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NORTH CAROLINA ADVANCED ENERGY CORPORATION

FINANCIAL STATEMENTS

Years Ended December 31, 2011 and 2010

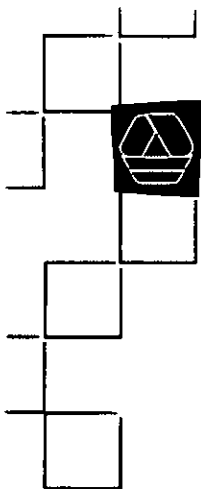
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NORTH CAROLINA ADVANCED ENERGY CORPORATION

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December 31, 2011 and 2010

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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, 2011 and 2010, 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 North Carolina Advanced Energy Corporation'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, 2011 and 2010, 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 April 10, 2012 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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented on page 14 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

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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.

*William Overman Pierce, LLP*

Raleigh, North Carolina  
April 10, 2012

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2011 and 2010

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ASSETS

	2011	2010
Current Assets:		
Cash	\$ 3,968,960	\$ 3,743,695
Accounts receivable, net	869,220	961,099
Grants receivable	160,560	172,420
Related party receivable	27,239	116,790
Unbilled receivables	712,611	231,989
Prepaid expenses	77,693	109,217
Total current assets	<u>5,816,283</u>	<u>5,335,210</u>
Property and Equipment:		
Furniture and fixtures	361,841	304,840
Vehicles	62,385	26,502
Leasehold improvements	332,426	311,006
Equipment	1,650,665	1,448,141
	<u>2,407,317</u>	<u>2,090,489</u>
Less: accumulated depreciation	<u>( 1,819,637 )</u>	<u>(1,655,147)</u>
Total property and equipment	<u>587,680</u>	<u>435,342</u>
Other Assets:		
Investment		150,000
Total Assets	<u>\$ 6,403,963</u>	<u>\$ 5,920,552</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 784,525	\$ 307,448
Accrued expenses	386,232	379,078
Related party payable		23,028
Deferred revenue	150,408	61,088
Total current liabilities	1,321,165	770,642
Net Assets - Unrestricted	<u>5,082,798</u>	<u>5,149,910</u>
Total Liabilities and Net Assets	<u>\$ 6,403,963</u>	<u>\$ 5,920,552</u>

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
Years ended December 31, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
Revenues:		
Utility funding	\$ 3,896,932	\$ 3,884,631
Government grants	2,414,003	1,508,795
Interest	11,588	9,802
Other revenue	<u>2,107,168</u>	<u>2,825,543</u>
Total revenues	<u>8,429,691</u>	<u>8,228,771</u>
Expenses:		
Products and services	6,758,178	6,088,642
Corporate support services	<u>1,498,625</u>	<u>1,265,973</u>
Total expenses	<u>8,256,803</u>	<u>7,354,615</u>
Change in net assets from activities	172,888	874,156
Loss on investment - Microcell	( 150,000 )	
Bad debt expense - Microcell	<u>( 90,000 )</u>	
Change in net assets	( 67,112 )	874,156
Net assets - beginning of year	<u>5,149,910</u>	<u>4,275,754</u>
Net assets - end of year	<u>\$ 5,082,798</u>	<u>\$ 5,149,910</u>

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
STATEMENTS OF CASH FLOWS  
Years ended December 31, 2011 and 2010

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	2011	2010
Cash flows from operating activities:		
Cash received from grants and donors	\$ 8,220,091	\$ 7,835,588
Cash paid to suppliers and employees	( 7,599,586 )	( 6,938,630 )
Interest received	11,588	9,802
Net cash provided by operating activities	<u>632,093</u>	<u>906,760</u>
Cash flows from investing activities:		
Purchase of fixed assets	( 316,828 )	( 321,612 )
Proceeds from disposal of fixed assets		684
Loans to Microcell	<u>( 90,000 )</u>	
Net cash used in investing activities	<u>( 406,828 )</u>	<u>( 320,928 )</u>
Net increase in cash	225,265	585,832
Cash, beginning of year	<u>3,743,695</u>	<u>3,157,863</u>
Cash, end of year	<u><u>\$ 3,968,960</u></u>	<u><u>\$ 3,743,695</u></u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ ( 67,112 )	\$ 874,156
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	164,490	129,440
Gain on disposal of asset		803
Loss on investment - Microcell	150,000	
Bad debt expense - Microcell	90,000	
Changes in operating assets and liabilities:		
Receivables	( 287,332 )	( 384,185 )
Prepaid expenses	31,524	7,400
Accounts payable and accrued expenses	461,203	225,796
Deferred revenue	<u>89,320</u>	<u>53,350</u>
Net cash provided by operating activities	<u><u>\$ 632,093</u></u>	<u><u>\$ 906,760</u></u>

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2011 and 2010

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1. Summary of Significant Accounting Policies

Organization 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 46% 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 ("Commission") decide that collecting these funds is no longer 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.

