



NORTH CAROLINA ADVANCED ENERGY CORPORATION

FINANCIAL STATEMENTS

Years Ended December 31, 2012 and 2011

Jun 26 2014 OFFICIAL COPY

NORTH CAROLINA ADVANCED ENERGY CORPORATION

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December 31, 2012 and 2011

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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

Report on the Financial Statements

We have audited the accompanying financial statements of North Carolina Advanced Energy Corporation (a nonprofit organization) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2012 and 2011, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented on page 13 as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2013 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* in considering North Carolina Advanced Energy Corporation's internal control over financial reporting and compliance.

Williams Dyerman Pierce, LLP

Raleigh, North Carolina
May 9, 2013

NORTH CAROLINA ADVANCED ENERGY CORPORATION
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2012 and 2011

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ASSETS

| | <u>2012</u> | <u>2011</u> |
|--------------------------------|----------------------------|----------------------------|
| Current Assets: | | |
| Cash | \$ 2,739,475 | \$ 3,968,960 |
| Accounts Receivable, net | 924,456 | 869,220 |
| Grants Receivable | 845,696 | 160,560 |
| Related Party Receivable | 61,593 | 27,239 |
| Unbilled Receivable | 301,587 | 712,611 |
| Prepaid Expenses | <u>138,073</u> | <u>77,693</u> |
| Total Current Assets | <u>5,010,880</u> | <u>5,816,283</u> |
| Property and Equipment: | | |
| Furniture and Fixtures | 283,078 | 361,841 |
| Vehicles | 62,385 | 62,385 |
| Leasehold Improvements | 336,393 | 332,426 |
| Equipment | <u>1,649,940</u> | <u>1,650,665</u> |
| | 2,331,796 | 2,407,317 |
| Less: Accumulated Depreciation | <u>(1,797,580)</u> | <u>(1,819,637)</u> |
| Total Property and Equipment | <u>534,216</u> | <u>587,680</u> |
| Total Assets | <u><u>\$ 5,545,096</u></u> | <u><u>\$ 6,403,963</u></u> |

LIABILITIES AND NET ASSETS

| | | |
|----------------------------------|----------------------------|----------------------------|
| Current Liabilities: | | |
| Accounts Payable | \$ 306,310 | \$ 784,525 |
| Accrued Expenses | 171,939 | 386,232 |
| Deferred Revenue | <u>63,360</u> | <u>150,408</u> |
| Total Current Liabilities | 541,609 | 1,321,165 |
| Net Assets - Unrestricted | <u>5,003,487</u> | <u>5,082,798</u> |
| Total Liabilities and Net Assets | <u><u>\$ 5,545,096</u></u> | <u><u>\$ 6,403,963</u></u> |

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 Years ended December 31, 2012 and 2011

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| | 2012 | 2011 |
|--------------------------------------|-----------------------------|----------------------------|
| Revenues: | | |
| Utility Funding | \$ 3,674,270 | \$ 3,896,932 |
| Government Grants | 2,305,833 | 2,414,003 |
| Interest | 13,744 | 11,588 |
| Other Revenue | <u>2,403,173</u> | <u>2,107,168</u> |
| Total Revenues | <u>8,397,020</u> | <u>8,429,691</u> |
| Expenses: | | |
| Products and Services | 6,614,226 | 6,758,178 |
| Corporate Support Services | <u>1,862,105</u> | <u>1,498,625</u> |
| Total Expenses | <u>8,476,331</u> | <u>8,256,803</u> |
| Change in Net Assets from Activities | (79,311) | 172,888 |
| Loss on Investment - Microcell | | (150,000) |
| Bad Debt Expense - Microcell | <u> </u> | <u>(90,000)</u> |
| Change in Net Assets | (79,311) | (67,112) |
| Net Assets, Beginning of Year | <u>5,082,798</u> | <u>5,149,910</u> |
| Net Assets, End of Year | <u><u>\$ 5,003,487</u></u> | <u><u>\$ 5,082,798</u></u> |

