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ENERGY**

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**NORTH CAROLINA ADVANCED ENERGY CORPORATION**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2010 and 2009**

**E100 SUB 37 A**

**NORTH CAROLINA ADVANCED ENERGY CORPORATION**

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**December 31, 2010 and 2009**

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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, 2010 and 2009, 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, 2010 and 2009, 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 6, 2011 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 13 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 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.

*Williams Overman Pierce, LLP*

Raleigh, North Carolina  
June 6, 2011

Raleigh • Greensboro

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2010 and 2009

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ASSETS

	2010	2009
Current Assets:		
Cash and cash equivalents	\$ 3,742,508	\$ 3,137,855
Interest receivable	1,187	20,008
Accounts receivable, net	961,099	1,054,731
Grants receivable	172,420	9,227
Related party receivable	116,790	34,155
Unbilled receivable	231,989	
Prepaid expenses	109,217	116,617
Total current assets	<u>5,335,210</u>	<u>4,372,593</u>
Property and Equipment:		
Furniture and fixtures	304,840	304,840
Vehicles	26,502	26,502
Leasehold improvements	311,006	311,006
Equipment	1,448,141	1,166,047
	<u>2,090,489</u>	<u>1,808,395</u>
Less: accumulated depreciation	<u>( 1,655,147 )</u>	<u>( 1,563,738 )</u>
Total property and equipment	<u>435,342</u>	<u>244,657</u>
Other Assets:		
Investment	<u>150,000</u>	<u>150,000</u>
Total Assets	<u>\$ 5,920,552</u>	<u>\$ 4,767,250</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 307,448	\$ 161,766
Accrued expenses	379,078	321,992
Related party payable	23,028	
Deferred revenue	61,088	7,738
Total current liabilities	<u>770,642</u>	<u>491,496</u>
Net Assets - Unrestricted	<u>5,149,910</u>	<u>4,275,754</u>
Total Liabilities and Net Assets	<u>\$ 5,920,552</u>	<u>\$ 4,767,250</u>

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
 Years ended December 31, 2010 and 2009

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	<u>2010</u>	<u>2009</u>
Revenues:		
Utility funding	\$ 3,884,631	\$ 3,694,972
Government grants	1,508,795	344,932
Interest	9,802	22,828
Other revenue	<u>2,825,543</u>	<u>3,019,373</u>
Total revenues	<u>8,228,771</u>	<u>7,082,105</u>
Expenses:		
Products and services	6,088,642	5,495,323
Corporate support services	<u>1,265,973</u>	<u>1,449,905</u>
Total expenses	<u>7,354,615</u>	<u>6,945,228</u>
Increase in net assets	874,156	136,877
Net assets, beginning of year	<u>4,275,754</u>	<u>4,138,877</u>
Net assets, end of year	<u>\$ 5,149,910</u>	<u>\$ 4,275,754</u>

See accompanying notes to financial statements.

**NORTH CAROLINA ADVANCED ENERGY CORPORATION**  
**STATEMENTS OF CASH FLOWS**

Years ended December 31, 2010 and 2009

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	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from grants and donors	\$ 7,835,588	\$ 7,098,282
Cash paid to suppliers and employees	( 6,938,630 )	( 7,176,005 )
Interest received	28,623	2,993
Net cash provided by (used in) operating activities	<u>925,581</u>	<u>( 74,730 )</u>
Cash flows from investing activities:		
Purchase of property and equipment	( 321,612 )	( 66,355 )
Proceeds from disposal of property and equipment	684	13,839
Net cash used in investing activities	<u>( 320,928 )</u>	<u>( 52,516 )</u>
Net increase (decrease) in cash	604,653	( 127,246 )
Cash, beginning of year	<u>3,137,855</u>	<u>3,265,101</u>
Cash, end of year	<u>\$ 3,742,508</u>	<u>\$ 3,137,855</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 874,156	\$ 136,877
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	129,440	99,132
Loss (gain) on disposal of property and equipment	803	( 5,852 )
Changes in operating assets and liabilities:		
Receivables	( 365,364 )	25,022
Prepaid expenses	7,400	( 22,745 )
Accounts payable and accrued expenses	202,768	( 249,603 )
Related party payable	23,028	
Deferred revenue	53,350	( 57,561 )
Net cash provided by (used in) operating activities	<u>\$ 925,581</u>	<u>\$ ( 74,730 )</u>

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

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 47% of the Corporation's funding is derived from the ratepayers of three North Carolina investor-owned utilities and North Carolina'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.

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.

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.

Uncertain Tax Positions:

The Corporation accounts for certain tax positions in accordance with Financial Accounting Standards Board ("FASB") ASC 740 (formerly Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109). FASB ASC 740 prescribes a recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

return. The interpretation also provides guidance on recognition, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Corporation adopted the provisions of FASB ASC 740 on January 1, 2009.

Management has evaluated the effect of the guidance provided by the provisions of accounting principles generally accepted in the United States of America related to Accounting for Uncertainty in Income Taxes. Management believes that the Corporation continues to satisfy the requirements of a tax-exempt organization at December 31, 2010. Management has evaluated all tax positions that could have a significant effect on the financial statements and determined the Corporation had no uncertain income tax positions at December 31, 2010.

The Corporation does not file Federal Exempt Organization Business Income Tax Returns (Form 990T). If the Corporation did file this form, the Federal Exempt Organization Business Income Tax Returns (Form 990T) for 2007, 2008, and 2009 would be subject to examination by the IRS, generally for three years after they were filed.

**Cash Equivalents:**

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

**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 receivables related to services provided to customers. The allowance for doubtful accounts at December 31, 2010 and 2009 was \$4,500 and \$9,450, 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.



NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**Basis of Presentation:**

In accordance with FASB ASC 958-205, Presentation of Not-for-Profit Organizations (formerly SFAS No. 117, Financial Statements of Not-for-Profit Organizations), the Corporation classifies and reports information regarding its financial position and activities 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.

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that are to be maintained permanently by the Corporation.

**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 is 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.

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**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, 2010 and 2009 was \$129,440 and \$99,132, respectively. Undeprisable assets consisted of the SystemVision database not in service as of December 31, 2010 costing \$94,170. It is expected to be in service during the year ending December 31, 2011.

**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.

There were no donated services in 2010. Donated services totaled \$6,645 in 2009 which are included in the statements of activities and changes in net assets as other revenue and products and services. 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 2009 financial statements to conform with the 2010 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 this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash at

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

this institution exceeded federally insured limits. The amount in excess of the FDIC limit totaled \$3,616,043 and \$3,071,124 at December 31, 2010 and 2009, respectively.

North Carolina investor-owned utilities and electric cooperatives comprise 30% and 42% of the Corporations receivables as of December 31, 2010 and 2009, respectively.

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. No Level 1 or 2 inputs were available to the Corporation, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

Fair values of assets measured on a recurring basis at December 31, 2010 and 2009 are as follows:

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

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

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

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

The Corporation's investments are reported at fair value in the accompanying statements of financial position. 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 have been no events 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.

During 2010, Microcell announced that it has 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 will automatically receive an equal proportional number of shares in First Hydrogen, Inc. relative to their ownership in Microcell.

4. Lease Commitments:

The Corporation is obligated under an operating lease for the rental of office space. Rent expense totaled \$458,591 and \$519,664 for 2010 and 2009, respectively.

Future minimum lease payments under operating leases are as follows:

Year ending December 31,	<u>Amount</u>
2011	<u>\$ 422,000</u>
	<u>\$ 422,000</u>

5. Advertising Costs:

The Corporation expenses advertising costs as incurred. The advertising expense for the years ended December 31, 2010 and 2009 was \$32,013 and \$13,517, respectively.

6. 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

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

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 2010 and 2009 was \$312,308 and \$300,815, respectively.

7. 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. As of December 31, 2010, a related party payable in the amount of \$23,028 was recorded to show a contribution payable to NCGP to fund operations.

During 2010 and 2009, the Corporation charged NCGP for services provided by its staff and use of facilities in the amount of \$481,578 and \$513,427, respectively. As of December 31, 2010 and 2009, the Corporation was due \$116,790 and \$34,155, respectively from NCGP.

8. Functional Expenses:

Functional expenses consist of the following:

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

NORTH CAROLINA ADVANCED ENERGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

	2009		
	Products/ Services	Corporate Support	Total
Salaries	\$ 2,832,219	\$ 696,982	\$ 3,529,201
Professional service	633,085	196,401	829,486
Travel and meetings	380,759	93,114	473,873
Facilities	559,530	172,410	731,940
Fringe benefits	793,012	163,186	956,198
Team expenses	260,379	81,742	342,121
Equipment	28,013	44,803	72,816
Other costs	8,326	1,267	9,593
	<u>\$ 5,495,323</u>	<u>\$ 1,449,905</u>	<u>\$ 6,945,228</u>

9. Subsequent Events:

Management has evaluated subsequent events through June 6, 2011, the date which the financial statements were available to be issued. No significant subsequent events have been identified by management.

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## **SUPPLEMENTARY FINANCIAL INFORMATION**

**NORTH CAROLINA ADVANCED ENERGY CORPORATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended December 31, 2010

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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	\$ 39,720
Pass-through from State of Arizona Department of Commerce Energy Office Arizona Home Performance Program	81.119	DE-PS26-08NT00319-02	11,875
Pass-through from North Carolina State Energy Office ARRA - State Energy Program (Technical Assistance)	81.041	DE-EE0000157	241,013
ARRA - State Energy Program (Alternative Fuel & Advanced Vehicle Technology)	81.041	DE-EE0000157	1,222
Pass-through from North Carolina City of Durham ARRA - Residential Energy Efficiency Improvement Project Technical Assistance	81.128	DE-EE0000766	16,584
Pass-through from Triangle J Council of Governments ARRA - Carolina Blue Skies & Green Jobs Initiative	81.086	DE-EE0002491	42,129
Pass-through from National Renewable Energy Laboratory ARRA - Recovery Through Retrofits: Standardized Work Specifications for Residential Retrofit Industry	81.087	DE-AC35-08GQ28308	908,491
<b>United States Environmental Protection Agency:</b>			
Pass-through from The Cadmus Group, Inc. Marketing, Communications & Outreach to Support ENERGY STAR® for New Homes	66 EP-W-06-001	EP-W-06-001	247,761
<b>Research and Development Cluster</b>			<u>\$ 1,508,795</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



Williams Overman Pierce, LLP  
Certified Public Accountants and Consultants

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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, 2010, and have issued our report thereon dated June 6, 2011. 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*.

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.

*Williams Owerman Pierce, LLP*

Raleigh North Carolina  
June 6, 2011



Williams Overman Pierce, LLP  
Certified Public Accountants and Consultants

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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, 2010. 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, 2010.

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 Dyerman Pierce, LLP*

Raleigh, North Carolina  
June 6, 2011

**NORTH CAROLINA ADVANCED ENERGY CORPORATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended December 31, 2010**

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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 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 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, 2010

**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, 2010**

**A. FINDINGS - FINANCIAL STATEMENT AUDIT**

None

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

None