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.

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



NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2011 and 2010

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

**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.

**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 receivable related to services provided to customers. Management believes that some accounts may be uncollectible. As such, an allowance for doubtful accounts was established. The allowance for doubtful accounts at December 31, 2011 and 2010 was \$94,500 and \$4,500, respectively.

**Property and Equipment:**

Property and equipment are recorded at cost. Assets are capitalized if they have a useful life longer than one year and have a cost of \$1,000 or greater. Depreciation expense is 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, 2011 and 2010 was \$164,490 and \$129,440, respectively. Assets not in service at December 31, 2011 consisted of the SystemVision database costing \$99,870 and Motor Lab equipment costing \$45,717. They are expected to be in service during the year ending December 31, 2012.

**Basis of Presentation:**

In accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 958-205, Presentation of Not-for-Profit Organizations (formerly SFAS No. 117, Financial Statements of Not-for-Profit Organizations), the Corporation reports information regarding its financial position and activities as follows:

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2011 and 2010

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Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations are considered unrestricted.

Temporarily Restricted Net Assets

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

Permanently Restricted Net Assets

Net assets that are required by the donor to be maintained in perpetuity are considered permanently restricted.

Revenue Sources and Recognition:

The funding from investor-owned utilities regulated by the North Carolina Utilities 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 are recognized when either: (1) expenses are incurred under the grants and are billed on a reimbursement basis, or (2) milestones or tasks have been completed and billed according to the corresponding payment schedule for fixed price contracts.

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.

Advertising Costs:

The Corporation expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2011 and 2010 was \$25,641 and \$32,013, respectively.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2011 and 2010

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Income Taxes:

The Corporation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal and state income taxes. Income generated by activities that would be considered unrelated to the Corporation's mission would be subject to tax which, if incurred, would be recognized as a current expense. No such tax has been recognized as of December 31, 2011.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Corporation and recognize a tax liability (or asset) if the Corporation has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Corporation, and has concluded that as of December 31, 2011 there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Corporation is no longer subject to income tax examinations for years prior to 2008.

2. Concentrations of Credit Risk:

The Corporation maintains bank accounts at local banks. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. Cash at these institutions exceeded federally insured limits. The amount in excess of the FDIC limit totaled \$2,041,978 and \$3,616,043 at December 31, 2011 and 2010, respectively.

North Carolina investor-owned utilities and electric cooperatives comprise 46% of the Corporation's revenue and 26% of receivables as of December 31, 2011. The utilities comprised 47% of the Corporation's revenue and 30% of receivables as of December 31, 2010.

3. Investment:

FASB ASC 820, Fair Value Measurements and Disclosures (formerly SFAS No. 157, Fair Value Measurements), establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Corporation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Corporation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2011 and 2010

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The following table provides details of the Level 3 fair value measurements:

	<u>Investment in Microcell Corporation</u>
Beginning balance January 1, 2011	\$150,000
Total gains and losses (realized and unrealized)	(150,000)
Purchases, sales, issuances, and settlements (net)	<u>                    </u>
Ending balance December 31, 2011	<u>\$ 0</u>

Fair values of assets measured on a recurring basis at December 31, 2010 are as follows:

<u>Fair Value Measurements at Reporting Date</u>				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment	\$ 150,000	\$ 0	\$ 0	\$ 150,000
Total	<u>\$ 150,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 150,000</u>

The following table provides further details of the Level 3 fair value measurements:

	<u>Investment in Microcell Corporation</u>
Beginning balance January 1, 2010	\$150,000
Total gains and losses (realized and unrealized)	
Purchases, sales, issuances, and settlements (net)	<u>                    </u>
Ending balance December 31, 2010	<u>\$ 150,000</u>

Microcell has developed an innovative fuel cell that could greatly increase energy efficiency in North Carolina. The Corporation's investment was in the 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.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2011 and 2010

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The Corporation's investments are reported at fair value in the accompanying statements of financial position. The Corporation invested \$150,000 in Microcell Corporation ("Microcell"), a for-profit company, whose president is a former employee of the Corporation. During 2011, it was determined there was a good probability that there will not be a return on this investment and it was fully written down due to Microcell's financial difficulties.

