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E-100, Sub 32A

NORTH CAROLINA ADVANCED ENERGY CORPORATION

FINANCIAL STATEMENTS

Years Ended December 31, 2008 and 2007

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Kirby  
Watson  
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3 Elec.

**NORTH CAROLINA ADVANCED ENERGY CORPORATION**

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**December 31, 2008 and 2007**

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Williams Overman Pierce, LLP  
Certified Public Accountants and Consultants

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
North Carolina Advanced Energy Corporation  
Raleigh, North Carolina

We have audited the accompanying statements of financial position of North Carolina Advanced Energy Corporation (a nonprofit organization) as of December 31, 2008 and 2007, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 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 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 the 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 North Carolina Advanced Energy Corporation as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with *accounting principles generally accepted in the United States of America*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2009, on our consideration of North Carolina Advanced Energy Corporation'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of North Carolina Advanced Energy Corporation taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Williams Overman Pierce, LLP*

Raleigh, North Carolina  
June 5, 2009

Raleigh • Greensboro

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2008 and 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Current Assets:		
Cash and cash equivalents	\$ 3,265,101	\$ 732,224
Accounts receivable	1,106,209	962,201
Grants receivable	36,934	101,768
Prepaid expenses	93,872	78,704
Total current assets	<u>4,502,116</u>	<u>1,874,897</u>
Property and Equipment:		
Furniture and fixtures	305,892	279,436
Vehicles	54,688	54,688
Leasehold improvements	311,006	311,006
Equipment	1,385,357	1,346,230
	2,056,943	1,991,360
Less: accumulated depreciation	<u>(1,771,522)</u>	<u>(1,737,340)</u>
	<u>285,421</u>	<u>254,020</u>
Marketable securities		2,200,000
Investment	<u>150,000</u>	<u>150,000</u>
	<u>\$ 4,937,537</u>	<u>\$ 4,478,917</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued expenses	\$ 733,361	\$ 813,549
Deferred revenue	65,299	6,738
Total current liabilities	<u>798,660</u>	<u>820,287</u>
Net assets - unrestricted	<u>4,138,877</u>	<u>3,658,630</u>
	<u>\$ 4,937,537</u>	<u>\$ 4,478,917</u>

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
 Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenues:		
Utility funding	\$ 3,886,776	\$ 3,799,847
Government grants	621,350	1,575,120
Interest	69,906	98,367
Other revenue	<u>2,787,389</u>	<u>3,017,048</u>
Total revenues	<u>7,365,421</u>	<u>8,490,382</u>
Expenses:		
Products and services	5,307,973	6,261,544
Corporate support services	<u>1,577,201</u>	<u>1,477,171</u>
Total expenses	<u>6,885,174</u>	<u>7,738,715</u>
Increase in net assets	480,247	751,667
Net assets, beginning of year	<u>3,658,630</u>	<u>2,906,963</u>
Net assets, end of year	\$ <u><u>4,138,877</u></u>	\$ <u><u>3,658,630</u></u>

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
 STATEMENTS OF CASH FLOWS  
 Years ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from grants and donors	\$ 7,216,341	\$ 8,376,557
Cash paid to suppliers and employees	(6,810,811)	(7,272,014)
Interest received	69,906	98,367
Net cash provided by operating activities	<u>475,436</u>	<u>1,202,910</u>
Cash flows from investing activities:		
Purchase of fixed assets	(142,559)	(39,312)
Sale (purchase) of auction rate securities	<u>2,200,000</u>	<u>(900,000)</u>
Net cash provided by (used in) investing activities	<u>2,057,441</u>	<u>(939,312)</u>
Net increase in cash	2,532,877	263,598
Cash, beginning of year	<u>732,224</u>	<u>468,626</u>
Cash, end of year	<u>\$ 3,265,101</u>	<u>\$ 732,224</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 480,247	\$ 751,667
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	111,158	116,788
Changes in operating assets and liabilities:		
Receivables	(79,174)	(14,361)
Prepaid expenses and other assets	(15,168)	1,509
Accounts payable and accrued expenses	(80,188)	347,307
Deferred revenue	<u>58,561</u>	<u></u>
Net cash provided by operating activities	<u>\$ 475,436</u>	<u>\$ 1,202,910</u>

See accompanying notes to financial statements

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2008 and 2007

1. Summary of Significant Accounting Policies:

Corporation and Nature of Activities:

North Carolina Advanced Energy Corporation (the "Corporation") was formed on April 18, 1980, as a nonprofit entity. Corporate goals are directed towards helping residential, commercial, and industrial customers improve the "return" on their energy investment. The Corporation pursues various broad-based programs to achieve these goals. With expertise in applied building science, industrial process technologies, and electric motors and drives, the Corporation provides extensive testing, training, and consulting to utilities and energy consumers.