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2012 and 2011

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| | 2012 | 2011 |
|---|------------------|---------------|
| Cash flows from operating activities | | |
| Cash received from grants and donors | \$ 7,932,526 | \$ 8,220,091 |
| Cash paid to suppliers and employees | (9,034,302) | (7,599,586) |
| Interest received | 13,744 | 11,588 |
| Net cash provided by (used in) operating activities | (1,088,032) | 632,093 |
| Cash flows from investing activities | | |
| Purchase of fixed assets | (141,453) | (316,828) |
| Loans to Microcell | | (90,000) |
| Net cash used in investing activities | (141,453) | (406,828) |
| Net increase (decrease) in cash | (1,229,485) | 225,265 |
| Cash, beginning of year | 3,968,960 | 3,743,695 |
| Cash, end of year | \$ 2,739,475 | \$ 3,968,960 |
| Reconciliation of change in net assets to net cash provided by (used in) operating activities: | | |
| Change in net assets | \$ (79,311) | \$ (67,112) |
| Adjustments to reconcile change in net assets to cash provided by (used in) operating activities: | | |
| Depreciation | 194,917 | 164,490 |
| Loss on investment - Microcell | | 150,000 |
| Bad debt expense - Microcell | | 90,000 |
| Changes in operating assets and liabilities: | | |
| Receivables | (363,702) | (287,332) |
| Prepaid expenses | (60,380) | 31,524 |
| Accounts payable and accrued expenses | (692,508) | 461,203 |
| Deferred revenue | (87,048) | 89,320 |
| Net cash provided by (used in) operating activities | \$ (1,088,032) | \$ 632,093 |

See accompanying notes to financial statements.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2012 and 2011

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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 44% 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, 2012 and 2011

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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. As of December 31, 2012 management believes that all accounts are collectible. As such, no allowance for doubtful accounts was established. The allowance for doubtful accounts at December 31, 2011 was \$94,500.

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, 2012 and 2011 was \$194,917 and \$164,490, respectively. Assets not in service at December 31, 2012 consisted of the QAP website and application costing \$27,369, the CRM system costing \$9,165, and leasehold improvements costing \$3,968. They are expected to be in service during the year ending December 31, 2013.

Basis of Presentation:

In accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 958-205, Presentation of Not-for-Profit Organizations, the Corporation reports information regarding its financial position and activities as follows:

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NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2012 and 2011

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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, 2012 and 2011 was \$37,646 and \$25,641, respectively.

NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2012 and 2011

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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, 2012 and 2011.

The Corporation evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of December 31, 2012, the Corporation does not believe that it has taken any positions that would require the recording of any additional tax liability, nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year.

The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2009.

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 \$1,555,089 and \$1,791,398 at December 31, 2012 and 2011, respectively.

North Carolina investor-owned utilities and electric cooperatives comprise 44% of the Corporation's revenue and 20% of receivables as of December 31, 2012. The utilities comprised 46% of the Corporation's revenue and 26% of receivables as of December 31, 2011.

3. Investment:

FASB ASC 820, Fair Value Measurements and Disclosures, 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, 2012 and 2011

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

| | Investment in Microcell Corporation |
|-----------------------------------|--|
| Beginning balance January 1, 2011 | \$ 150,000 |
| Total realized losses | (150,000) |
| Ending balance December 31, 2011 | <u>\$ 0</u> |

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. 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 would be used by the Corporation to assist North Carolina electric rate payers in ways consistent with the Corporation's charter. During 2011, it was determined there was a good probability that there would 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.

Microcell ceased operations during the year ended December 31, 2012.

4. Lease Commitments:

The Corporation is obligated under an operating lease for the rental of office space. Rent expense totaled \$480,479 and \$470,460 for 2012 and 2011, respectively.

Future minimum lease payments under operating leases are as follows:

| <u>Year ending December 31,</u> | <u>Amount</u> |
|---------------------------------|---------------------|
| 2013 | \$ 480,000 |
| 2014 | 480,000 |
| 2015 | 480,000 |
| 2016 | 440,000 |
| | <u>\$ 1,880,000</u> |

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NORTH CAROLINA ADVANCED ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2012 and 2011

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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 2012 and 2011 was \$385,483 and \$336,826, 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 2012 and 2011, the Corporation charged NCGP for services provided by its staff and use of facilities in the amount of \$357,435 and \$341,621, respectively. As of December 31, 2012 and 2011, the Corporation was due \$61,593 and \$27,239, respectively from NCGP.

