

**FILED**

JUL 08 2005

Clerk's Office  
N.C. Utilities Commission

*E-100, Sub379*

NORTH CAROLINA ADVANCED  
ENERGY CORPORATION

Financial Statements and Other Reports

December 31, 2004 and 2003

(With Independent Auditors' Reports Thereon)

*Clerk<sup>mt</sup>*

*AG*

*ZComm.*

*Bennink/Watson*

*Hoover*

*Ericson*

*2 Legal*

*& Elec.*

NORTH CAROLINA ADVANCED ENERGY CORPORATION

2004 Audit

INDEX

<u>Description</u>	<u>Page Number</u>
<i>Unqualified Opinion on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards</i>	
Independent Auditors' Report	3
Financial Statements and Related Footnotes	5
Schedule of Expenditures of Federal Awards	13
<i>Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</i>	16
<i>Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133</i>	19
<i>Summary Schedule of Findings and Questioned Costs</i>	22

*Unqualified Opinion on Financial Statements and  
Supplementary Schedule of Expenditures of Federal  
Awards*

**BATCHELOR, TILLERY & ROBERTS, LLP**

CERTIFIED PUBLIC ACCOUNTANTS

POST OFFICE BOX 18068

RALEIGH, NORTH CAROLINA 27619

RONALD A. BATCHELOR  
ANN H. TILLERY  
FRANKLIN T. ROBERTS  
WM. JAMES BLACK, JR.

3105 GLENWOOD AVENUE, SUITE 301  
RALEIGH, NORTH CAROLINA 27612  
TELEPHONE (919) 787-8212  
FACSIMILE (919) 783-6724

**Independent Auditors' Report**

The Board of Directors  
North Carolina Advanced Energy Corporation:

We have audited the accompanying statements of financial position of North Carolina Advanced Energy Corporation (the "Corporation") (a nonprofit organization) as of December 31, 2004 and 2003, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the 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 the Corporation as of December 31, 2004 and 2003, 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 28, 2005, on our consideration of the 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 should be considered in assessing the results of our audits.

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

*Batchela, Jillery & Roberts, LLP*

April 28, 2005

# NORTH CAROLINA ADVANCED ENERGY CORPORATION

## Statements of Financial Position

December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 597,528	575,868
Marketable securities	1,300,000	1,000,000
Accounts receivable	749,634	1,205,715
Grants receivable	403,010	140,250
Prepaid expenses and other assets	67,405	33,496
Total current assets	<u>3,117,577</u>	<u>2,955,329</u>
Property and equipment:		
Equipment, furniture and fixtures	1,880,144	1,986,757
Less accumulated depreciation and amortization	<u>(1,503,929)</u>	<u>(1,552,757)</u>
	376,215	434,000
Investment	<u>150,000</u>	<u>150,000</u>
	<u>\$ 3,643,792</u>	<u>3,539,329</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	411,015	412,039
Deferred revenue	<u>33,338</u>	<u>33,338</u>
Total current liabilities	<u>444,353</u>	<u>445,377</u>
Commitments		
Net assets - unrestricted	<u>3,199,439</u>	<u>3,093,952</u>
	<u>\$ 3,643,792</u>	<u>3,539,329</u>

See accompanying notes to financial statements.

# NORTH CAROLINA ADVANCED ENERGY CORPORATION

## Statements of Activities

Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Revenues:		
Utility funding	\$ 3,707,816	3,589,798
Government grants	1,031,091	290,228
Interest	18,040	18,748
Other revenue	<u>1,531,066</u>	<u>1,312,255</u>
Total revenue	<u>6,288,013</u>	<u>5,211,029</u>
Expenses:		
Products and services	4,780,730	4,049,817
Corporate support services	<u>1,401,796</u>	<u>1,157,926</u>
Total expenses	<u>6,182,526</u>	<u>5,207,743</u>
Increase in net assets	105,487	3,286
Net assets, beginning of year	<u>3,093,952</u>	<u>3,090,666</u>
Net assets, end of year	\$ <u>3,199,439</u>	<u>3,093,952</u>

See accompanying notes to financial statements.