In addition to the investment, a loan in the amount of \$90,000 was made to Microcell in December 2011 to support operations during the first quarter of 2012 in hopes of Microcell being purchased. Due to the uncertainty of Microcell's future operations, an allowance of \$90,000 was established for this loan.

During 2010, Microcell announced that it had created a new company, First Hydrogen, Inc. to pursue the development and commercialization of a novel renewable hydrogen generation technology. The technology will be based on a new class of nano-cells capable of producing hydrogen fuel suitable for low temperature PEM fuel cells from a wide range of commonly available, renewable, and non-fossil energy sources. With this technology, it is anticipated that hydrogen can be safely and cost effectively generated on demand at the site of use. Since the Corporation was the initial investor in Microcell, the Corporation as well as all current stockholders of Microcell has automatically received an equal proportional number of shares in First Hydrogen, Inc. relative to their ownership in Microcell. No asset has been recorded for this investment at December 31, 2011 and 2010.

4. Lease Commitments:

The Corporation is obligated under an operating lease for the rental of office space. Rent expense totaled \$470,460 and \$458,591 for 2011 and 2010, respectively.

Future minimum lease payments under operating leases are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2012	\$ 480,000
2013	480,000
2014	480,000
2015	480,000
2016	440,000
	<u>\$ 2,360,000</u>

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2011 and 2010

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5. 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 base wages. Employees become 100% vested in the Corporation's contribution concurrent with meeting the eligibility requirements. Retirement expense for 2011 and 2010 was \$336,826 and \$312,308, respectively.

6. 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 utility ratepayers in North Carolina. The Corporation's Board of Directors constitutes 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 provided contributions for marketing and administration operations to NCGP each year based on NCGP's need and at the determination of the Board of Directors.

During 2011 and 2010, the Corporation charged NCGP for services provided by its staff and use of facilities in the amount of \$341,621 and \$481,578, respectively. As of December 31, 2011 and 2010, the Corporation was due \$27,239 and \$116,790, respectively from NCGP.

7. Functional Expenses:

Functional expenses consist of the following:

	2011		
	Products/ Services	Corporate Support	Total
Salaries	\$ 3,082,483	\$ 739,731	\$ 3,822,214
Professional services	1,610,556	145,012	1,755,568
Fringe benefits	904,243	178,380	1,082,623
Facilities	500,376	163,339	663,715
Travel and meetings	430,641	130,881	561,522
Other costs	1,526	2,596	4,122
Team expenses	170,193	68,653	238,846
Equipment	58,160	70,033	128,193
	<u>\$ 6,758,178</u>	<u>\$ 1,498,625</u>	<u>\$ 8,256,803</u>

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2011 and 2010

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	2010		
	Products/ Services	Corporate Support	Total
Salaries	\$ 2,911,931	\$ 639,018	\$ 3,550,949
Professional services	1,057,566	94,660	1,152,226
Fringe benefits	836,194	158,976	995,170
Facilities	529,964	121,021	650,985
Travel and meetings	424,843	94,418	519,261
Other costs	38,207	2,672	40,879
Team expenses	240,962	97,854	338,816
Equipment	48,975	57,354	106,329
	<u>\$ 6,088,642</u>	<u>\$ 1,265,973</u>	<u>\$ 7,354,615</u>

8. Subsequent Events

Management has evaluated subsequent events through April 10, 2012, the date which the financial statements were available to be issued. No significant subsequent events have been identified by management.

