June 30, 2004 | | | |
|----------------------------|--------------------------|------------------|------------------|---------------------|--------------------------|------------------|------------------|-------------------|
| | Program | Management | Fundraising | Total | Program | Management | Fundraising | Total |
| Grants to fuel banks | \$ 808,662 | \$ - | \$ - | \$ 808,662 | \$ 703,153 | \$ - | \$ - | \$ 703,153 |
| Salaries and payroll taxes | 83,190 | 23,454 | 47,171 | 153,815 | 80,864 | 22,746 | 45,789 | 149,399 |
| Professional fees | 1,651 | 11,002 | 25,398 | 38,051 | 768 | 5,634 | 23,807 | 30,209 |
| Postage | 3,101 | 842 | 10,755 | 14,698 | 2,230 | 714 | 13,891 | 16,835 |
| Benefits | 10,148 | 1,992 | 1,642 | 13,783 | 8,943 | 1,760 | 1,413 | 12,118 |
| Occupancy and insurance | 4,050 | 2,435 | 2,430 | 8,915 | 4,300 | 1,720 | 2,580 | 8,600 |
| Printing and publications | 2,943 | 233 | 3,000 | 6,176 | 2,223 | 1,414 | 2,105 | 5,742 |
| Conferences and meetings | 3,169 | - | 1,924 | 5,093 | 2,785 | 48 | 45 | 2,878 |
| Depreciation | - | 833 | - | 833 | - | 2,887 | - | 2,887 |
| Telephone | 1,193 | 570 | 1,140 | 2,903 | 1,074 | 537 | 1,074 | 2,685 |
| Outreach/Public relations | - | 2,124 | - | 2,124 | 944 | 1,318 | - | 2,262 |
| Consumable supplies | 1,312 | 650 | 569 | 2,531 | 985 | 587 | 513 | 2,085 |
| Miscellaneous | - | 3,061 | - | 3,061 | - | 1,159 | - | 1,159 |
| Membership dues and fees | - | 1,261 | - | 1,261 | - | 1,141 | 250 | 1,391 |
| Travel (local) | 566 | 566 | 104 | 1,236 | 583 | 267 | 170 | 1,020 |
| Equipment and maintenance | - | 1,587 | - | 1,587 | - | 700 | - | 700 |
| | <u>\$ 919,985</u> | <u>\$ 50,610</u> | <u>\$ 94,134</u> | <u>\$ 1,064,729</u> | <u>\$ 808,854</u> | <u>\$ 42,632</u> | <u>\$ 91,637</u> | <u>\$ 943,123</u> |

See notes to financial statements.

OPERATION FUEL, INC.
STATEMENTS OF CASH FLOWS

| | <u>Years ended June 30,</u> | |
|--|-----------------------------|-------------------|
| | <u>2005</u> | <u>2004</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (6,671) | \$ (17,105) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Deprecation | 833 | 2,887 |
| Changes in assets and liabilities: | | |
| Other receivables | <u>(67)</u> | <u>4,249</u> |
| Net cash used in operating activities | <u>(5,905)</u> | <u>(9,969)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of furniture and equipment | <u>-</u> | <u>(1,585)</u> |
| Net cash used in investing activities | <u>-</u> | <u>(1,585)</u> |
| NET DECREASE IN CASH | (5,905) | (11,554) |
| CASH AND CASH EQUIVALENTS, Beginning | <u>100,903</u> | <u>112,457</u> |
| CASH AND CASH EQUIVALENTS, Ending | <u>\$ 94,998</u> | <u>\$ 100,903</u> |

See notes to financial statements.

OPERATION FUEL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 — OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Operation Fuel, Inc., a nonprofit organization, is a program 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. was incorporated in the State of Connecticut and subsequently on August 25, 1989 received tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

Significant Accounting Policies

Financial Statement Presentation — Operation Fuel, Inc. reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Depending upon the existence and nature of donor imposed restrictions, contributions are reported as either unrestricted support (increasing unrestricted net assets) or restricted support (increasing permanently restricted or temporarily restricted net assets). Use of the temporarily restricted classification is appropriate if donor imposed restrictions either expire by the passage of time or can be fulfilled or removed by the actions of Operation Fuel, Inc. Upon satisfaction of any such restrictions, temporarily restricted amounts are reclassified as unrestricted. For 2005 and 2004, Operation Fuel, Inc. did not receive any support subject to permanent restrictions. At June 30, 2005, there was \$3,000 in temporarily restricted net assets.

Cash and Cash Equivalents — For financial statement purposes, Operation Fuel, Inc. considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

The Program maintains its cash and cash equivalents in a financial institution, which insures its deposits with the Federal Depository Insurance Company up to \$100,000 per depositor. Any amount in excess of such limits is not insured and represents a credit risk to the Organization.

Furniture and Equipment — Furniture and equipment is stated at cost. Donated furniture and equipment have been recorded at the fair market value at the date of receipt. Depreciation of the furniture and equipment is computed by the straight-line method over the estimated useful lives of the assets (ranging from three to five years).

OPERATION FUEL, INC.
NOTES TO FINANCIAL STATEMENTS

Revenue — The Operation Fuel assistance program receives the majority of its revenue from the Add-A-Dollar programs (conducted by major energy utility companies) and from corporate matching by way of the Add-A-Dollar program. The Program reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Add-A-Dollar contributions are donor temporarily restricted funds that must be utilized for fuel banks to those who are in financial crisis and not eligible for government assistance. Additional revenue is derived from various utility promotions and increased fundraising efforts.

Revenue to cover administrative expenses is derived from the Stripper Well grant, several corporate donations, and from fundraising.

Expenses — The costs of providing fuel assistance programs has been summarized on a functional basis in the accompanying financial statements. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Operation Fuel.

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

NOTE 2 — TEMPORARILY RESTRICTED NET ASSETS AND ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted assets are available for the following purposes:

| | Years ended June 30, | |
|--|----------------------|------|
| | 2005 | 2004 |
| Fuel grants (restricted to designated regions) | \$ 3,000 | \$ - |

OPERATION FUEL, INC.
NOTES TO FINANCIAL STATEMENTS

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or time limit.

| | Years ended June 30, | |
|---|----------------------|-------------------|
| | 2005 | 2004 |
| Purpose restrictions accomplished: | | |
| Fuel grants from Add-A-Dollar revenue | \$ 406,734 | \$ 419,900 |
| Foundation grants for operating expenses | 26,200 | 6,000 |
| Fuel grants restricted to special regions | 102,000 | 77,250 |
| OPM Grant for operating expenses | <u>10,000</u> | <u>10,000</u> |
| Total restrictions released | <u>\$ 544,934</u> | <u>\$ 513,150</u> |

NOTE 3 — OFFICE LEASE

Operation Fuel occupies office space as a tenant-at-will. Rent is determined at the beginning of each fiscal year and is paid on a monthly basis. Rent expense was \$8,100 per year for the years ended June 30, 2005 and 2004, respectively.