7. Functional Expenses:

Functional expenses consist of the following:

| | 2012 | | |
|-----------------------|-----------------------|----------------------|---------------------|
| | Products/ Services | Corporate Support | Total |
| Salaries | \$ 3,370,901 | \$ 777,872 | \$ 4,148,773 |
| Professional services | 939,789 | 435,392 | 1,375,181 |
| Fringe benefits | 949,591 | 174,771 | 1,124,362 |
| Facilities | 514,175 | 162,736 | 676,911 |
| Travel and meetings | 462,010 | 136,372 | 598,382 |
| Other costs | 1,697 | 1,976 | 3,673 |
| Team expenses | 289,369 | 93,673 | 383,042 |
| Equipment | 86,694 | 79,313 | 166,007 |
| | <u>\$ 6,614,226</u> | <u>\$ 1,862,105</u> | <u>\$ 8,476,331</u> |

NORTH CAROLINA ADVANCED ENERGY CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 Years ended December 31, 2012 and 2011

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| | 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> |

8. Subsequent Events

Management has evaluated subsequent events through May 9, 2013, 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, 2012

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Federal Award Number | Total Expenditures |
|--|---------------------------|----------------------------|-----------------------|
| Federal Awards | | | |
| United States Department of Energy | | | |
| Pass-through from Appalachian State University ARRA: Research and Graduate Studies | 81.041 | DE-EE000157 | \$ 133,794 |
| Pass-through from State of Arizona Department of Commerce Energy Office House Characterization Assessment | 81.119 | DE-FG26-08NT07094 | 79,861 |
| Pass-through from Triangle J Council of Governments ARRA: Carolina Blue Skies & Green Jobs Initiative | 81.086 | DE-EE0002491 | 97,342 |
| Pass-through from Centralina Council of Governments Clean Cities Community Readiness and Planning for Plug-In Electric Vehicles and Charging Infrastructure | 81.086 | DE-EE0005583 | 163,000 |
| Pass-through from North Carolina State Energy Office ARRA: State Energy Program (Technical Assistance) | 81.041 | DE-EE0000157 | 60,947 |
| Pass-through from Foundation for Senior Living ARRA: Training and Technical Assistance | 81.042 | DE-EE0004158 | 92,428 |
| Pass-through from The Town of Carrboro WISE Residential Energy Efficiency Program | 81.128 | DE-SC0002602 | 994 |
| Pass-through from The City of Chapel Hill ARRA: Home Performance with Energy Star® Energy Efficiency Standards | 81.128 | DE-SC0002602 | 31,991 |
| Pass-through from The City of Greensboro ARRA: Home Performance with Energy Star® Energy Efficiency Standards | 81.128 | DE-FOA-0000013 | 60,808 |
| ARRA: Energy Efficiency Education Demonstation Challenge | 81.128 | DE-FOA-0000013 | 24,267 |
| Pass-through from National Renewable Energy Laboratory ARRA: Training & Technical Assistance Task Six-Workforce Guidelines for Home Energy Retrofits | 81.087 | DE-AC36-08GO28308 | 541,429 |
| 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 | 59,609 171,062 |
| Pass-through from Washington State University Better Buildings Re-Power Kitsap (Workforce Development) | 81.041 | F11-52105-003 | 38,655 |
| Research and Development Cluster | | | <u>\$ 1,556,187</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

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, in accordance with the 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, the financial statements of North Carolina Advanced Energy Corporation, which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 9, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Carolina Advanced Energy Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Carolina Advanced Energy Corporation's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Williams Dyerman Pierce, LLP

Raleigh North Carolina
May 9, 2013



Williams Overman Pierce, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR 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

Report on Compliance for Each Major Federal Program

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, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of North Carolina Advanced Energy's major federal programs based on our audit of the types of compliance requirements referred to above. 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'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 on compliance for each major federal program. However, our audit does not provide a legal determination of North Carolina Advanced Energy's compliance.

Opinion on Each Major Federal Program

In our opinion, North Carolina Advanced Energy Corporation complied, in all material respects, with the types of compliance 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, 2012.

Report on Internal Control Over Compliance

Management of North Carolina Advanced Energy Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered North Carolina Advanced Energy Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Williams Dyerman Pierce, LLP

Raleigh, North Carolina
May 9, 2013

NORTH CAROLINA ADVANCED ENERGY CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2012

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 for 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. 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 FEDERAL AWARD PROGRAMS
AUDIT

None

NORTH CAROLINA ADVANCED ENERGY CORPORATION
SUMMARY SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2012

A. FINDINGS - FINANCIAL STATEMENT AUDIT

None

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

None