# NORTH CAROLINA ADVANCED ENERGY CORPORATION

## Statements of Cash Flows

Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating activities:		
Increase in net assets	\$ 105,487	3,286
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	175,824	180,896
Loss from theft	12,562	-
Changes in operating assets and liabilities:		
Receivables	193,321	(555,262)
Prepaid expenses and other assets	(33,909)	(30,344)
Accounts payable and accrued expenses	<u>(1,024)</u>	<u>13,128</u>
Net cash provided by (used in) operating activities	<u>452,261</u>	<u>(388,296)</u>
Investing activities:		
Purchases of equipment, furniture, and fixtures	(130,601)	(161,466)
(Purchases of) proceeds from marketable securities	<u>(300,000)</u>	<u>596,727</u>
Net cash (used in) provided by investing activities	<u>(430,601)</u>	<u>435,261</u>
Net increase in cash and cash equivalents	21,660	46,965
Cash and cash equivalents, beginning of year	<u>575,868</u>	<u>528,903</u>
Cash and cash equivalents, end of year	\$ <u>597,528</u>	<u>575,868</u>

See accompanying notes to financial statements.



# NORTH CAROLINA ADVANCED ENERGY CORPORATION

## Notes to Financial Statements

December 31, 2004 and 2003

### (1) Organization and Summary of Significant Accounting Policies

#### (a) Organization

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 uses of electric power.

Approximately 60% of the Corporation's funding is derived from the ratepayers of four 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 either in the utilities' interest or in the interest of their customers, then this action could have a material adverse effect on the Corporation's operating results.

#### (b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, net assets and changes in net assets and related disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

#### (c) Cash Equivalents

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

#### (d) Marketable Securities

All investments with original maturities of greater than three months are accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Corporation determines the appropriate classification at the time of purchase. Marketable securities consisted of an auction-rate security and is recorded at cost, which approximates fair value due to its variable interest rate, which resets every 7 to 49 days.

# NORTH CAROLINA ADVANCED ENERGY CORPORATION

## Notes to Financial Statements, Continued

December 31, 2004 and 2003

### (1) Organization and Summary of Significant Accounting Policies, Continued

#### (d) Marketable Securities, Continued

Despite the long-term nature of its stated contractual maturity, there is a readily liquid market for it. As a result, there are no cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from marketable securities. All income generated from these marketable securities is recorded as interest income.

#### (e) Receivables

Receivables consist of amounts due from state and federal grants and receivables related to services provided to customers. Management records an allowance for doubtful accounts based on historical experience and a review of existing receivables. No allowance was required for 2004 or 2003.

#### (f) Revenue Sources and Recognition

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

Revenue from government grants is recognized when expenses are incurred under the grants.

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

#### (g) Deferred Revenues

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

#### (h) Equipment, Furniture and Fixtures

Equipment, furniture and fixtures are recorded at cost. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets ranging from three to ten years.

#### (i) 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, ground-source heat pumps, residential new construction (site-built), manufactured housing, 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.

# NORTH CAROLINA ADVANCED ENERGY CORPORATION

## Notes to Financial Statements, Continued

December 31, 2004 and 2003

### (1) Organization and Summary of Significant Accounting Policies. Continued

#### (j) Corporate Support Services

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

#### (k) Income Taxes

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

### (2) Investment

The Corporation has invested \$150,000 in Microcell Corporation ("Microcell"), a for-profit development stage company, whose president is a former employee of the Corporation. This investment is carried at lower of cost or estimated fair market 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.

### (3) Lease Commitments

The Corporation is obligated under operating leases for the rental of office space and equipment. Rent expense totaled \$412,210 and \$409,862 for 2004 and 2003, respectively.

Future minimum lease payments under operating leases are as follows:

Year ending December 31.

2005	\$ 407,000
2006	403,000
2007	410,000
2008	418,000
2009	428,000
Thereafter	<u>846,000</u>
	\$ <u>2,912,000</u>

# NORTH CAROLINA ADVANCED ENERGY CORPORATION

## Notes to Financial Statements, Continued

December 31, 2004 and 2003

### (4) Retirement Plan

The Corporation has established a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code. The plan benefits all employees meeting certain eligibility requirements. Employees are allowed to make contributions to the plan in addition to the Corporation's contribution which is based on an employee's level of annual compensation. Employees become 100% vested in the Corporation's contribution concurrent with meeting the eligibility requirements. Retirement expense for 2004 and 2003 was \$227,731 and \$221,208, respectively.