## **SUPPLEMENTARY FINANCIAL INFORMATION**



**NORTH CAROLINA ADVANCED ENERGY CORPORATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year ended December 31, 2011**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Federal Award Number	Total Expenditures
<b>Federal Awards</b>			
<b>United States Department of Energy</b>			
Pass-through from Appalachian State University ARRA: Research and Graduate Studies	81.041	DE-EE000157	\$ 205,995
Pass-through from State of Arizona Department of Commerce Energy Office Arizona Home Performance Program	81.119	DE-PS26-08NT00319-02	1,724
Pass-through from North Carolina City of Durham ARRA: Residential Energy Efficiency Improvement Project Technical Assistance	81.128	DE-EE0000766	16,566
Pass-through from Oak Ridge National Laboratory ARRA: Building Performance Institute Training	81.117	DE-AC05-00OR22725	24,663
Pass-through from Triangle J Council of Governments ARRA: Carolina Blue Skies & Green Jobs Initiative	81.086	DE-EE0002491	27,904
Pass-through from North Carolina State Energy Office ARRA: State Energy Program (Technical Assistance) ARRA: State Energy Program (Alternative Fuel & Advanced Vehicle Technology)	81.041 81.041	DE-EE0000157 DE-EE0000157	128,355 378,800
Pass-through from Foundation for Senior Living ARRA: Training and Technical Assistance	81.042	DE-EE0004158	172,937
Pass-through from The City of Chapel Hill ARRA: Home Performance with Energy Star® Energy Efficiency Standards	81.128	DE-SC0002602	4,719
Pass-through from The City of Greensboro ARRA: Home Performance with Energy Star® Energy Efficiency Standards ARRA: Energy Efficiency Education Demonstration Challenge	81.128 81.128	DE-FOA-0000013 DE-FOA-0000013	16,649 40
Pass-through from National Renewable Energy Laboratory ARRA: Recovery Through Retrofits: Standardized Work Specifications for Residential Retrofit Industry	81.087	DE-AC36-08GO28308	59,461
Pass-through from National Renewable Energy Laboratory ARRA: Training & Technical Assistance Task Six-Workforce Guidelines for Home Energy Retrofits	81.087	DE-AC36-08GO28308	1,126,190

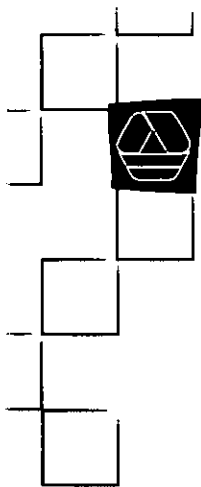
**NORTH CAROLINA ADVANCED ENERGY CORPORATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year ended December 31, 2011**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Federal Award Number	Total Expenditures
Pass-through from Southeast Energy Efficiency Alliance ARRA: Multi-State Workforce Development and In-Field Quality Assurance for Alabama & Virginia ARRA: Multi-City Workforce Development and In-Field Quality Assurance	81.041	DE-EE0004442	7,789 559
Pass-through from Washington State University Better Buildings Re-Power Kitsap (Workforce Development)	81.041	F11-52105-003	13,638
<b>Federal Awards</b> <b>United States Department of Housing and Urban Development</b> Pass-through from Enterprise Community Partners ARRA: Green Workshops	14.264	T-09-NN-06-0002	8,611
Pass-through from Douglas-Cherokee Economic Development Technical Assistance & Training	14.235	TNCH-002-09	18,938
<b>Federal Awards</b> <b>United States Department of Transportation</b> Pass-through from North Carolina State University Clean Fuel Advanced Technology Project	20.205	C-4902	7,377
<b>Federal Awards</b> <b>United States Environmental Protection Agency</b> Pass-through from The Cadmus Group, Inc. Marketing, Communications & Outreach to Support ENERGY STAR® for New Homes IAQ Guidance & Specs for Green Buildings	66.EP-W-06-001 66.EP-D-06-096	EP-W-06-001 EP-D-08-096	21,272 1,746
Total Research and Development Cluster			<u>\$ 2,243,933</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, 2011, and have issued our report thereon dated April 10, 2012. 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 North Carolina Advanced Energy Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Carolina Advanced Energy Corporation's internal control over financial reporting.

*A deficiency in internal control* 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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



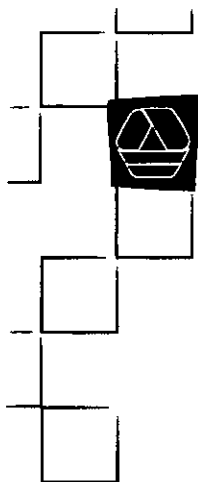
material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to the management of North Carolina Advanced Energy in a separate letter dated April 10, 2012.