Other related programs that have been undertaken by the Corporation include helping to shift demands for electricity to off-peak periods, educating consumers about energy, researching alternatives to current electric generation technologies, developing more economic sources of electric power, increasing system efficiency and load factors through conservation and load management, and demonstrating and promoting efficient use of electric power.

Approximately 53% of the Corporation's funding is derived from the ratepayers of three North Carolina investor-owned utilities and the state's twenty-eight electric cooperatives. Should the electric utilities and the North Carolina Utilities Commission (the "Commission") decide that collecting these funds is no longer either in the utilities' interest or in the interest of their consumers, then this action could have a material adverse effect on the Corporation's operating results.

Use of Estimates:

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents:

The Corporation considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2008 and 2007

Receivables:

The Corporation periodically evaluates the balances in the various aging categories as well as the status of any significant past due accounts to determine the need for an allowance. Changes in the allowance are charged to the period in which management determines the change to be necessary.

When management determines that a receivable is uncollectible the balance is removed from the receivables balance and is charged against the expense. Subsequent recoveries of amounts previously written off are credited directly to earnings.

Receivables also consist of amounts due from state and federal grants related to services provided to customers. As of December 31, 2008 and 2007 management believed that some accounts may be uncollectible. The allowance for doubtful accounts at December 31, 2008 and 2007 was \$10,000 and \$10,500, respectively.

Basis of accounting:

The Corporation prepares its financial statements on the accrual basis of accounting and accordingly reflects all significant receivables, payables, and other liabilities.

Basis of Presentation:

The Corporation reports financial information in accordance with SFAS No. 117, which requires information regarding its financial position and activities to be reported and classified as follows:

Unrestricted Net Assets

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met either by action of the Corporation and/or the passage of time are temporarily restricted net assets.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2008 and 2007

Permanently Restricted Net Assets

Net assets that are required by donor-imposed stipulations to be maintained permanently by the Corporation are classified as permanently restricted net assets.

All net assets are considered to be unrestricted at December 31, 2008 and 2007.

Income Taxes:

The Corporation has received a ruling from the Internal Revenue Service that it is exempt from federal and state taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state statutes.

Revenue Sources and Recognition:

The funding from investor-owned utilities regulated by the Commission is derived from a special charge authorized by the Commission that may be assessed to retail customers in North Carolina on the basis of kilowatt per hour usage. Other in-state member organizations are charged for services rendered based on a charge to their customers of no less than 60% of the amount authorized by the Commission for regulated utilities.

Revenue from government grants is recognized when expenses are incurred under the grants and are billed on a reimbursement basis.

Other revenue, consisting primarily of training and seminar fees and consulting services, is recognized when earned.

Deferred Revenues:

The Corporation records deferred revenues for payments received from certain utility customers for services that have not been requested by those customers at year end.

Property and Equipment:

Equipment, furniture and fixtures are recorded at cost. Assets are capitalized if they have a life longer than one year and have a cost of \$1,000 or greater. Depreciation and amortization expenses are computed on a straight-line basis over the estimated useful lives of the assets ranging from three to ten years. Depreciation expense for the years ended December 31, 2008 and 2007 was \$111,158 and \$116,788, respectively.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2008 and 2007

**Donated Services:**

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Corporation.

Donated services totaled \$10,131 and \$37,736 and donated materials totaled \$175,339 and \$21,811 in 2008 and 2007, respectively and are included in the statements of activities as other revenue and products and services expense. The donated services consist of motor testing and engineering services.

**Product/Service Teams:**

Product/Service Teams develop products and services and deliver them to customers. These teams work in the following areas: motors, industrial process technologies, HVAC, residential new construction (site-built), and building diagnostics (residential and commercial). The Board of Directors approves the Corporation's annual Business Plan, which includes the plans of each of the Product/Service Teams.

**Corporate Support Services:**

Corporate Support consists of corporate planning and services which consist of accounting, contracts, personnel, office functions, and information services. These personnel provide corporate-level management and specialized support for the Corporation.

**Reclassification:**

Certain reclassifications have been made in the 2007 financial statements to conform with the 2008 presentation. Such reclassifications have no impact on the change in net assets or net assets.