### (5) Credit Risk

Financial instruments which potentially subject the Corporation to concentration of credit risk consist primarily of cash and cash equivalents and receivables.

As of December 31, 2004, cash and cash equivalents include a checking account with a high credit quality bank.

North Carolina investor-owned utilities and electric cooperatives comprise 32% and 28% of the Corporation's receivables as of December 31, 2004 and 2003, respectively.

### (6) Related Party

In February 2003, NC GreenPower was incorporated as a nonprofit entity. The mission of NC GreenPower is to provide financial incentives to encourage the development of renewable energy resources. It will be funded primarily by voluntary contributions from electric utilities ratepayers in North Carolina. The Corporation's Board of Directors constitute the members of NC GreenPower. Certain resolutions of the Board of Directors of NC GreenPower require two-thirds of the votes of the members to adopt.

During 2004, the Corporation contributed \$165,549 to NC GreenPower, \$42,549 of which was payable as of December 31, 2004. In addition, during 2004, the Corporation billed NC GreenPower \$268,676 for facilities, personnel and overhead costs, \$56,146 of which was receivable as of December 31, 2004.

During 2003, the Corporation made payments on behalf of NC GreenPower totaling \$341,479 and provided services for which it charged \$136,240. As of December 31, 2003, NC GreenPower owed the Corporation \$477,719. In addition, during 2003, the Corporation contributed \$78,890 to NC GreenPower.

# NORTH CAROLINA ADVANCED ENERGY CORPORATION

## Notes to Financial Statements, Continued

December 31, 2004 and 2003

### (7) Functional Expenses

Functional expenses consist of the following:

	Products/ <u>services</u>	2004 Corporate <u>support</u>	<u>Total</u>
Salaries	\$ 2,010,848	711,096	2,721,944
Professional services	509,502	142,828	652,330
Travel and meetings	313,322	86,954	400,276
Facilities	508,734	98,364	607,098
Fringe benefits	594,353	173,466	767,819
Team expenses	595,144	78,307	673,451
Equipment	43,251	94,296	137,547
Other costs	<u>205,576</u>	<u>16,485</u>	<u>222,061</u>
	<u>\$ 4,780,730</u>	<u>1,401,796</u>	<u>6,182,526</u>

  

	Products/ <u>services</u>	2003 Corporate <u>support</u>	<u>Total</u>
Salaries	\$ 1,957,794	592,940	2,550,734
Professional services	352,816	93,978	446,794
Travel and meetings	327,233	71,555	398,788
Facilities	524,898	77,171	602,069
Fringe benefits	538,379	143,808	682,187
Team expenses	154,384	74,057	228,441
Equipment	59,709	82,642	142,351
Other costs	<u>134,604</u>	<u>21,775</u>	<u>156,379</u>
	<u>\$ 4,049,817</u>	<u>1,157,926</u>	<u>5,207,743</u>

### (8) Grants

The Corporation has received numerous federal grants totaling approximately \$1,400,000 for funds eligible to be received through 2007. The most significant is a grant for \$700,000 from the United States Department of Housing and Urban Development (HUD) to be funded on a reimbursement basis. The grant amount is contingent upon the Corporation matching expenses totaling \$1,993,303 related to the grant project. The period of performance ends February 14, 2006. During 2004 and 2003, respectively, the Corporation recognized \$226,849 and \$49,523 in revenue from this grant and had receivables of \$32,429 and \$4,039 outstanding as of December 31, 2004 and 2003, respectively.

NORTH CAROLINA ADVANCED ENERGY CORPORATION

Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

Federal Grantor/ Pass-through Grantor/ <u>Program Title</u>	Federal CFDA <u>Number</u>	State Contract Number	Total <u>Expenditures</u>
<b>Federal Awards:</b>			
<b>United States Department of Energy:</b>			
Pass-through from North Carolina State Energy Office:			
State Energy Program Special Projects	81.119	N/A	\$ 94,186
Conservation Research and Development	81.086	N/A	118,883
Pass-through from Laurence Berkeley National Laboratory:			
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	N/A	30,000
Pass-through from National Association of State Energy Officials:			
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	N/A	170,338
<b>United States Department of Housing and Urban Development:</b>			
Healthy Homes Technical Studies	14.906	N/A	226,849
Community Development Block Grants/Brownfields Economics Development Initiative	14.246	N/A	12,018
Pass-through from Duke University office of Sponsored Programs:			
Healthy Homes Demonstrations Grant	14.901	04-SC-HUD-1004	58,507
<b>United States Environmental Protection Agency:</b>			
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	N/A	<u>29,105</u>
			\$ <u>739,886</u>