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 O'Quinn Pierce, LLP*

Raleigh North Carolina  
April 10, 2012



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 North Carolina Advanced Energy Corporation's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of North Carolina Advanced Energy Corporation's major federal programs for the year ended December 31, 2011. North Carolina Advanced Energy Corporation's major federal programs are identified in the summary of auditors' 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 Corporation's management. Our responsibility is to express an opinion on North Carolina Advanced Energy Corporation'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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.



### 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Raleigh, North Carolina  
April 10, 2012

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2011

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 deficiencies in internal control over financial reporting and compliance and other matters were 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, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No deficiencies in internal control over major federal award programs were reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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.



NORTH CAROLINA ADVANCED ENERGY CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2011

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

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

None

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS  
Year Ended December 31, 2011

A. FINDINGS - FINANCIAL STATEMENT AUDIT

None

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

None



Williams Overman Pierce, LLP  
Certified Public Accountants and Consultants

April 10, 2012

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

We have completed our audit of the financial statements of North Carolina Advanced Energy Corporation as of and for the year ended December 31, 2011 and have issued our report dated April 10, 2012. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated January 10, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered North Carolina Advanced Energy Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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 grants, 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about North Carolina Advanced Energy Corporation's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on North Carolina Advanced Energy Corporation's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on North Carolina Advanced Energy Corporation's compliance with those requirements.

Raleigh • Greensboro

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### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated January 10, 2012.

### **Significant Audit Findings**

#### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by North Carolina Advanced Energy Corporation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by North Carolina Advanced Energy Corporation during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

The disclosures in the financial statements are neutral, consistent, and clear.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes an uncorrected misstatement to the financial statements. Management has determined that its effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

At December 31, 2011 we passed on an adjustment to record a capital lease which was previously recorded as an operating lease. This resulted in a decrease in net assets of \$3,302.



#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated April 10, 2012.

#### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of North Carolina Advanced Energy Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Williams Dyerman Pierce, LLP*

North Carolina Advanced Energy Corporation  
SUMMARY OF AUDIT DIFFERENCES  
YEARS ENDED DECEMBER 31, 2011 AND 2010

	Effect of Misstatement Overstatement (Understatement)			
	<u>Assets</u>	<u>Liabilities</u>	<u>Beginning Equity</u>	<u>Change in Equity</u>
Year ended December 31, 2010:				
Unrecorded capital lease	\$ (6,604)	\$	\$ (6,604)	\$ (1,856)
Cumulative financial statement adjustment at December 31, 2010	\$ (6,604)	\$	\$ (6,604)	\$ (1,856)

	Effect of Misstatement Overstatement (Understatement)			
	<u>Assets</u>	<u>Liabilities</u>	<u>Beginning Equity</u>	<u>Change in Equity</u>
Year ended December 31, 2011:				
Unrecorded capital lease	\$ (3,302)	\$	\$ (6,604)	\$ 3,302
Cumulative financial statement adjustment at December 31, 2011	\$ (3,302)	\$	\$ (6,604)	\$ 3,302



Williams Overman Pierce, LLP  
Certified Public Accountants and Consultants

April 10, 2012

North Carolina Advanced Energy Corporation  
909 Capability Drive  
Suite 2100  
Raleigh, NC 27606

In planning and performing our audit of the financial statements of North Carolina Advanced Energy Corporation for the year ended December 31, 2011, we considered the Organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated April 10, 2012, on the financial statements of North Carolina Advanced Energy Corporation.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*Williams Overman Pierce, LLP*

**North Carolina Advanced Energy Corporation  
Management Letter Comments  
December 31, 2011**

**Observation**

During our audit testwork we noted that some expenditures, specifically those made via credit card, were not supported by detailed receipts.

**Recommendation**

To avoid disqualification of federal expenditures and to provide necessary information to support expenses, we recommend that all charges be supported by detailed vendor receipts.

**Observation**

During our Single Audit testwork, we noted that charges for alcohol from Advanced Energy's personnel and subcontractors were recorded as grant expenditures. These are considered unallowable expenses under OMB Circular A-122.

**Recommendation**

We recommend that Advanced Energy institute a policy that alcohol not be purchased while on business relating to federal programs. This policy should be communicated to personnel and included in subcontracts.