**2. Concentrations of Credit Risk:**

The Corporation maintains bank accounts at a local bank. Accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at December 31, 2008 and \$100,000 at December 31, 2007. Cash at this institution exceeded federally insured limits. The amount in excess of the FDIC limit totaled \$3,281,976 and \$777,350 as of December 31, 2008 and 2007, respectively.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2008 and 2007

North Carolina investor-owned utilities and electric cooperatives comprise 41% and 36% of the Corporation's receivables as of December 31, 2008 and 2007, respectively.

3. Marketable Securities:

Marketable securities consist of auction rate securities which are long-term, variable rate bonds tied to short-term interest rates that reset regularly, usually every twenty-eight days, after auctions. They are recorded at cost (par) which approximates fair market value and are backed by student loans. Despite the long-term nature of the stated contractual maturities, historically there has been a readily liquid market for them.

However, during February 2008, several auctions failed and banks refused to support the auctions, leaving these securities frozen and not readily available.

As a result, at December 31, 2007, the securities are presented as long term in the accompanying statements of financial position. The securities were liquidated in December 2008.

4. Investment:

The Corporation has invested \$150,000 in Microcell Corporation ("Microcell"), a for-profit company, whose president is a former employee of the Corporation. This investment is carried at cost because the fair value is not readily determinable and there has been no event or circumstances that might have a *significant adverse effect on the fair value*.

Microcell has developed an innovative fuel cell that could greatly increase energy efficiency in North Carolina. The investment is in preferred stock of Microcell. Any benefits from appreciation in the Corporation's investment will be used by the Corporation to assist North Carolina electric rate payers in ways consistent with the Corporation's charter.

5. Lease Commitments:

The Corporation is obligated under operating leases for the rental of office space and equipment. Rent expense totaled \$424,260 and \$425,471 for 2008 and 2007, respectively.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2008 and 2007

Future minimum lease payments under operating leases are as follows:

Year ending December 31,	<u>Amount</u>
2009	434,000
2010	443,000
2011	<u>452,000</u>
	<u>\$ 1,329,000</u>

6. Advertising Costs:

The Company expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2008 and 2007 was \$29,256 and \$23,243, respectively.

7. Retirement Plan:

The Corporation has established a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code. The plan benefits all employees meeting certain eligibility requirements. Employees are allowed to make contributions to the plan in addition to the Corporation's contribution which is based on an employee's level of annual compensation. Employees become 100% vested in the Corporation's contribution concurrent with meeting the eligibility requirements. Retirement expense for 2008 and 2007 was \$269,485 and \$261,210, respectively.

8. Related Party:

In February 2003, NC GreenPower Corporation ("NCGP") was incorporated as a nonprofit entity. The mission of NCGP is to provide financial incentives to encourage the development of renewable energy resources. It is funded primarily by voluntary contributions from electric utilities ratepayers in North Carolina. The Corporation's Board of Directors constitute the members of NCGP. Certain resolutions of the Board of Directors of NCGP require two thirds of the votes of the membership to adopt. The Corporation historically provides contributions for marketing and administration operations to NCGP each year based on NCGP's need at the determination of the Board of Directors. No contribution was made during 2008. During the year ended December 31, 2007 a contribution was made to fund operations in the amount of \$7,430.

During 2008 and 2007, the Corporation charged NCGP for services provided by its staff and use of facilities in the amount of \$508,366 and \$450,700, respectively. As of December 31, 2008 and 2007, the Corporation was due \$78,633 and \$48,648, respectively from NCGP.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2008 and 2007

9. Functional Expenses:

Functional expenses consist of the following:

2008			
	<u>Products/ Services</u>	<u>Corporate Support</u>	<u>Total</u>
Salaries	\$ 2,551,772	\$ 219,051	\$ 2,770,823
Professional service	782,415	133,229	915,644
Travel and meetings	410,939	97,885	508,824
Facilities	502,709	180,045	682,754
Fringe benefits	644,273	90,071	734,344
Team expenses	342,827	52,027	394,854
Equipment	28,741	4,639	33,380
Other costs	44,297	800,254	844,551
	<u>\$ 5,307,973</u>	<u>\$ 1,577,201</u>	<u>\$ 6,885,174</u>

2007			
	<u>Products/ Services</u>	<u>Corporate Support</u>	<u>Total</u>
Salaries	\$ 2,669,417	\$ 145,607	\$ 2,815,024
Professional service	1,521,351	106,133	1,627,484
Travel and meetings	426,495	102,711	529,206
Facilities	479,693	178,913	658,606
Fringe benefits	729,198	71,349	800,547
Team expenses	374,057	69,841	443,898
Equipment	20,750	38,031	58,781
Other costs	40,583	764,586	805,169
	<u>\$ 6,261,544</u>	<u>\$ 1,477,171</u>	<u>\$ 7,738,715</u>