(Continued)

NORTH CAROLINA ADVANCED ENERGY CORPORATION

Schedule of Expenditures of Federal Awards, Continued

Year ended December 31, 2004

Note to the Schedule of Expenditures of Federal Awards

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.

*Report on Internal Control over Financial Reporting  
and on Compliance Based on an Audit of Financial  
Statements Performed in Accordance with  
Government Auditing Standards*



**BATCHELOR. TILLERY & ROBERTS, LLP**

CERTIFIED PUBLIC ACCOUNTANTS

POST OFFICE BOX 18068

RALEIGH, NORTH CAROLINA 27619

RONALD A. BATCHELOR  
ANN H. TILLERY  
FRANKLIN T. ROBERTS  
WM. JAMES BLACK, JR.

3105 GLENWOOD AVENUE, SUITE 301  
RALEIGH, NORTH CAROLINA 27612  
TELEPHONE (919) 787-8212  
FACSIMILE (919) 783-6724

**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***

The Board of Directors  
North Carolina Advanced Energy Corporation:

We have audited the financial statements of North Carolina Advanced Energy Corporation (the "Corporation") (a nonprofit organization) as of and for the year ended December 31, 2004, and have issued our report thereon dated April 28, 2005. 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 the 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

The Board of Directors  
Page 2

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.

*Batchelor, Jellery & Roberts, LLP*

April 28, 2005

*Report on Compliance with Requirements Applicable to  
Each Major Program and on Internal Control over  
Compliance in Accordance with OMB Circular A-133*

**BATCHELOR, TILLERY & ROBERTS, LLP**

CERTIFIED PUBLIC ACCOUNTANTS

POST OFFICE BOX 18068

RALEIGH, NORTH CAROLINA 27619

RONALD A. BATCHELOR  
ANN H. TILLERY  
FRANKLIN T. ROBERTS  
WM. JAMES BLACK, JR.

3105 GLENWOOD AVENUE, SUITE 301  
RALEIGH, NORTH CAROLINA 27612  
TELEPHONE (919) 787-8212  
FACSIMILE (919) 783-8724

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

The Board of Directors  
North Carolina Advanced Energy Corporation:

Compliance

We have audited the compliance of North Carolina Advanced Energy Corporation (the "Corporation") (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The 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 its major federal programs are the responsibility of Corporation's management. Our responsibility is to express an opinion on the 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 the 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 on the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2004.

### Internal Control Over Compliance

The management of the 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 the Corporation's 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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.

*Batchelor, Tillery & Roberts, LLP*

April 28, 2005

*Summary Schedule of Findings and Questioned Costs*

NORTH CAROLINA ADVANCED ENERGY CORPORATION

Summary Schedule of Findings and Questioned Costs

Year ended December 31, 2004

***SUMMARY OF AUDITORS' RESULTS***

- I. Type of report issued on the financial statements: Unqualified
- II. No reportable conditions in internal control were disclosed by the audit.
- III. The audit did not disclose any noncompliance which is material to the financial statements.
- IV. No reportable conditions in internal control over major programs were disclosed by the audit.
- V. Type of report issued on compliance for major programs: Unqualified
- VI. The audit did not disclose an audit finding which is required to be reported.
- VII. The major programs are as follows:

<u>Federal Agency</u>	<u>Program</u>	<u>CFDA #</u>
United States Department of Housing and Urban Development	Healthy Homes Technical Studies Grants	14.906
United States Department of Energy	Conservation Research and Development	81.086
United States Department of Energy	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117

- VIII. The dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- IX. The Corporation does not qualify as a low-risk auditee.

***FINDINGS RELATING TO THE FINANCIAL STATEMENTS***

(Which are required to be reported in accordance with generally accepted *Government Auditing Standards*)

There are no such findings required to be reported.

***FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS***

There are no such findings required to be reported.