**SUPPLEMENTARY FINANCIAL INFORMATION**

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended December 31, 2008

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>State Contract Number</u>	<u>Total Expenditures</u>
<b>Federal Awards:</b>			
<b>United States Department of Energy:</b>			
Pass-through from National Association of State Energy Officials State Technology Advancement Collaborative	81.117	N/A	\$ 172,431
Pass-through from National Center for Energy Management & Building Technologies: Closed Crawl Space Performance	81.087	N/A	208,742
Pass-through from State of Arizona, Department of Commerce Energy Office: Arizona Home Performance Program	81.119	N/A	16,547
<b>United States Department of Housing &amp; Urban Development</b>			
Healthy Homes Technical Studies	14.906	N/A	230,561
Economic Development Initiative	14.251	N/A	<u>6,107</u>
Research and Development Cluster			<u>\$ 634,388</u>

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

## COMPLIANCE SECTION



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

Board of Directors  
North Carolina Advanced Energy Corporation  
Raleigh, North Carolina

We have audited the financial statements of North Carolina Advanced Energy Corporation as of and for the year ended December 31, 2008, and have issued our report thereon dated June 5, 2009. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Carolina Advanced Energy Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Carolina Advanced Energy Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Carolina Advanced Energy Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of North Carolina Advanced Energy Corporation in a separate letter dated June 5, 2009.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*William Overman Pierce, LP*

Raleigh North Carolina  
June 5, 2009



REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors  
North Carolina Advanced Energy Corporation  
Raleigh, North Carolina

Compliance

We have audited the compliance of North Carolina Advanced Energy Corporation with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. North Carolina Advanced Energy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of North Carolina Advanced Energy's management. Our responsibility is to express an opinion on North Carolina Advanced Energy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about North Carolina Advanced Energy Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of North Carolina Advanced Energy Corporation's compliance with those requirements.

In our opinion, North Carolina Advanced Energy Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of North Carolina Advanced Energy Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered North Carolina Advanced Energy Corporation's internal control over compliance with the requirements that could have a direct and material effect on a



major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of North Carolina Advanced Energy Corporation's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

William Overman Pierce, AP

Raleigh, North Carolina  
June 5, 2009

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2008

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A. SUMMARY OF AUDITORS' RESULTS:

1. The auditors' report expresses an unqualified opinion on the financial statements of North Carolina Advanced Energy Corporation.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of North Carolina Advanced Energy Corporation were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for North Carolina Advanced Energy Corporation expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs include the Research and Development Cluster reported on the Schedule of Expenditures of Federal Awards.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. North Carolina Advanced Energy Corporation did not qualify as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR GOVERNMENTAL AWARD PROGRAMS AUDIT

None

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2007

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A. FINDINGS - FINANCIAL STATEMENT AUDIT

07-01 Financial Statement Preparation

*Condition:* A system of internal control over financial reporting includes controls over financial statement preparation, including footnote disclosures. While the Organization's management has the skills and knowledge to prepare satisfactory internal financial statements and ensure proper financial controls, the Company requested that Williams Overman Pierce, LLP prepare the audited financial statements that include all the disclosures required by generally accepted accounting principles.

07-02 Inadequate Segregation of Duties

*Condition:* There are generally four phases for an accounting process or operation: authorization, custody, record keeping, and reconciliation. A well-designed system of internal control contemplates the allocation of duties among personnel such that each of these four functions would be performed by a different person. It was noted during our audit procedures that there is lack of segregation of duties as follows:

There is lack of segregation of duties among the personnel that approves disbursements and receipts and the personnel who prepares the bank reconciliation. Currently the Vice President of Administration has the authority to perform all these duties. Also, there is no subsequent review and approval of the bank reconciliation by another party.

*Cause:* The Organization does not have procedures in place to allow for adequate segregation of duties.

*Effect:* Because of the lack of segregation of duties indicated above, misstatements may not be prevented or detected on a timely basis.

*Auditors' Recommendation:* The Organization should establish procedures to involve additional personnel in these processes as follows:

We recommend the Corporate Services Administrator take over the duty of the bank reconciliation and the Vice President of Administration be responsible for review and approval of the bank reconciliation.

*Grantee Response:* Management has informed us that the recommended procedures have been established.

B. FINDINGS AND QUESTIONED COSTS - MAJOR GOVERNMENTAL AWARD PROGRAMS  
AUDIT

None